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Michael R. Czinkota
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Marketing Management

Past, Present and Future

Fourth Edition

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To Ilona – MRC
To Kai and Cam, my grandchildren – MK
To my family – DV
To my parents – RS

Preface

Thank you for taking the time to explore what we have to say about marketing. You are our customers, the targets of our marketing effort; it is you we aim to delight!

We believe that exciting new changes are coming to the marketing field and that we can help teach present and future marketers to do their work better. By improving your understanding of marketing, we hope to help you increase your efficiency and effectiveness and leave a mark for the better on society. Our approach to marketing sets us apart from the competition. Here are the features that make this work special.

Our Applied Approach

Marketing used to be a very practical field. It was generally accepted that business transactions could be carried out more effectively, that there were many needs that had been left unsatisfied, and that the field of marketing could contribute to improving the quality of life of individuals. Over time, however, the approach to marketing in universities began to suffer from “lab coat” syndrome. Complexity became fashionable, and esoteric approaches were in demand. Many researchers and authors began to talk more about models than about people, to substitute tools for insights, and to examine printouts instead of consumers. It seemed that obscurity, not enlightenment, had become the ultimate goal.

Yet, in our minds, marketing is still a very practical discipline. People have practical needs, firms face practical problems, and solutions have to work in real life. Most marketers cannot and should not hide in labs. Marketing is a social science based on theories and concepts, but it also requires that most marketers interact with people, observe them, talk to them, and understand their activities. In essence, marketing is a “dialogue” between marketers and their customers.

We reflect this applied approach. Together with important traditional and embryonic concepts and theories, we provide you with the experiences that we have obtained through our collaboration with numerous companies—both large and small, domestic and international—for many years. You will recognize this applied orientation when we talk about advertising, trading, branding, selling, and segmentation. You will sense it when we present you with “Manager’s Corners” features and cases that show you how marketers face challenges and delight their target audience. You will enjoy it when we provide you with down-to-earth “Marketing in Action” examples that you can explore and analyze. Most importantly, you will understand it when you get to your professional activities and discover the direct relevance of what you have learned and how you will apply your learning in real-life marketing management environment.

Our Global Perspective

Markets have become global. Mark Twain once wrote, “There is a road ahead of you: If you stand still, you will get run over.” No longer is competition limited to your home market. If you stand still in your domestic market, you will likely be trampled by competitors or by local opponents who source their inputs from abroad. Economies have become intertwined, firms have become linked to each other across national boundaries, and markets are open to almost anyone. Never before have the risks from unexpected market entrants been so large—and never before have the opportunities for global success been so bountiful. But opportunities must be recognized and seized, and risks must be understood and evaluated. We assist you in that task by removing national blinders and exposing you to the interplay of global business forces. As you go through the material, you will benefit from our combined in-depth expertise in North and South America, Asia, Oceania, and Western, Central, and Eastern Europe. You will understand how marketing can adapt to new environments and demands and see marketing for what it really is: a discipline that knows no regional or political borders when it comes to improving the way societies function. You will learn about the limited rewards that are given to those who come in second, and you will appreciate the need to be world class in your performance.

Our Incorporation of Technology

Societies, and the people within them, change. Never before has the change been so rapid, resulting in the downfall of so many old icons and the emergence of new paradigms. Consider technology: The separation of the location of production and consumption in the services area offers us new ways to live and work. Banks are no longer confined to their large buildings on Main Street; insurance companies no longer need their downtown palaces; teachers are no longer limited to the classroom; and analysts no longer have to stay in their offices. Rather, we can all spread our wings and reach out to individuals and businesses or, better yet, have them come into our homes.

This spatial freedom profoundly recasts the activities of marketers. We encounter new ways of communicating with our customers, presenting them with our offerings, and reaching them with our services. We can structure our offers to be more precise and distinct. We can use electronic data interchange and techniques such as just-in-time delivery to make the marketing offering less expensive, more precise, and more satisfying. However, unless marketers make use of these new possibilities, they run the danger of falling behind, using the equivalent of bronze tools in the Iron Age. We recognize these changes and have given much thought to their implications for marketers. You will discover in every chapter our identification of change drivers and our analysis of change. As a result, we believe you will be empowered to deploy your judgment in preparation to work with change and its challenges.

Electronic and In-Print Versions

As an example of our incorporation of technology, *Marketing Management*, fourth edition is available online in electronic version as well as in traditional print version. You may choose to use just the online version of the text or both the online and the print versions together. This gives you the flexibility to choose which combination of resources works best for you. To assist those who use the online and print versions together, the primary heads and subheads in each chapter are numbered the same. For example, the first primary head in ► Chap. 1 is labeled 1.1, the second primary head in this chapter is labeled 1.2, and so on. The subheads build from the designation of their corresponding primary head: 1.1.1, 1.1.2, etc. This numbering system is designed to make moving between the online and print versions as seamless as possible.

Our Social Awareness

Today's society demands more of marketers than was expected in the past. Issues such as diversity, ethics, responsibility, concern about the natural environment, and privacy are integral parts of the marketing discipline today. Marketing managers are increasingly challenged not only to adapt to existing rules but to lead the way. To be at the forefront of social transformation, marketers must encompass a new breadth of perspective and embrace a much greater variety of social activities than ever before. The marketing function can no longer confine itself to one organization and the marketing activities within it. Instead, it needs to encompass a broad range of stakeholders, suppliers, and customers. We help you gain such a perspective by presenting you with the primary elements of social change, developing the implications of such change for the marketing discipline, and offering ways to synthesize change into marketing strategy. For example, we develop a postmortem perspective of the product cycle that considers producer responsibilities long after the product has been withdrawn from the market.

Most importantly, we recognize the implicit promises of the market-based system and its implications. We believe that on a global level, marketers are “selling” the world on two key issues. One is the benefit of market forces that results from the interplay of supply and demand. This interplay in turn uses price signals instead of government fiat to adjust activities, thrives on competition, and works within an environment of respect for profitability and private property. In exchange for the chance to earn profits, investors allocate resources to the most productive and effective uses. The second key proposition concerns the trust between managers and investors. In return for high compensation, the non-owner managerial class provides the absentee owners and other stakeholders with its best efforts to preserve and increase stakeholder benefits. The key to making all this work is

managerial and corporate virtue, vision, and veracity: Unless the world can believe in what firms and managers say and do, it will be hard, nay impossible, to forge a commitment between those doing the marketing and the ones being marketed to. It is therefore of vital interest to marketers and to the proponents of globalization to ensure that corruption, bribery, lack of transparency, and the misleading of stakeholders are relegated to the scrap heap of history by exposing their negative effects in any setting or society.

Our Research Orientation

Notwithstanding our practical emphasis, we fully recognize that marketing theory has an important role to play. It provides us with the conceptual tools that allow us to abstract, analyze, understand, and predict practical phenomena. Theory offers broad perspectives and assists in the formulation of decision rules. It permits us to recognize the underlying fundamentals, to discover commonalities, and to appreciate differences. The use of theory allows us to avoid repetition of past mistakes, provides us with context, and enables us to understand quality. Theory, when relevant to the field, is quite practical in that it allows us to improve the practice of marketing. Therefore, we have delved deeply into the traditional and embryonic marketing theories and concepts and have incorporated them into our presentation. We have also made an effort to point out leading-edge work and use it to highlight future developments in the marketing field. Because of our own extensive international work, we have not been confined to the research literature of any one country but can present you with cutting-edge information from the United States, Europe, and Asia. At the same time, we have made an effort to present theory with a critical eye, highlighting the benefits as well as the limits of its application.

Our Policy Orientation

Marketing does not function only in business environments. Rather, it needs to interact closely with governments and legal frameworks that are expressions of societal expectations and demands. The public policy dimensions of marketing need to be incorporated into marketing planning if the firm is to be successful in the long run. But marketing must also be an active player in the formulation of such policy. Marketing's closeness to the customer allows it to make a unique contribution to the emergence of new policies when they are concerned with the well-being of individuals and the betterment of society. Our personal policy background and ongoing work with government agencies enable us to bring a realistic perspective of this public/private interaction into our discussion of marketing strategies.

Our User Friendliness

Learning is, unfortunately, often seen as the mental equivalent of medicine: Unless it is painful and tastes bad, many people do not believe that it works. While we cannot argue on behalf of the medical profession, we do know that such a conclusion is incorrect as far as marketing is concerned. Marketing is an exciting, energizing, and enthusiastic discipline. One's exposure to marketing should not deteriorate into an onerous chore. We have therefore worked hard at making this material intelligible, interesting, and a good read. We want this to be interesting for you, so that you look forward to the next chapter or exercise or case. We intend to stimulate your curiosity and your desire to find out what happens next. We have provided you with our best writing combined with superior design and layout to make this material easy—and perhaps even fun—to work with.

Our Target Orientation

As you will discover, good marketing requires good customer identification. Trying to be everything to everyone may cause one to miss all the targets. This book has been written for postgraduate students and advanced undergraduates who wish to go into business. It will provide you with the information, perspectives, and tools necessary to get the job done in the marketing field. We intend to assist you in practicing marketing by building on the skills and knowledge you already possess. Our aim is to enable you to make better decisions.

Our Instructor Support

We have made a major effort to present both the instructor and the student with the best possible pedagogical value. Some of the specific teaching features are as follows:

- The “Manager’s Corner” features deliver specific examples from the marketing world. These features are intended to help students understand and absorb the presented materials. The instructor can highlight them to exemplify theory or use them as mini cases for discussion.
- The “Marketing in Action” sections ask students to apply concepts and theory to actual business situations.
- “Review Questions” allow students to rapidly reassess the chapter content and determine the degree of understanding gained.
- “Discussion Questions” invite the instructor and the students to expand the depth of the topics addressed and to explore further implications and applications.
- “Practice Quizzes” for each chapter help students assess their knowledge and understanding of the materials.

- “Web Exercises” give students examples of real-world issues and suggest websites for more information.
- Twelve full-length cases present students with real business situations. They encourage in-depth discussion of the material covered in the chapters and allow students to apply the knowledge they have gained.
- Complete Instructor’s Ancillaries for this text include questions and answers, PowerPoint presentations for lectures, and a comprehensive Instructor’s Manual, which contains teaching plans, supporting resources, notes, and suggested answers to cases and exercises.

Most important, we stand by our work. Should you have any questions or comments on this book, you can contact us, talk to us, and receive feedback from us. We know the value of dialogue.

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We are deeply grateful to you, the professors, the students, and the professionals using this book. Your interest demonstrates the need for more knowledge about marketing. As our customers, you are telling us that our product adds value to your lives. As a result, you add value to ours. We enjoy maintaining our dialogue with our customers. Thank you!

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His research attempts to analyze the “cause and consequence of stakeholder relationships and interactions as a stakeholder causal scope” to recognize stakeholders’ value anticipation, in order to co-create value in a way that the stakeholders expect and accept. Following this central cross-disciplinary and cross-functional research focus, Dr. Shams pursues his work in the areas of international marketing; social business; digital marketing; organizational identity, image, reputation, and brand management; strategic agility; stakeholder relationship management; and sustainable development.

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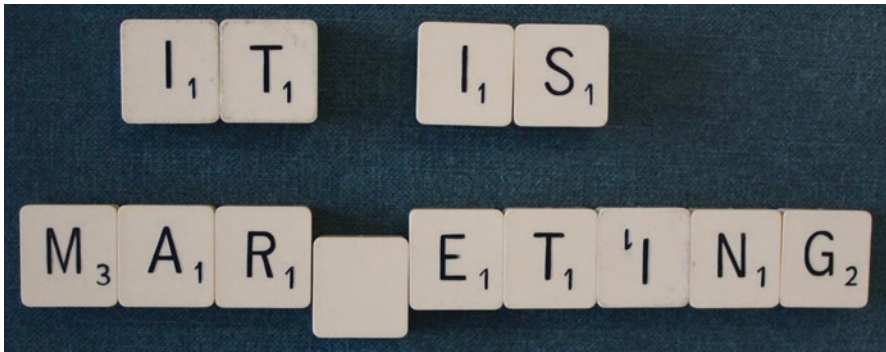
An Overview of Marketing

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■ The Art and Science of Naming Products



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Marketing is a mix of both art and science, a composition most clearly reflected in the choice of a brand name. A good name does not ensure product sales and success, but a bad name choice can spell disaster for a product, service, or company. Sounds have power and evoke different emotional reactions. Sounds that come to a complete stop (p, b, t, d) connote slowness, whereas f, v, s, z, and x are fast sounds. Studies done by the research company Laurentian found that these sound rules seem to hold true across linguistic barriers, meaning that certain universal associations exist between sounds and the emotional state they create.

The fast z in Amazon, the e-commerce titan, implies speed—ideal for a company with a 24-hour shipping guarantee and 3-day delivery target. The name for Honda's first luxury car, Acura, is made from the morpheme *acu-* meaning “precision,” or “with care” in a number of languages. This name works because when asked, one of the most common adjectives consumers used to describe luxury vehicles was precision. Names that immediately associate a product with desirable attributes are good bets for marketers. For example, the product name Coca-Cola – Classic reminds customers that they will have the original refreshing taste of Coca-Cola that was produced from the same recipe since 1886 [1]. Similarly, the product names, such as Coke Zero or Diet Coke, generally offer an impression that consumers will have a soft drink with low calorie and/or less (or no) sugar, which are targeted to the niche customer segment, who are more health conscious.

Names that tell a story can work equally well. DieHard brand car batteries let the customer know that this battery dies hard. But mistakes are easy to make. In the mid-1990s, 7 Up launched the first caffeine-free cola: Like Coke. Studies revealed that customers associated the choice and alternative spelling of the word *like* with the idea that the new product was close in content to Coke but of inferior quality or substance. While trying to harness the brand recognition of Coke, the name “Like Coke” actually made the product appear less desirable than the original. This simple naming mistake was disastrous, reportedly costing 7 Up almost \$120 million.

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Product naming, like marketing, is a complex process. Research and the development of decision rules cannot guarantee success. However, marketers can use these tools to help choose better product names, increase brand recognition, and raise profits for their companies.

Sources: Coca Cola. (2018). *Coca-Cola with or without sugar: New look, great coke taste*. ► <https://www.coca-cola.co.uk/stories/coca-cola-with-or-without-sugar>. Accessed 3 March 2019; Mothersbaugh, D. L., & Hawkins, D. I. (2016). *Consumer behavior: Building marketing strategy*. New York: McGraw Hill; Collier, R. (2014). *The art and science of naming drugs*. ► <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC4188646/>. Accessed 5 March 2019; Fast Company. (2004). ► <http://www.fastcompany.com/online/38/100monkeys.html>. Accessed 10 August 2004; Begley, S. (2002). New ABCs of branding. *Wall Street Journal*, B1, B4.

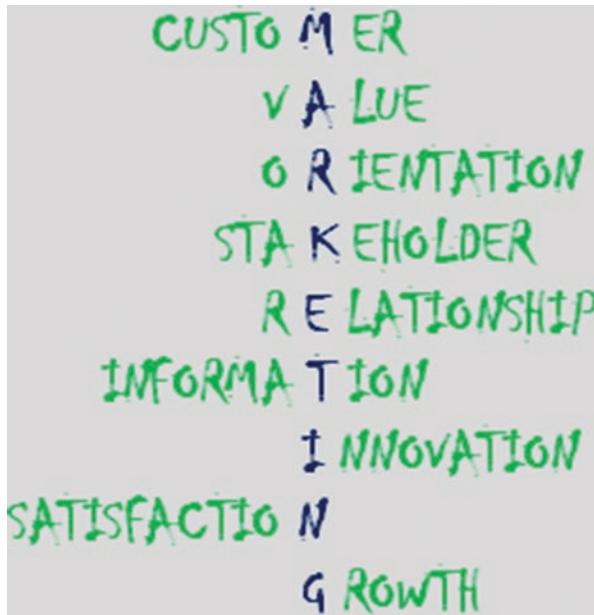
1.1 Introduction



You are about to begin an exciting, important, and necessary undertaking: the exploration of marketing. Marketing is exciting because it combines the science and the art of business with many other disciplines, such as economics, psychology, anthropology, cultural studies, geography, history, jurisprudence, statistics, knowledge management, information science, public administration, and demographics. This combination will stimulate your intellectual curiosity and enable you to absorb and understand the phenomenon of market-based exchange. The study of marketing has been compared to mountain climbing: challenging, arduous, and exhilarating.

Marketing is important and necessary because it takes place all around us every day, has a major effect on our lives, and is crucial to the survival and success of firms and individuals. Successful marketing provides the promise of an improved quality of life, a better society, and perhaps even a more peaceful world. After your study of marketing, you will see what happens, understand how it happens, and, at some time in your future, perhaps even make it happen. This is much better than standing by and wondering what happened.

1.2 What Is Marketing?



The essence of marketing is a state of mind. In making marketing decisions, the manager adopts the viewpoint of the customer. Decisions therefore are driven by the customers' (and other associated key stakeholders') needs and wants. Much of

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what the marketing manager does is concerned with making decisions that revolve around how the goods or services of the organization can be made to match the customer's needs and wants. Here, a key concern is how competitively meeting those customer needs and wants would ensure a win–win outcome for all involved internal and external stakeholders, such as employees, suppliers, shareholders, and others. But the key to marketing success is adopting the customer's viewpoint.

Marketing theory is part of the social science domain. As such, a key focus of its analysis is human behavior, which is mutable, unpredictable, proactive, and reactive [2]. Marketing is also heavily context dependent. More so than most other fields of inquiry, the nature and scope of marketing can be substantially affected when one of its contextual elements, such as the economy, societal norms, demographic characteristics, or new technologies, changes [3]. Therefore, marketing is far from an exact science and allows plenty of room for different interpretations. But several fundamental dimensions form the underpinnings of all marketing thinking.

Peter Drucker stated that “every business can be defined as serving either customers or markets or end users” [4]. The marketing dimension has recognized this service dimension most explicitly. The key elements of all marketing are futuristic, outward-looking, and firmly centered on the customer. This orientation requires marketers to look at their organization, available extant resources, activities, and processes through their customers' eyes. The purpose of this orientation is to design, deliver, and evaluate the ultimate market offering (good, service, or both), in a way that would be expected and accepted by the target customers. Communicating with customers, measuring their satisfaction levels, and designing programs to improve customer satisfaction allow marketing the greatest influence within the firm [5], in order to enable the firm to achieve its growth.

We will see that this **customer focus** can be applied to almost all types of organizations, even those in the nonprofit sector that have traditionally viewed themselves as exempt from normal commercial processes. The needs and wants of the customer or client should almost always be paramount: The difficulty for many organizations is deciding who their customers are and what their needs and wants are.

Customer focus – The fundamental marketing tenet in which customers reign supreme because their purchasing decisions determine the winners of competition between firms.

The reason for this customer focus is the fundamental marketing tenet of competition. Firms must compete for resources in the marketplace, which offers a host of alternative ways for the customer to spend funds. Only if a firm competes successfully—that is, if it can convince customers to spend money on its products rather than on others—will the firm be able to survive. The dimension of competition makes the customers reign supreme, because the customers' decisions will determine the winners of the competition.

Dialogue – Marketers strive to understand customers' needs via market research and the communication of specific exchange advantages to potential customers.

A practical metaphor for marketing is a **dialogue**. The marketer must communicate specific exchange advantages, even though communication often takes place by such indirect means as advertising or coalition building. More importantly, though, the marketer must spend a great deal of effort and time listening to the customer through marketing research. The marketer who listens to customers and understands their viewpoints is the most effective manager. If you have any doubt as to what might be good marketing, simply think of it in the context of this dialogue: Would it work face-to-face with the customer? Another key marketing dimension is the adaptation of a long-term perspective. Individuals and firms are potential customers long before they become actual customers. Working with them toward a transaction—through analysis and communication—is an important aspect of marketing. It is of equal, if not greater, importance to continue to work with customers after they have engaged in a transaction. In many instances, it is at this point when the customer is the most valuable to the marketer. In essence, the sale merely consummates the courtship, at which point the marriage begins. How good the marriage is depends on how well the seller manages the relationship. The quality of the marriage determines whether there will be continued business growth or troubles and divorce [6]. **Repeat purchases** from current customers are easier to achieve than finding new customers. Current customers have a lifetime value based on their ongoing expenditures, which by far overshadow any of their specific transactions. For example, a customer may spend only \$55 on any given visit to a supermarket. However, if the customer is likely to live in the area for 10 years and comes in twice a week to shop, the lifetime value of that customer to the supermarket will exceed \$57,000. With this long-term perspective in mind, marketers treat the customer differently from those who see only the individual sale. Of course, the same perspective also applies to the marketer's relations with suppliers. If one considers the cost of building a relationship with suppliers, including aspects such as trust, reliability, and consistency, such a relationship takes on an important value and makes it worthwhile to invest in developing linkages such as direct order entry methods or online information exchanges.

Repeat purchases – The “marriage” between a customer and the firm; repeat purchasers are a firm's most valuable customers because their lifetime value far overshadows any specific transaction.

Recognizing innovation and adapting to change for growth are other key features of marketing. Doing so improves the performance of the marketing function in two ways. First, servicing the customer is likely to be more efficient because it

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takes advantage of improvements in product quality advances, production process changes, and communication enhancements. Second, improvements are likely to come about more quickly due to the desire to stay ahead of the competition. For example, marketers are key drivers in implementing new aspects of electronic commerce in the business field. All these result in better service and more choice for the customer. In brief, the key essence of marketing is concerned about “customer focus,” “customer dialogue/communication,” “adaptation” to changes, and “innovation” in product design and delivery to offer superior value to customers (and other stakeholders), in comparison with the competitors. Customers’ perceived value can simply be measured based on the difference between an anticipated outcome and an actual outcome of their planned and organized activity [7]. For example, in general, customers visit a supermarket, based on an initial plan/mindset of what to buy or what product information to collect. Also, often such visits occur as an organized activity, for example, at a specific time of a particular day, a customer would visit a supermarket, with a plan to spend a particular amount of money. In this context, when the customer leaves the supermarket, if she/he has satisfaction in mind as the outcome of such planned and organized visits to the supermarket, it is highly likely that the customer will repeat purchase. As a result, “the more the outcome (of such planned and organized activities, e.g. repeat purchase) meets the initial anticipation (related to the customer’s expectation), the more the possibility of win-win outcomes or value optimization for all involved stakeholders” [7]. Each of these dimensions (i.e., customer focus, customer communication, customer value, value optimization, adaptation, innovation, long-term focus, repeat purchase, etc.) is a key component of marketing. Their implementation in marketing practice will be addressed throughout this book.

Perceived value – It can be measured based on the difference between an anticipated outcome and an actual outcome of any sort of planned and organized activity [7].

1.2.1 Definitions of Marketing

The American Marketing Association defines **marketing** as “the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large” [8].

Marketing – It is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.

It is useful to focus on the definition's components to fully understand its meaning. Marketing as an organizational *activity* interprets it as part of a thrust which gives direction to a unit, rather than just an outcome of the activity. In fact, marketing is the activities that we do for an organization that are intended to attain overall organizational goals [8]. The terms *set of institutions* and *process of...* (undertaking some activities) refer to different interconnected and interdependent mechanisms, practices, approaches, and strategies that we would use in our overall marketing role [8]. Consequently, the terms *activity*, *set of institutions*, and *processes* are fundamentally interdependent and interrelated and refer to marketing undertaking particular tasks, with an aim to accomplish specific outcomes/results [8].

Creating, communicating, delivering, and exchanging offerings emphasize that the marketing discipline takes leadership in its activities from beginning to end and that the art and the practical dimensions of the discipline are crucial in implementation. *Offering value to customers, clients, partners, and society* indicates the core focus of marketing. For example, physicians have as their overriding principle the Hippocratic Oath: "do no harm." Marketers should consider any action under the prism of "Are customers and all other associated stakeholders better off?" Managing relationship with *customer and other stakeholders* (e.g., *partners, society, environment*) in turn is crucial for the dyadic aspects of marketing—there is an interaction and *exchange of value* between the firm and its key stakeholders including customers. It is marketing's responsibility to handle both types of relationship. Customers and other associated stakeholders need to be content in their assessment of the rapport they have with the firm. However, they also continue to be part of a network which is defined by their interaction with fellow customers (including other stakeholders). Since marketers will be major influencers of this relationship, they need to take into account the repercussions which their actions are likely to have on these linkages. The term *exchange also focuses on that relationship* is key, since it is indicative of the fact that actions (i.e., *exchange of value*) build upon each other and are instrumental in forging bonds and inflaming disagreements. The marketer therefore cannot see any product or effort as an isolated event. Rather it has to be understood as a component of an entire series of steps which define the bridge between entities. Using this perspective, marketing has a very broad mission. The discipline is not narrowly confined to relationships which emerge when money is exchanged for goods. Instead, marketing has its application just as well when there is performance of a service (say, fundraising for a charity) in exchange for obtaining a good feeling and a sense of fulfillment, both at individual and collective levels.

Marketing is to *exchange value between the organization and its key target markets that include its customers and other stakeholders, in order not only to make profit for the organization, but also to contribute to socioeconomic issues, in the long run, as socially caring activity*. Marketing needs to be seen, after all, in the context of a planned and purposeful activity. It seeks a definite, favorable outcome for the institution conducting the marketing pursuit. Again, it is important to recognize that this benefit need not be seen strictly in terms of mammon. Rather, the organization itself is the one which defines what it determines to be beneficial. Therefore,

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there is ample room for both macro benefits such as “more positive images of our country” and micro benefits such as “increase desire to go to work,” in addition to the business benefits customarily seen to be in the purview of organizations. As a result, marketing finds a full range of applicability in not-for-profit areas, such as medicine, the arts, or government, areas typically wrongfully excluded for a long time in the past from the need for marketing. In this context, marketing today also emphasizes not only customers but also clients and partners as key stakeholders. The purpose of this extended emphasis is that the clients and partners from profit-making organizations, nonprofit organizations, and government can jointly contribute to the overall value chain of a particular marketing activity, in order to contribute to our society. As a result, this reformed stakeholder emphasis is also indicative of this breadth of marketing in that it gives recognition to others who have an interest in either the process or the outcome of marketing activities and must therefore be taken into consideration when planning these.

As you can see, this definition packs a lot of punch, and lets marketing make a major contribution to the welfare of individuals, organizations, and the society at large. Nevertheless, based on our view of marketing, we will expand this definition in several dimensions. First off, we believe that the terms create, deliver, and value overemphasize transactions as one-time events. Therefore, we add the terms “maintain” and “value streams” to highlight the long-term nature of marketing, which encourages customers to continue to come back. We also believe that, as the scope of marketing is broadened, societal and environmental goals need to be added to individuals and organizations, properly reflecting the overarching reach and responsibility of marketing as a social change agent that responds to and develops social concerns about the environment, technology, and ethics. Equally important is the need to specifically broaden our marketing understanding beyond national borders. Today, sourcing and supply linkage exist around the world, competition emerges from all corners of the globe, and marketing opportunities evolve worldwide. As a result, many crucial dimensions of marketing need to be reevaluated and adapted in a global context.

Based on these considerations, our expanded definition of marketing is “an organizational activity and a set of processes for creating, communicating, and exchanging value, and maintaining value streams to customers and other associated stakeholders for managing such value streams in ways that benefit the organization, its customers, stakeholders, and society in the context of a global socioeconomic and ecological environment.”

1.3 A Brief History of Marketing Thought

- » Marketing management and the allied dynamics—as it is acknowledged today—have been evolving persistently, based on the mutual endeavors of academics and reflective industry based practitioners. Marketing academics and practitioners proactively deal with various market issues, competitive forces, and challenges as well as flourish opportunities and create value to nurture the contemporary and latent market needs. In this game of market intelligence, the successful marketing initiatives

are substantiated by market competitiveness, cost-effectiveness, and social (including the key stakeholders') acceptability [9].

To appreciate the structure of marketing theory, it is useful to understand how this theory has evolved.

Marketing has existed for millennia, ever since people first started to barter accumulated surpluses. For most of that time, though, marketing was seen as a peripheral sectoral activity, because, in subsistence economies, such surpluses represented a relatively small part of the total. Most marketing activities were confined to disposing of surplus agricultural products. After the Industrial Revolution made such surpluses more commonplace, the “marketing” of these became the province of the “salesman,” with his specialized skills.

Writings about activities that are now part of marketing can be found from as early as the nineteenth century. For example, a book titled *The History of Advertising* was published in England in 1875. However, little of this material contributed to the formation of marketing thought. Jones and Monieson suggest that the first academic discussions of marketing can be traced back to the turn of the twentieth century [10]. At that time, marketers began to set themselves apart from economists by conducting studies that were more empirical, practical, and descriptive of the marketplace. They analyzed issues from the standpoint of the firm rather than that of public administration. As early as 1902 courses were developed in the area of distribution, which, for the first time, recognized that **intermediaries** can add value to the production process rather than just add cost [11]. In large part, these distribution issues were most relevant in the agricultural sector, which is why the early marketing pioneers emerged in universities close to agricultural producers, such as Ohio State University, the University of Michigan, and the University of Wisconsin. Over the following years, marketers boldly postulated, and later proved, that demand could be increased and shaped by factors other than the mere existence of supply. They also moved the concept of price away from mere cost considerations and sought new explanations of price formations in the market.

Intermediaries – Actors such as retailers and wholesalers that provide the product to the end user or other members of the channel.

During and after the 1930s, scholars began to integrate the various components of marketing, formulating the first marketing theories and developing the body of marketing thought. Researchers began to evaluate consumers and their behavior in the context of business decisions, leaving their mother disciplines such as psychology behind and calling themselves **consumer behaviorists**. Simultaneously, in the wider sphere of practical business management, the newly fashionable advertising agencies began to redefine the discipline in a way that came close to the modern concept of marketing. In the late 1950s and early 1960s, US society benefited from a great surge in demand for goods, a major expansion of production capacities, and an increase in competition, far exceeding the economic welfare levels of other

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nations. As a result, the United States became the cradle of marketing thinking. This era encouraged the development of marketing in its modern form, based on a customer focus that made extensive use of market research to investigate customers' needs and wants, and it emerged on the scale that we now witness. The discipline further matured in the 1970s as the ideas that had developed from practical experience were codified and substantiated with quantitative research. Marketing became routinized as an increasingly important function of business. The leading edge of marketing moved on, at least in part, to the service industries—particularly to retailing and financial services and to nonprofit institutions and activities—which were experiencing massive changes. In the 1980s, however, marketing began to lose much of its previous self-confidence. Evolving ideas focused attention on more of an environmental perspective. Warren Keegan summarized the changes as follows:

Consumer behaviorists – The forerunners of modern marketers who evaluated consumers and their behavior in the context of business decisions.

- » By 1990 it was clear that the “new” concept of marketing was outdated and that the times demanded a strategic concept. The strategic concept of marketing, a major evolution in the history of marketing thought, shifted the focus from the customer or product to the firm’s external environment. Knowing everything there is to know about the customer is not enough. To succeed, marketers must know the customer in a context which includes the competition, government policy and regulation, and the broader economic, social, and political macro forces that shape the evolution of markets [12].

Today, there is once again increasing use of marketing techniques and increasing confidence in the outcome, but this is now a usage that recognizes the inherent limitations of traditional marketing. Continuous subtle changes in the context and application of marketing are leading to a paradigm shift in the new millennium. Two main dimensions account for that change.

First, to remain a viable discipline, marketing must become more responsive to new societal demands and realities that require the incorporation of a global perspective, social responsibility, ethics, and human interaction with the environment. In an era in which old ideological delineations such as central planning have decayed and new ones are emerging, marketing must broaden its reach to become a key change agent to improve our quality of life, thereby contributing to the betterment of society [13]. For example, as one looks at the transformation of the emerging market economies of Central Europe, one can see the many new challenges confronting marketing: How does the marketing concept fit into these societies? How can marketing contribute to economic development? How can and should one get the price mechanism to work? What role should advertising play? How should the extant and latent relationships with customers and other stakeholders be managed? How should the overall marketing management process adapt

to the challenges and opportunities of the different (persistently) changing global environment, e.g., marketing management in the post-Brexit era? How could marketing protect consumer interests? How could marketing contribute to different socioeconomic and ecological issues?

In the area of social responsibility and ethics, marketing managers are increasingly challenged not only to adapt to existing rules but to lead the way. Simply using the standard of existing law is no longer sufficient for a discipline that intends to be at the forefront of social transformation. When it comes to issues such as monitoring environmental pollution, maintaining safe working conditions, copying technology or trademarks, and paying bribes, the problem becomes even more complex for the international marketer who is facing a multicultural environment with differing and often inconsistent legal systems [14]. In addition, the passage of time results in new expectations and awareness by customers, who often evaluate past actions by current standards. Therefore, the marketer *must not only be sensitive to current societal expectations and the effects that the firm's actions in one country may have on customers in another country* but also proactively assert leadership in implementing standards of the highest level. Even though such a position may have negative repercussions for short-term profits, the firm is likely to benefit in the long run through consumer goodwill and the avoidance of later recriminations. In addition, the firm may well be able to boost its competitive position through its efforts to create an improved quality of life through marketing.

Marketing system – The relationship between a firm and its suppliers and customers that has the purpose of increasing the firm's competitiveness in meeting customers' needs.

The second key force of change in marketing is a result of both new technology and the need to view both suppliers and customers as part of the **marketing system**. If marketers remain focused only on their own firm or organization, they will be overtaken by strategists and management experts who are preaching a new gospel. In an era of just-in-time (JIT) production, early supplier involvement (ESI) in product planning, and direct order entry in purchasing, confinement of one's perspective to a single organization and a short-term transaction becomes limiting and soon even noncompetitive. Marketing has been transformed by the arrival of the information revolution, which is restructuring the performance of marketing tasks. Never before has it been so easy for customers and suppliers worldwide to establish direct contact and networks with each other. Never before has it been possible to know so much about each other. Today, firms can use huge panels of people who register via the internet to gather, track, cross-reference, manipulate, analyze, and disseminate information [15]. As a result, firms can offer much more precision in their marketing activities. The growth of the internet-based economy will have a major effect on marketers' interaction with customers, particularly in the industrial

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or business-to-business field. Making use of technological innovation in marketing has direct effects on the efficiency and effectiveness of all business activities. Integration of these capabilities into a firm's marketing strategy opens entirely new horizons. Products can be produced more quickly, obtained less expensively from sources around the world, distributed at lower cost, and customized to the individual client's needs. Most importantly, firms can differentiate their market transactions based on the content of the transaction, the context in which it occurs, and the infrastructure that makes the transaction possible [16]. Technology opens up a **market space** rather than a marketplace by allowing the firm to keep the content while changing the context and the infrastructure completely. Such is the case when a newspaper is distributed globally online rather than house-to-house on paper. All this presents firms with unprecedented new opportunities to serve and satisfy their customers. The discipline of marketing is therefore poised on the hinges of business practice, swinging the door wide open to encompass a new breadth of perspective and to embrace a much larger portion of business activities. If history is a guide, marketing will be able to adapt to these new needs because adjustment to change is at the heart of the discipline. As one of the early pioneers of marketing stated, "No systems of marketing remain static; all are in stages of adaptation to continuing change, both in the external environment and with the marketing organization itself. In a general theory of marketing, provision would be made for accounting for and anticipating change in the processes, systems and behavior patterns" [17].

Market space – The context in which a firm competes; a new context offers the firm unprecedented new opportunities to serve and satisfy customers without changing its content.

1.4 The Structure of Marketing Theory

So far, we have defined marketing in general terms and offered some categorizations. However, one of the first things you should come to appreciate about a genuine, practical marketing approach to problems is that it abhors pigeonholing any situation into neat categories. Rather, it prefers to look at customers' specific needs and wants. This apparent contradiction can, however, be resolved. Frameworks are often a valuable aid to organizing ideas. Simple diagrams and categories are useful in helping you understand the complexity of linkages and are also effective memory aids. This book uses such diagrams, but you should recognize that they are simplifications intended to illuminate ideas rather than to define them. A danger arises only when the categories are allowed to replace the ideas. An analogy is useful here: When you tell your family doctor your symptoms, he or she will usually follow a framework as an aid to diagnosis. If you have a temperature, a headache, a cough, drowsiness, and aching in the limbs, you might have the flu. If the doctor checks further, however, and finds that you also have a slow pulse and a rash on the upper abdomen, you might have typhoid fever. One moral from this analogy is that the

doctor, who has spent years learning how to use categories, applies expert judgment to all the factors observed. The use of frameworks as a guide to marketing diagnosis can be just as valuable, but the whole picture must never be forgotten.

With this warning in mind, we now examine the dimensions that have the widest application across the breadth of marketing activities.

Marketing in Action 1.1

Walgreens Battles the Virtual Pharmacy

Walgreens (► www.walgreens.com) began in 1901 in Chicago, Illinois (USA), when Charles R. Walgreen, Sr., purchased a neighborhood drugstore for \$6000. Since that time, the company has opened more than 9560 stores. Walgreens pioneered the drive-through pharmacy windows and has become known in the industry for its freestanding buildings. However, drive-through windows and freestanding buildings are now making way for online pharmacies.

Pharmacy companies such as CVS (► www.cvs.com) and Rite Aid (► www.riteaid.com) have bought their way into the web-based pharmacy arena through acquisitions of ► Soma.com and ► Drugstore.com, but Walgreens is sticking to its policy of growing from within rather than through acquisitions. As a major provider of prescriptions online, the company plans to take advantage of what it is currently doing—allowing customers to order refills via the company's website.

To battle the virtual pharmacies, Walgreens is expanding its current online refill program to a full prescription service through the internet. In addition to ordering prescriptions online (new prescriptions will still have to be called in by the doctor's office or mailed/faxed), customers will be able to request mail delivery or store pickup as well as accessing patient information online. Such patient information will include a prescription history, potential drug and food interactions, and a complete drug description. Patient-specific information will be available to each customer after a Walgreens password has been obtained.

Can Walgreens turn its online pharmacy into a competitive advantage? Is the online service itself any different from what the virtual pharmacies have to offer? How will the company build on its century of drugstore retailing to market its web-based service? How is Walgreens nurturing their customer relationships? In terms of staying ahead of the competition, Walgreens took a proactive action to nurture their relationships with customers and other associated stakeholders, when the United States was affected by Hurricane Michael in October 2018. In response to the hurricane, Walgreens immediately took “proactive measures to assist customers, team members and communities in the projected path of hurricane Michael...to fully support impacted regions in the storm's aftermath.” In response to this natural disaster, in the impacted area, Walgreens' initiatives included prescription drug preparedness, emergency customer support, and relief and recovery.

Sources: Frederick, J. (1999). Walgreens gears for opening of its own internet pharmacy. *Drug Store News*. ► www.walgreens.com. Accessed 12 March 2019; Walgreens Facts & FAQs, ► <https://news.walgreens.com/fact-sheets/frequently-asked-questions.htm>. Accessed 12 March 2019; Newsroom. (2018). *Walgreens*

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mobilizes in advance of Hurricane Michael to support customers, team members and communities in storm's path. ► <https://news.walgreens.com/press-releases/general-news/walgreens-mobilizes-in-advance-of-hurricane-michael-to-support-customers-team-members-and-communities-in-storms-path.htm>. Accessed 13 October 2018.

1.4.1 Goods Versus Services

Marketing applies to tangible goods, such as a refrigerator that is manufactured in a factory by the supplier, as well as to intangible services, such as a haircut. Some goods, such as personal computers, have a great deal of “service” attached to them; the total package is sometimes described as the extended product. On the other hand, some services, such as a haircut, depend on physical products; the hair care treatments used are very important and are clearly physical. There are differences in the way in which organizations might market a good and a service. A good is often promoted on the basis of its physical features, whereas promotion of a service is associated more with the quality of the organization providing it. In general, however, we will see that the basics of marketing are shared by both goods and services. ► Marketing in Action 1.1 discusses how Walgreens is battling the blurring of the goods/services distinction for prescription refills.

1.4.2 Product Categories

Even within this overall categorization, marketers often presume that there are significant differences between the various product types. The general category of consumer goods, for example, includes both nondurable and durable consumer goods. Nondurable consumer goods, the archetypal marketed goods, are heavily advertised to build awareness, trial, and preference. Groceries are an example. Consumer durables, sometimes further subdivided into white goods (e.g., refrigerators) and brown goods (such as furniture and electronic devices), are the “capital” goods of the consumer sector. They may require more personal selling and support.



1.4.3 Consumer Versus Industrial Markets

B2C – Business to **Customer** value network requires **more indirect (pull)** strategies to influence

B2B – Business to **Business** value network requires **more direct (push)** strategies to influence

There are significant differences in approach to consumer and industrial markets. Individual consumers who buy a product for themselves or their families typically spend less, but each individual may be the sole decision-maker. Their suppliers, the mass consumer goods manufacturers, have to deal with such consumers by indirect means. This market, where manufacturers try to attract mass consumer goods buyers, is known as the business (the manufacturer) to consumer (the mass consumers) market or B2C market. This traditionally requires that suppliers/manufacturers find out about mass consumer needs through market research and communicate with them via advertisements in the mass media to indirectly pull the interests of the mass consumers toward the offering.

In contrast, industrial marketing often requires more direct face-to-face interaction with a single but large industrial buyer to push the industrial buyer's decision in favor of the marketer, which is known as business (the marketer) to business (the large industrial buyer) marketing or B2B marketing. B2B marketing activities are justifiable when the value of the individual sale is higher. The interaction is with someone who merely represents the buying organization and perhaps is not the only decision-maker. The nature and extended length of these negotiations, coupled with the technical demands on the marketing professionals involved, frequently offer the most telling difference from consumer goods marketing. However, technology may make it possible to erase some of these differences, particularly if the communication between customers and their supplier becomes more direct and the marketing effort more precise. For example, marketers are now able to interactively communicate with their customers via different internet-enhanced platforms, such as online chat. Online chat is now a common practice for the telephone, gas, and electricity marketers and service departments of such organizations to instantly answer their customers' questions, in order to help them to choose a competitive deal and/or to perform immediate action, in response to their customers' complaints.

1.4.4 Profit Versus Nonprofit

One of the divisions often debated is that between profit-making organizations and nonprofit-making sectors such as universities or charities. The former are easy to deal with. They are, at least in theory, driven by the primary motive of making a

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profit, and good marketing is an excellent way of increasing the bottom-line profit figures. On the other hand, employees of the nonprofit sectors frequently have difficulty in seeing how marketing, which is too often associated with hard-selling advertisements for consumer goods, applies to their own organization. Exactly how it may be of use will become more obvious as we progress, but at this stage, it should be understood that all organizations necessarily have links with the outside world. For example, Mothers Against Drunk Driving (MADD, ► www.madd.org), an organization that strives to encourage motorists not to drink and drive, needs to use market research to discover the motivations of those who do and the most effective means of influencing them not to. MADD then uses the mass media to convey its messages. The smallest charity has to decide who its clients are and what their needs are, before communicating with them. Alongside the traditional marketing practice, one of the most effective options for nonprofit organizations is to focus on cause-related marketing campaigns that incorporate relevant socioeconomic and/or ecological cause in marketing campaigns. ► Manager's Corner 1.1 shows how a nonprofit organization can use marketing approaches to promote a social cause.

Manager's Corner 1.1**March of Dimes Uses Content Marketing Strategy to Raise Awareness and Funds for Their Social Cause**

Marketing is becoming more and more important to anyone wishing to get a message across to the public. For public institutions and private organizations alike, for profit or not-for-profit enterprises, marketing is a useful tool. The following example shows how nonprofit organizations use marketing techniques to promote a social cause.

The March of Dimes (► <https://www.marchofdimes.org/>) was established in 1938. Since their establishment, they have been working for premature babies, in order to enable the babies to overcome their early health concerns. “March of Dimes leads the fight for the health of all moms and babies. We (March of Dimes) believe that every baby deserves the best possible start. Unfortunately, not all babies get one. We are changing that.” Birth of a child before 37 weeks of pregnancy is recognized as premature birth. The complications of premature birth are the number one concern in the United States for death of babies. Furthermore, babies who survive premature birth are highly likely to have long-term health issues, such as blindness and hearing loss, chronic lung disease, cerebral palsy, and intellectual disabilities. About 380,000 babies are born prematurely in the United States each year, which is 9.8% in the United States as the preterm birth rate. In other words, one out of ten babies is born prematurely each year in the United States.

The March of Dimes needs to source and allocate a substantial amount of funds and resources, in order to effectively fight for this social cause, related to the health problems of a significant number of premature babies each year. In this con-

text, they have started using online social media in recent years to create awareness about their mission, in order to let people know how they could make a difference together.

“In recent years, they (the March of Dimes) chose to go to the internet and begin on content marketing.” The March of Dimes used a multidimensional approach in their online content marketing. For example, they have been using a blog, Facebook, YouTube, and Twitter to reach their target audiences with their mission. In these online content marketing campaigns, the March of Dimes has been sharing “so many inspirational and life-changing stories that the organization has made public to show how their organization truly makes the difference.” “By allowing the people they affected to share their stories online, the March of Dimes has created a content strategy that aligns with its mission: ensuring that every single baby gets a good and healthy start in life.” As a result, “this (online content marketing) campaign helps to raise awareness and contributes to funding their mission.”

Sources: March of Dimes. (2019). ► <https://www.marchofdimes.org/>. Accessed 15 March 2019; March of Dimes. (2019). *About us*. ► <https://www.marchofdimes.org/mission/about-us.aspx>. Accessed 15 March 2019; March of Dimes. (2019). *Fighting premature birth: The prematurity campaign*. ► <https://www.marchofdimes.org/mission/prematurity-campaign.aspx>. Accessed 15 March 2019; Capterra. (2017). *5 non-profits with successful content marketing campaigns*. ► <https://blog.capterra.com/nonprofits-successful-content-marketing-campaigns/>. Accessed 15 March 2019.

1.4.5 Intermediaries Versus End Users

Many of the marketing processes use intermediaries, such as retailers and wholesalers, to provide the product to the end user or customer. These intermediaries themselves represent a significant proportion of the service sector, and they make very different demands on the suppliers of products. They are seeking profit, as well as a match with their own marketing needs, which may be very distinct from the desires of end users. Technology may dramatically affect the marketing perspective and actions of both intermediaries and end users.

Web Exercise 1.1

Shifting from a domestic to an international market is a complex transition requiring special attention to all business functions, not least of which is evaluation of new consumer preferences. Wendy's (► <http://www.wendys-invest.com/>) operates both the hamburger chain Wendy's and the more locally tailored chain of Tim Hortons in Canada. Take a look at the sites for all of Wendy's operations and see how the company's products are customized to reflect the cultures in the parts of the world where they are operated.

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1.4.6 Domestic Versus International

When a firm shifts from the domestic market to the international market, many new factors enter into its marketing horizon, including exchange rates, tariffs, and conflicting government policies. In addition, new modes of transportation might be needed, the inventory pipelines lengthen, and payment flows slow down. A new set of customers has to be listened to, and their attitudes, behavior, culture, and socioeconomic position have to be understood. Although marketing internationally deals with the same marketing dimensions, it requires a new perspective of both the environment and the customer in the target market(s). The marketer must either search for “marketing universals”—such as segment—and product-specific consumer behaviors that are invariant across cultures or countries [18] or find ways of adapting to different settings. Also, in international markets, alongside the cultural issues, marketers have to deal with the local business laws and regulations.

1.4.7 Small Firms Versus Large Firms

Marketing solutions are just as available to small firms as they are to large ones. The difference is that small firms usually do not have the resources or expertise to exploit marketing in its most sophisticated forms and are unlikely to make much of an impact on their environment. Some claim that small firms have a distinctive marketing style. For example, there is generally little or no adherence to formal structures and frameworks; the marketing style relies heavily on intuitive ideas and decisions and, probably most importantly, on common sense [19]. Common sense is a very valuable commodity in marketing, and the proprietors of small businesses are usually much closer to their customers than the marketing vice presidents of many multinational firms.

1.4.8 Industry Sector Specificity

Other dimensions are particularly important to specific industry sectors. For example, whether the sector is largely controlled by government regulation, as is the ethical pharmaceuticals industry, or whether an industry is subject to subsidized competition from abroad can be crucial for the development of a successful marketing strategy. Fortunately, most of these different categories of organization have more marketing theory and practice in common than not. Indeed, most of the marketing activities described in this book are widely applicable. Even pricing, which on the surface has little relevance for noncommercial organizations, turns out to offer them many lessons.

1.4.9 Marketing and Double Bottom Lines

In general, the financial bottom line of all the efforts of a business firm is related to the performance of its revenue streams and profit-making tendency. Beside this traditional single bottom-line approach, in recent decades, a double bottom-line approach has become popular in marketing management. This double bottom-line approach predominantly focuses on contributing to relevant socioeconomic and/or ecological issues in the market, where a firm operates its businesses while making profit. The general purpose of adapting such a double bottom-line approach in marketing management is to create a socially (or environmentally) responsive image of the business. The focus here is to create a futuristic long-term mindset to not only make short-term profit but also attain and sustain a long-term competitive advantage of the firm and its products and/or services. Similar to many other marketing theories and phenomena that are discussed in this book, both the profit and nonprofit organizations are in the habit of adapting such a double bottom-line-oriented marketing management approach in their operation. In order to take long-term advantage of this double bottom-line approach, many global corporations have been investing, in response to diverse socioeconomic and ecological concerns. As a result, corporate spending on such projects has reached US\$18 billion in recent years [20], which indicates the effectiveness of such investments, in terms of their return on investment [21–23].

1.5 Marketing and Internal Resources

Marketing theory emphasizes the necessity of viewing the needs of the customer/consumer/client as the prime focus of all marketing activity. In practice there may be even greater justification for such a focus because most organizations are preoccupied with internal problems and shifting their attention to the outside takes a great deal of effort. On the other hand, what gets lost in this single-minded concentration on the customer is the relationship of the marketing function with the organization's resources. An organization's extant resources enable its managerial (including marketing management) processes to plan, implement, and evaluate strategies, in order to enrich the organization's overall managerial (including marketing management) capabilities and the efficacy of such marketing management capabilities [24]. In general, an organization's resources can be divided into three broader categories, which are physical resources [25], human resources [26], and organizational resources [27]. The physical resources include the plant and equipment of an organization, which can establish a platform of the organization to operate its marketing activities, and the human resources are the joint knack and passion of marketers and their complementors, co-employees, managers, and board of directors [28]. The organizational resources of marketers refer to the marketers and their organizational formal

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and informal decision-making procedure for the issues related both to day-to-day activities and to the long-term strategic decision-making process [28]. Much as the organization cannot exist in isolation from its market, neither can marketing exist in isolation from the rest of the organization or its suppliers and intermediaries, although that is often what marketing departments attempt. After all, marketing's primary role is to serve the organization and proactively utilize the organization's internal resources, even if its first task is then to remind the organization that it is there to serve the customer. Marketing has to work with available resources, no matter what the market demands. Some of the most spectacular failures have arisen from very strong marketing visions that drove their adherents to commit their organizations beyond any reasonable expenditure of resources. For example, the British air carrier Laker Airways, which introduced discounted fares across the Atlantic, was immensely popular with its customers but lost its investors' funds when it went bankrupt. Apple Computers almost lost sight of the need to live within organizational constraints and had some close brushes with demise.

Paradoxically, therefore, the starting point for the marketer is the organization itself and its initial available resources. To get ready for a marketing orientation, the organization needs to address the following dimensions:

1. *Develop an understanding of what resources the organization has at its disposal.* This requires a considerable degree of sophistication, for the important resources are not those shown on the balance sheet. Above all, it demands an understanding of what the product package is, including all the service, physical, and image elements within and outside the organization. IBM managed the transition from punched-card tabulators to mainframe computers because even its name embodied the concept that its market was (International) Business Machines. It had the necessary skills along with the culture—unlike Exxon, which tried to jump from oil to information technology and failed.
2. *Develop a suitable filter for marketing data.* This is one of the most difficult stages because it requires the marketer to focus attention, when looking at the outside world, on just those aspects that are relevant to the organization's future. It poses problems of **marketing myopia**, wherein the marketer simply does not see changes emerging because they are outside his or her frame of reference. On the other hand, a tight focus is necessary if the marketer is to handle masses of data and to avoid data overload, as well as the availability of internal resources to plan for external marketing management initiatives. More importantly, a tight focus means that input can be transformed so that it is useful to the organization. ► Manager's Corner 1.2 discusses the curative marketing concept, which is relevant to filter the available data and internal resources, in order to plan, implement, and monitor marketing strategy and possibly to avoid any future marketing myopia.

Marketing myopia – The marketing mistake in not differentiating the key difference between a product's features and its benefits.

3. *Use this filter to find out about the customer.* This is the conventional starting point for marketing theory. The difference here is that the marketer conducts this examination in the context of the lessons about the organization's resources that were learned in the first two steps; thus the search for information is an informed one.
4. *Review the processes to date.* This step, which requires an extraordinary degree of professional detachment, is the hallmark of great marketers. The marketer must repeat the earlier steps, this time taking into account the lessons learned. This may mean that the filter developed in step 2 has to be modified in light of what has since been discovered in step 3. This iteration needs to be continually conducted. It required Ray Kroc to understand that the marketing formula developed by a small hamburger restaurant in the backwoods could be turned into a worldwide McDonald's chain and Michael Dell to see that the direct marketing and just-in-time production concepts could be applied successfully to the personal computer industry.
5. *Manipulate resources to achieve the resulting marketing objectives.* Traditional marketing theory frequently assumes that only the resources specifically made available to the marketing department should be taken into account. In reality, all the resources from both within and outside the organization must be brought into play. Capturing resources that are traditionally the prerogative of other departments or outside firms can be very difficult and often hazardous to one's career, but it can pay massive dividends when a systems approach is implemented.

Manager's Corner 1.2

The Soul and the Curative Marketing Concept

Three score and seventeen years ago, Joseph Schumpeter regaled us with the concept of creative disruption. He presented successful innovation as only a temporary market shift, which, though threatening the profits of old firms, was itself facing the pressure of new competitors commercializing their own inventions. Such continuing cyclicity was taken on in greater detail by various subfields in business and society and delivered high explanatory value. Consider the link between transportation capabilities and market reach. See the time/service linkages developed by Stanley Hollander's "wheel of retailing." He postulates that firms tend to start at the bottom of the wheel and move up in terms of services and pricing until more efficient competitors transition them out from the wheel.

Today, disruption has become broader in scope with more new entrants and with their disruptions coming not just from the same industry or even from similar business models. A representation of disruption reflects a continuous flow of newly entering players emanating from different countries and regions. To counteract such competitive onslaughts, it is no longer sufficient to force besieged firms to simply lower their prices. Nowadays, there can be entirely different products, which deliver better value to consumers. Unicorn companies, like Twitter and Netflix, are startups valued at more than

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US\$1 billion within a very short time. Unicorns have succeeded and caused many casualties with their winner-takes-all market approach. When Netflix emerged in 1997, with its lower price and convenience, it quickly permanently overtook Blockbuster, the video rental firm. With its 10,000 retail stores, the firm was forced to declare bankruptcy in 2010.

But with the world becoming more dynamic and divided than ever before, security and religion appear to be held in higher esteem by society than economics and business. Corporations are increasingly expected to play a stronger role as one collaborator with government and society in finding solutions to often unforeseen future challenges. Winner-takes-all competition begins to give way to a strategy based on global collaboration. Money is no longer the only or ultimate outcome of business efforts. Firms who neglect holistic perspectives and argue based on business principles alone may increasingly find themselves on the losing end. Self-sufficient, societally supportive, and leading is how many business executives like to see themselves. Yet, their activities are only one slice of a floating sphere formed by a score of other components integral to society.

This is one key reason for the emergence of the concept of curative marketing, which accepts responsibility for specifically international problems that marketing has caused. It then uses marketing's capabilities to set things right even for the long term and works to increase the well-being of the individual and society on a global level. Curative marketing's two key perspectives consist of looking back at what marketing has wrought (**along with its virtues and myopia**) and looking forward to set things right for future relations and actions. Curative marketing provides the concept and context for the assessment of participation.

Source: Czinkota, M. R. (2017). The soul of business. *Qualitative Market Research: An International Journal*, 20(2), 226–229; Czinkota, M. R. (2018). *In search for the soul of international business*. New York: Business Expert Press.

1.6 The Complexity of Marketing

Some marketers have an inclination to assume very simple theoretical relationships between firms and customers. Although doing so may make comprehension easier, it does not prepare you for real-life marketing. By its very nature, marketing has to deal with complex dimensions, particularly when addressing the six main features described in ► Sects. 1.6.1, 1.6.2, 1.6.3, 1.6.4, 1.6.5, and 1.6.6.

1.6.1 Multiple Decision-Makers

In many buying situations, more than one person is involved in the buying decision. This is especially true of those customers in industrial marketing, but it can just as easily apply to those in consumer goods marketing. Even the purchase of a food staple may need the tacit agreement of the whole family; conflicts are likely to arise if a parent buys cereal, no matter how inexpensive or nutritious, that the children do not like.

1.6.2 Multiple Factors

The purchase decision is often dependent on many other decisions. Thus, the decision of whether to buy cereal may depend on whether any milk is available. It may depend on what budget is available or on what higher-priority items have already laid claim to that budget.

1.6.3 Interaction

The buyer does not make the purchase decision in isolation from the supplier. Perceptive marketers employ **partnership techniques**, in which both suppliers and purchasers are actively involved in the decision-making processes. For example, Japanese multinationals work so closely with their suppliers that it is often difficult to know where the boundary between firms is.

Partnership techniques – Marketers’ strategy of involving both suppliers and purchasers in the decision-making process.

1.6.4 Time Frame

Assuming that a purchase decision stands by itself, without any influence from previous experience, is overly simplistic. Even the purchaser of the box of cereal has a rich history of exposure to advertising, as well as personal experience with product usage. Yet, watch television almost any night and you will see some brand being promoted on a totally different platform from that of a few months ago—the marketers having made the (usually incorrect) assumption that there is no historical effect. Cadillac found, much to its dismay, the existence of such a historical effect when it tried to promote its Catera brand to young buyers and found that most purchasers were still traditional middle-aged customers.

1.6.5 Global Factors

Global influences on the consumer and the marketers cannot be ignored. For example, a drought in Brazil would have an impact on coffee production and consumption around the world. Exchange rate changes and government tariffs affect the cost and availability of products. The introduction of the euro in the European Union has raised the degree of price transparency across borders and has reduced the pricing flexibility of wholesalers and retailers. Also, political issues around the world can affect business decision-making, including business relationships, continuation of partnership, and repeat business. For example, “global business leaders suspend ties with Saudi Arabia” [29], because of a changing global political

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issue. Consequently, “the British billionaire Richard Branson (the Virgin Group founder)...suspended business links with Saudi Arabia, and Uber CEO Dara Khosrowshahi said he might not attend a major investment conference (in Saudi Arabia)” [29]. Innovations and new market entrants from abroad, or production shifts of domestic firms, can also change the type of competition, product composition, and product selection. Demand surges abroad might result in price increases and product scarcity. To ignore the influence of global factors may place the very survival of the firm at risk.

1.6.6 Enormous Flow of Information

Since the transition from the age of industrial revolution to the current information revolution as early as the late 1970s or early 1980s, we have been living in an information age. Today, we have an enormous flow of information from diverse sources on different issues that have numerous implications for different concerns from diverse perspectives. On the one hand, customers have abundant access to information about different competitive products, which is easily accessible through publicly available traditional media, as well as contemporary digital media. It offers customers a flexibility to promptly change their purchasing decision and to switch to a competitive brand. On the other hand, marketers also have abundant access to information; however, the complex marketing management issue is to pick the right information at the right time, targeting the right customer segment, in order to take the right marketing management decision. In the real-life business world, various challenges appear in exploring, analyzing, and abstracting accurate information from the right dataset at the right time for the right target audience, which adversely affects the contemporary decision-making process in business and often leads to wrong decision-making [30]. For example, in terms of accurate business decision-making based on the enormous data inflow and outflow, Facebook has been at the center of huge criticism, as its data and information management and marketing did not undertake proper care of its customers’ and other stakeholders’ privacy [31]. Consequently, critically exploring the right data and abstracting accurate information from such an enormous flow of data for on-time decision-making targeting to the right customer segment are complex processes for today’s marketing managers. However, such complexity could be dealt with efficiently by following the five steps that are discussed in ► Sects. 1.1, 1.2, 1.3, 1.4, and 1.5 of this chapter, under “marketing and internal resources.”

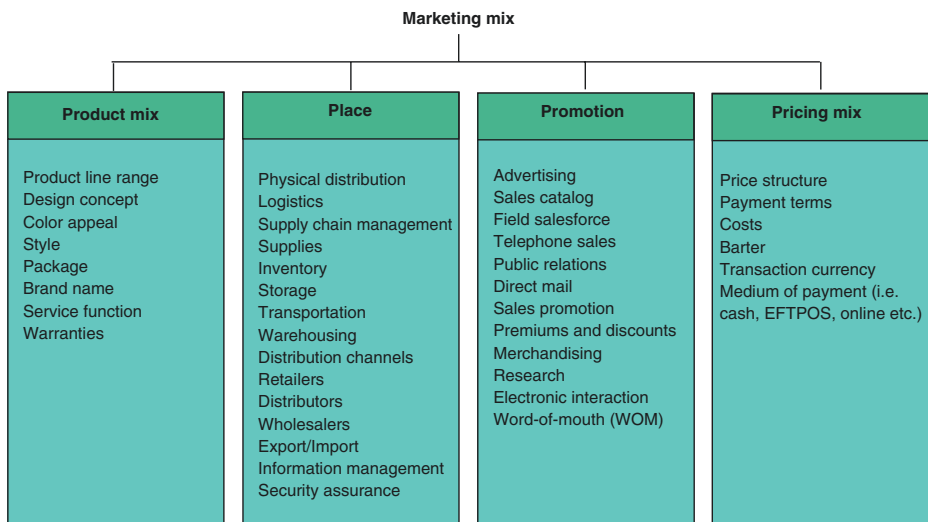
1.7 The Marketing Mix

Once customer needs or wants are determined, the marketer has to satisfy them. The first aspect of this implementation is the product itself, which is the ultimate basis for the customer to determine whether his or her needs are being met. The marketer must, therefore, match the product as closely as possible to those needs.

This may be accomplished by offering a tailor-made, existing product; by radically changing the product; by modifying its features or its packaging; or even by describing the product in a different way. The second aspect is the delivery system: The producer must get the product within reach of the customer in a timely manner. Third, the customer must be made aware of the availability and benefits of the product. The marketer needs to communicate with the customer and persuade him or her to purchase the product, perhaps by using an advertisement. Fourth, the product must be priced right so that the customer can afford it and is willing to choose it from among competing offers.

These separate aspects may be categorized in a number of ways. One customary framework is Jerome McCarthy's 4 Ps: product, price, place, and promotion [32]. "Product" refers to the product-related elements and includes both goods and services. Perhaps influenced by economics, "price" is split off as an element worthy of separate consideration, although this may overemphasize its importance. The other two Ps are parts of the delivery system: "Place" refers to delivering the product and "promotion" to delivering the message. ■ Figure 1.1 shows the four components of the **marketing mix** and their many dimensions.

Marketing mix – McCarthy's 4 Ps—product, price, promotion, and place—that can serve as a preliminary framework for assessing marketing activities. (Promotion is often referred to as *communication* and place as *distribution, logistics, or supply chain management*.)



■ Fig. 1.1 The marketing mix

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The 4 Ps offer just one, albeit frequently used, approach to marketing. Some pundits propose just two factors: the “offering” (product and price) and the “methods and tools” (including place [distribution or supply chain] and promotion). Others argue for the need to subdivide these categories further, differentiating, for example, between sales and advertising as forms of promotion. Still others suggest that the differentiated subsets of each element of the marketing mix then need to be reassembled into, for example, an integrated marketing communication approach [33]. Perhaps the most significant criticism of the 4 Ps approach is that it emphasizes the inside-out view (looking from the company outward) instead of the outside-in approach [34].

Nevertheless, the 4 Ps offer a memorable, useful guide to the major categories of marketing activity, as well as a framework within which they can be used. On the one hand, a proper use of any of the dimensions of the 4 Ps would be instrumental to achieve the marketer’s desired goal. On the other hand, misuse or undervaluing any of these dimensions that are depicted in ■ Fig. 1.1 could bring unforeseen results. For example, customers’ and other stakeholders’ satisfying word of mouth (WOM) could spread a positive image about a company and its products or services among the wider target audience of the company. Similarly, a dissatisfying remark (WOM) of a disappointed customer on social media would be instrumental in creating a damaging image for the company and its products or services. For instance, if a disappointed customer comment on Facebook about a dissatisfying service experience in a restaurant, something like “when staff are rude and obnoxious, to hell with the good food. Never again (#the name of the restaurant), and I never forgive nor forget, so you’re in for some terrible WOM,” it would not give a favorable impression at all to family and friends about the service of that particular restaurant, irrespective of how delicious the food they offer. Therefore, exploring the market insights, in relation to different dimensions of the 4 Ps, is crucial for marketers, in order to design, deliver, and evaluate the product and service in a way that would be as close to customers’ expectations as possible to meet their needs and wants.

1.8 Selling Versus Marketing

Selling has long suffered from a tarnished image. Dubious selling practices occasionally result in a sale if the customer is particularly gullible. However, good marketing, which encompasses a far wider range of skills, will lead the customer to buy again from the same company. Seldom can an organization survive in the long run based on single purchases made by first-time customers. Repeat business and the lifetime purchases of customers generate the most profit. Much of the selling effort of the well-organized marketing function is directed toward keeping the number of delighted customers high and the number of dissatisfied customers to a minimum. In such organizations, feedback from the market will alert the company to the main reasons that customers do not buy again. Such feedback will lead, if

necessary, to an improvement or modification of the product. Effective selling is not about half-truths or overrated claims—these practices are almost always counterproductive in the longer term.

Many of the criticisms of selling are valid, because there are many poor salespeople and almost as many poor sales managers. It is also true that good sales managers and sales personnel have long recognized and supported the basic tenets of sound marketing. On the other hand, you should be aware that the term *marketing* is often adopted by those who are in reality engaged exclusively in pure selling activities. For example, for a number of years, the term *marketing executive* has been applied to salespeople in general. As early as 1964, Peter Drucker observed, “Not everything that goes by that name deserves it. But a gravedigger remains a gravedigger even when called a ‘mortician’—only the cost of the burial goes up. Many a sales manager has been renamed ‘marketing vice president’—and all that happened was that costs and salaries went up” [35].

Seven common elements distinguish marketing-oriented companies:

1. The use of market share, rather than volume, as the primary measure of marketing success
2. The understanding and use of market segmentation principles
3. The process for monitoring customer needs, usage, and trends, as well as competitive activity—that is, market research
4. A set of specific marketing goals and targets
5. A structure or process for coordinating all nonmarketing functions toward the achievement of marketing goals
6. A corporate style and culture in which marketing integrates process participants both within and outside the firm
7. A market-based business concept that provides unique value to the customer [36]

The key difference is that selling is an inward-looking function in which you persuade the customer to buy what you have. In selling, product development is detached from the marketplace: Only when the product is ready does the search for customers start. Marketing, on the other hand, is an outward-looking function in which you try to match the real requirements of the customer. The company looks for market opportunities and creates product solutions in response. These two approaches are contrasted in  Fig. 1.2.

In practice, a mix of both approaches is often used. It is a very poor salesperson who does not instinctively, rather than as a matter of theory, use sound marketing principles when questioning a customer to find out what he or she wants. Equally, it is a fortunate marketer who can produce a new product to match exactly the discovered gap in the market; most new products emerge from nonmarketing processes and are only then opportunistically matched to markets. The most successful approaches seem to be the ones in which the sales function collaborates closely with marketing to reach and delight customers. Manager’s Corner 1.3 provides examples of how the tensions between sales and marketing can be overcome.

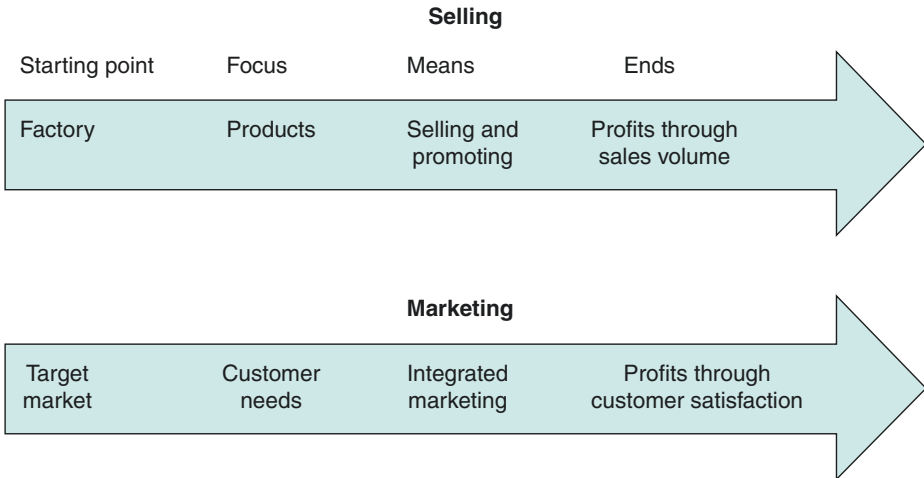


Fig. 1.2 Selling versus marketing. (Source: Kotler, P. (1997). *Marketing management*. Reprinted by permission of Pearson Education, Inc., Upper Saddle River, NJ)

Manager's Corner 1.3

Overcoming Tension Between Sales and Marketing

When there is too much tension or too little communication between sales and marketing divisions, business is bound to suffer. Formal communications are useful because they are verifiable and offer a record of events. In situations in which two departments have different styles, a formal procedure for communication can help reduce conflict. Yet, achieving good communication is often quite elusive. The sales team often sees marketing as disconnected from the real world. The marketing people, in turn, think that salespeople do not really understand the intricacies of dealing with consumers. The tension between sales and marketing is bred by physical and philosophical separation and by differing objectives. Sales staff concentrates on quarterly revenue; marketing aims for more long-term results. In an overcrowded marketplace in which customers are deluged with different signals, you can't hope to differentiate yourself without a consistent, unified message.

ASB Bank of New Zealand (► www.asbbank.co.nz) is another company that is able to successfully balance marketing and salesforces. ASB employs long-term marketing executives who consistently achieve results with short-term advertising that reflects the long-term vision of the company. There, the role of sales is to find ways to interest consumers and wholesalers as they work with marketers to discover ways to achieve both short- and long-term results. The cooperation between these divisions is something that has helped ASB become a leading bank for New Zealand.

Coca-Cola's national accounts program has long been noted as a leader in integrating sales, marketing, and any other group that might touch the customer. Coke (► www.coke.com) devotes to each national account a team that includes employees from sales, marketing, finance, operations, and support. They converge on a market;

research the people, culture, and sociology; and then debrief each other. Through this process they understand their objectives better and are able to outdistance the competition.

Another example of simultaneously focusing on long-term marketing goals and short-term sales revenue, based on keeping an effective balance between marketing and sales initiatives, would be the marketing and sales functions of Alibaba. Today, Alibaba, as an online retailer, has become one of the most successful retailers in the world without keeping any inventory [37]. As one of their long-term marketing goals, Alibaba develops and nurtures a win–win futuristic business relationship with their suppliers. On the one hand, following the competitive terms and conditions, Alibaba sources their products from the best possible suppliers and nurtures that supplier relationship, based on their dedicated supplier membership program, as part of their long-term goal. On the other hand, without keeping any inventory, Alibaba has established a guaranteed delivery system to deliver the best product to their customer, in response to the order they receive at their online store, upon sourcing the best product from the most reliable supplier. Consequently, Alibaba is not only able to offer the best possible price and peace of mind to their customers, in order to increase their short-term sales, but is also able to offer the best possible partnership deal to their supplier to keep the most reliable supplier in their delivery network for the longer term.

Sources: Alibaba. (2019). *Global trade starts here*. ► <http://www.alibaba.com/>. Accessed 17 March 2019; Maruca, R. F. (1998). Getting marketing's voice heard. *Harvard Business Review*, 10–11; Lorge, S. (1999). Marketers are from Mars, salespeople are from Venus. *Sales and Marketing Management*, 26–33; Young, C. (2004). Marketing management marketing in bifocals. *New Zealand Marketing Magazine*, 40.

1.9 Marketing and Corporate Strategy

In establishing the context for marketing, we must first understand how it fits into the organization's overall corporate strategy. The study of corporate strategy is often treated as a separate academic discipline, although it is closely related to the processes of marketing planning. Marketing's input into the corporate strategy processes comprises both external and internal elements. A number of external influences affect an organization, such as the prevailing social and economic climate and, more directly, the accompanying legislation. A closer look at the meaning of market orientation will help us to understand the connection between marketing and strategy. **Market orientation** is the organization-wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organization-wide responsiveness to it [38]. Put even more succinctly, market orientation is composed of customer orientation, competitor orientation, and interfunctional coordination [39]. Such a generation of market intelligence, based on customer orientation, competitor orientation, orientation with other key stakeholders such as suppliers, and subsequent interfunctional coordination, requires continual monitoring of market conditions, relevant to customers, competitors, all associated stakeholders, and the overall

market environment to develop products, since even a trivial change in competitive factors (e.g., legislation change) would impact the overall market environment in a different way [40].

Market orientation – The organization-wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organization-wide responsiveness to it.

Just as General Charles de Gaulle remarked that war is too important to be left to the generals, a market orientation is clearly too important to be left to the marketers. Rather, the entire organization needs to be informed about customers and competitors and has to be responsive to that information. What is needed is company-wide coordinated response and action. Now we can see why marketing planning processes often seem indistinguishable from those of corporate strategy itself. In both cases, the needs of the customer have to be understood, the internal constraints and capabilities have to be assessed, and the external environment has to be analyzed.

1.10 The Difference Between Products and Benefits

The contrast between a market orientation and a product orientation has been a source of controversy since the 1950s. To provide some context for later chapters, you must fully understand the product perspective because it is the demand for the product that the marketer is trying to optimize. Behind the statement “Customers don’t buy products; they seek to acquire benefits” lies a basic principle of successful marketing: When people purchase products, they are motivated first not by the physical attributes of the product but by the benefits that those attributes offer. An indication of what tangible and intangible qualities make up a product can be found by looking closely at the difference between what customers appear to buy and what they actually want (see Web Exercise 1.1). When customers buy a 2 mm drill, what they really want is a 2 mm hole. The drill vendor is in grave danger of losing business if a better means of making holes is invented. Ignoring such alternatives has led to the demise of many businesses. For example, the personal computer with word processing software has replaced the typewriter, and streaming has replaced compact discs, in both cases because they offer better ways of delivering the benefits the customer is seeking. Not recognizing this difference between products and benefits has been described as marketing myopia [41]. ► Marketing in Action 1.2 discusses the distinction between products and benefits in the ethical context of marketing Tantra.

The solution to this problem of perception is for the supplier to look at the product through the eyes of the customer—and even then there are pitfalls. Many sales trainers, for example, emphasize selling the benefits and not the product’s physical features.

1.10 • The Difference Between Products and Benefits

Unfortunately, too many sales representatives then feel free to decide for themselves what the benefits are, based on what they see rather than the thoughts and attitudes of the customer.

Web Exercise 1.1

For several years, Novartis (► <https://www.novartis.com/>) ran a series of ads featuring a wet, unhappy-looking dog peering through a door into a family home. This advertisement, for Program flea control, was a perfect example of the product versus benefit orientation. Novartis marketed the benefit of having a flea-free pet and of having a flea-free pet that could still be part of the family. The tag line, “Prevent sticky flea treatments from keeping you apart,” conveyed the double benefit of Program medication. Take a look at Novartis’s website for animal health products to see other ways the company is showing consumers the benefits of its products. What aspects of its products does it emphasize?

Marketing in Action 1.2

The Art and Science of Marketing as Applied to Tantra



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Is Tantra (► <https://tantramag.com/>) really a 4000-year-old religious doctrine, or is it an entrepreneur's dream—a dream of selling sex combined with New Age psychology? *Tantra—The Magazine Online* addressed the question, “What is Tantra?” Tantra is described as being both an art and a science. The scientific component is based on increasing awareness to expand consciousness. As an art, Tantra is described as the beauty, flow, and grace of the physical form. The online description of Tantra explains that most Westerners believe it to be a sacred style of sexuality that focuses on the improved use of communication, breathing, and energy. Some colleges and universities include Tantra theory in their religious studies programs.

Where do the art and science of marketing mingle with the art and science of Tantra? Is Tantra implementing a marketing program? Tantra uses niche marketing by focusing on the adult “feel-good” industry. The product is religion (a service), with tangible brand extensions (e.g., e-sensuals catalogue, online magazine, weekend seminars, balms, and books). The company's pricing resembles a penetration pricing strategy. Distribution is direct to the consumer, with e-commerce playing a major role in the firm's integrated marketing communications program. Strategically, increasing market share appears to be a major organizational objective.

Are entrepreneurs using religion as a disguise for selling sex? Is there anything wrong with the use of marketing to match the buyers of sexuality with the sellers of sexuality? Have the marketers behind Tantra's marketing program crossed the line ethically, or are they just practicing great marketing?

Sources: Tantramag. (2019). ► <https://tantramag.com/>. Accessed 10 March 2019; Davison, D. K. (1999). The marketing of Tantra: Over the line? *Marketing News*, 7.

1.11 Marketing and Service Cultures

Some service sector organizations have been at the forefront of marketing. In general, however, much of this sector's management has been antipathetic toward marketing for a number of reasons, all of which are mainly self-imposed limitations and do not relate to any genuine problems inherent in marketing itself. Some of these so-called reasons are as follows:

Lack of Tangibility The intangible nature of services makes them less immediately responsive to marketing techniques. For example, it is more difficult for customers to try out a service than a manufactured good. The difference, however, only means that marketing approaches have to be more personal, more direct, and more customer interactive.

Lack of Mass Marketing Many service suppliers, such as accountants, have only small offices that are very individualized in their contact with customers. As the emergence of large chains such as H&R Block has shown, however, there is ample opportunity to introduce national communication and a central marketing structure for such services.

Lack of Direct Competition Some organizations, such as banks, have traditionally not seen themselves as having customers. At times they have behaved almost as if they themselves were the customers. Such organizations used to be in the fortunate position where the supply of their offering was swamped by considerably more demand than could be met, and their role was to ration this scarce supply. Now, however, the situation has changed in many countries, and service providers need to face the test of competition every day.

Professional Status Other groups of service providers have long been organized into professions, such as lawyers, physicians, or dentists. Their professional organizations, due to their monopoly power, often effectively removed direct competition—and with it marketing. Many professions used to have rules that specifically barred their members from almost every form of marketing activity. As these prohibitions have been weakened or removed, however, marketing thinking has been quick to emerge.

1.12 Marketing and Nonprofit Organizations

Nonprofit organizations have the greatest difficulty in coming to terms with marketing, probably because much of marketing theory is described in terms of improving profit performance. Using profit as the main gauge of marketing effectiveness allows for a practical and measurable approach in commercial organizations but can pose major problems for organizations that cannot assess their performance in such terms. One resulting problem, therefore, is that some nonprofit organizations simply do not recognize the requirement to meet their customers' needs.

What can replace profit in the nonprofit context? The measure most frequently suggested appears to be “match.” Nonprofit organizations should seek the best match between the use of their resources and the needs of their customers or clients. In this context, marketing is a means of most productively matching the resources available to provide what the users need and want—exactly as in any commercial operation. One apparent complication in the case of nonprofit organizations is that there are several types of customers: the clients for the service, those who decide who the clients will be, and the donors of the funds to provide that service. Each of these groups has a different set of needs and has to be marketed to separately. As a result, there may be multiple objectives, and activities may be subject to public scrutiny. In this way the nonprofit is no different from the for-profit organization, which has to deal with shareholders, management, employees, suppliers, and customers, all of whom may have different goals and requirements.

Summary

Marketing is a particularly practical business discipline. There may be many definitions of marketing, but all of them consider the customer to be the focus of decision-making, and all of them describe the dialogue between the producer and the

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customer—increasingly as it takes place in a global context. Marketing efforts vary, depending on the different circumstances within which they are practiced.

It is important to see marketing's role in an overarching context, reaching beyond the organization to encompass the entire client and supplier system in an outward-looking way that matches corporate capabilities with the requirements of customers and permits them to acquire desired benefits most efficiently.

The various elements of marketing that are employed in marketing campaigns are known as the marketing mix and are often described in terms of the 4 Ps: product, price, place, and promotion. This mix can be applied not just to the goods sector but also to services and the nonprofit arena. The implementation of the marketing mix, however, is complex due to multiple decision-makers and an enormous flow of information, the interaction of multiple decision factors on the part of buyers, and global demand and supply linkages.

In light of the need to exercise growing responsiveness to changing societal demands and expectations in areas such as the environment and ethics and the expanding ability of marketers to use technology, focusing on the double bottom-line-oriented approach to understand and contribute to the needs of customers and the overall socioeconomic and ecological setting where a company operates its business, a new marketing paradigm is emerging in which marketers are poised to become the strategic leaders of the corporate supply system.

Key Terms

Adaptation

Consumer behaviorists

Curative marketing

Customer focus

Customer relationships

Dialogue

Double bottom line

Innovation

Intermediaries

Market orientation

Market space

Marketing

Marketing mix

Marketing myopia

Marketing system

Partnership techniques

Repeat purchases

Value

? Review Questions

1. How and why has the definition of marketing by the American Marketing Association been expanded here? Comment on the complexity of marketing and some of the factors that are important.
2. The starting point for a marketer is the organization itself; how is that paradoxical? To get ready for a marketing orientation, the organization needs to address what dimensions? Are marketing and corporate strategy striving for the same goals? How must they work together to obtain a clear objective?
3. What were the inherent limitations of traditional marketing thought? How were they addressed in the evolution of the modern marketing concept? What crucial new perspectives did marketers have as compared to economists? How has technology influenced this change in thought?
4. What are the elements of the marketing mix? Into what four categories are they traditionally grouped? Can these categories be further subdivided? What are their limitations?
5. Explain marketing orientation. What are the seven common elements that exist in marketing-oriented companies? What is the key difference between selling and marketing approaches?
6. “Customers don’t buy products; they seek to acquire benefits.” What is the reasoning behind this statement, and what are its pitfalls? What are tangible and intangible qualities of products? Name some.
7. Does the applicability of marketing differ for service companies? What are the four reasons why some service sector managers have shunned marketing? Evaluate which of these are viable reasons.
8. Does marketing exist solely to increase profit? If this is the case, marketing in nonprofit organizations can be said to be useless. Discuss.

? Discussion Questions

1. In 1997, Mercedes-Benz unveiled its sporty CLK coupe to the world in Verona, Italy, and since then, it has become a much-sought-after luxury sports car. Only 9000 of the 43,000 cars Mercedes intended to produce that year were slated for US markets, so long waiting lists and internet brokering became common features of a CLK purchase. Stories still abound of people offering to pay higher than list prices for the privilege of owning Mercedes’ newest and hottest coupe. When demand so outstrips supply, is there a need to consider the use of marketing? Why or why not?
2. In recent years, the book publishing industry has experienced numerous mergers and acquisitions. In addition, technological advances such as the internet have caused major changes in the distribution of intellectual content. Identify some of the traditional marketplace activities of the book publishing industry and evaluate their chance for future success. How will these activities change in the context of the emerging market space? Is it possible to attribute the increase in merger activity to the developing market space of book publishing? Why or why not?

1

3. The Red Cross provides numerous services around the world, including disaster relief, nursing, youth involvement, and biomedical services. One important activity is the collection of donated blood, with the Red Cross receiving more than 6 million volunteer blood donations a year. In the United States alone, someone needs a blood donation approximately every 2 seconds. The high demand for blood, coupled with concerns about the safety of giving and of receiving blood and the hectic lives of potential donors, can make soliciting donations a challenge. How can you apply the marketing concept to this activity?
4. Marketing ethics has sometimes been called an oxymoron. An example of this can be found in a corporate sponsorship of Girl Scout badges, such as the Fashion Adventurer program offered by the retailer Limited Too. Combining fashion and sewing education with in-store visits and coupons redeemable after completion of the program, such initiatives are considered by some to be little more than artful sales pitches cloaked in a sash full of contemporary patches. What is your assessment of corporate sponsorship of Girl Scout badges? Can you, by using the marketing concept, develop a rationale for ethics to be fully incorporated into marketing thinking?
5. How does international marketing differ from domestic marketing? Consider again the examples of Mercedes-Benz from Question 1 and the Red Cross from Question 3. Mercedes' rollout of its new CLK in Verona and the Red Cross' international relief efforts can both be related to international marketing activities. What are the primary marketing dimensions that need special attention in the international marketing context? How do these dimensions apply to the situations of Mercedes-Benz and of the Red Cross, and how do they differ from each other?

? Practice Quiz

1. Which of the following contextual elements does NOT substantially affect the nature and scope of marketing theory?
 - (a) Societal norms
 - (b) Political affiliations
 - (c) New technology
 - (d) Economy
2. In which time span did the great surge of demand in the United States serve as a catalyst for the development of marketing in its modern form?
 - (a) Late 1950s to early 1960s
 - (b) Early 1920s to 1930s
 - (c) 1980s to late 1990s
 - (d) Late 1940s to early 1950s
3. To succeed, marketers must understand the customer in all the following contexts EXCEPT
 - (a) Political forces
 - (b) Economic forces
 - (c) Social forces

- (d) Familial forces
- 4. To most effectively assert social responsibility and ethics, the marketing manager must
 - (a) Comply with existing standards
 - (b) Be sensitive to societal expectations
 - (c) Cater to each country's policies
 - (d) Implement standards of the highest level
- 5. Predictions of an internet-based economy have the most effect on the marketer's interaction with which of the following customers?
 - (a) Industrial
 - (b) Individual
 - (c) Generation Y
 - (d) Generation Z
- 6. The main difference in marketing goods versus services is
 - (a) Goods require coordination of distribution, whereas services do not.
 - (b) Goods are promoted on the basis of physical features, whereas services are associated with the quality of the organization providing them.
 - (c) Goods are bought in greater quantity, whereas services are less often purchased.
 - (d) Goods must be altered to be compliant to international safety and environmental standards, whereas services do not.
- 7. Which of the following is NOT a key difference between consumer and industrial markets?
 - (a) Industrial markets often require face-to-face interaction.
 - (b) Consumer purchases require multiple decision-makers.
 - (c) Industrial negotiations are longer in length.
 - (d) Industrial negotiations require higher technical demands from marketing professionals.
- 8. When a firm shifts from domestic to international marketing, which of the following enters its marketing horizon?
 - (a) Logistics
 - (b) Cultural values
 - (c) Government policies
 - (d) Firm's capabilities and resources
- 9. How can a marketer more closely match a product to the customers' needs?
 - (a) Offering a tailor-made product
 - (b) Modifying the product's features
 - (c) Changing the product's descriptions
 - (d) Entering a market in which the product is demanded
- 10. The major criticism of McCarthy's 4 Ps is that it
 - (a) Emphasizes an inside-out view
 - (b) Emphasizes an outside-in view

- (c) Emphasizes only four of the six major marketing activities
 - (d) Emphasizes only the domestic issues, not international concerns
11. Which of the following is the key difference between selling and marketing?
 - (a) Selling is inward-looking, whereas marketing is outward-looking.
 - (b) Selling is outward-looking, whereas marketing is inward-looking.
 - (c) Selling is a function of profit maximization, whereas marketing is a function of market understanding.
 - (d) Selling delivers market opportunities, whereas marketing creates product solutions.
 12. All the following have been proclaimed reasons for which marketing principles do not apply to services EXCEPT
 - (a) Lack of direct competition
 - (b) Lack of tangibility
 - (c) Lack of mass marketing
 - (d) Lack of professional organizations
 13. What are the two elements of the double bottom-line-oriented marketing management approach?
 - (a) Profit and social welfare
 - (b) Profit and corporate welfare
 - (c) Profit and entrepreneurial welfare
 - (d) Profit and marketer's welfare
 14. What are the three different types of internal resources of marketers?
 - (a) Physical resources, technological resources, and environmental resources
 - (b) Legacy-based resources, knowledge-based resources, and industrial resources
 - (c) Physical resources, organizational resources, and human resources
 - (d) Human resources, physical resources, and environmental resources

(You can find the correct answers to these questions by taking the quiz, and then comparing your answers with the answers that are provided at the end of the book, under the “Practice Quiz Answers” part of the book.)

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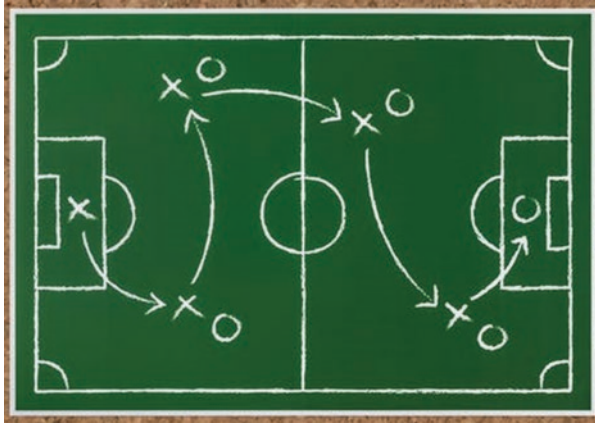
Marketing Planning

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■ Marketing Planning in the Pharmaceutical Industry



■ (Source: ► [pexels.com/royalty-free-images/](https://www.pexels.com/royalty-free-images/))

In a technologically competitive and fast-moving industry that encounters rapid changes in market competitive factors, the nature of marketing planning is dynamically changing to cope with the varying market environment. For example, in a pharmaceutical industry, web-based tools streamline clinical trial data collection and expedite Food and Drug Administration (FDA) approval processes. Although patents for pharmaceutical products are effective for two to three decades, an FDA-approved drug generally has only 4–7 years of patent protection left to recoup research and development (R&D) costs and turn a profit. Pharmaceutical companies need to reduce the learning and planning time involved in commercializing new drugs. A strategic plan and key questions at the marketing planning stage help product managers achieve their financial goals in commercializing new products. The planning process consists of 11 essential steps:

1. Input to R&D

The declining R&D productivity is a crucial concern in the pharmaceutical industry that causes low success rates in clinical development. Therefore, the clinical development process must involve early commercial collaboration to reduce organizational risk, maximize success potential, and avoid wasted investments. The planning team can make key contributions by asking the following questions in making a go/no-go decision:

- What is the product's stage of development?
- What is the R&D story line? How did the product get where it is today?
- Is it a first-in-class or a me-too product?
- What is the quality of the biostatistical data for the product?
- Does market analysis shed light on the future market acceptance of the product?

2. Product Goals

Product managers need to measure the market enthusiasm carefully through concept testing with realistic product attribute descriptions and set goals accordingly. The key questions to explore at this stage are:

- What are the product's demand drivers?
- What is the shape of the product adoption curve?
- What is the product's patent position?



3. Launch Team

The process of developing and executing a new product launch plan is technically challenging and resource-intensive, involving many parallel activities and decisions. The following questions need to be addressed:

- Which individuals from each functional area, because of their knowledge, commitment, and enthusiasm, will serve on the launch team?
- What is senior management's involvement and commitment to the project?

- How does the product manager, who has no direct authority over cross-functional team members, motivate the team?
 - What economic incentives will the company use to optimize team performance?
4. R&D Knowledge Transfer
- At the beginning, the R&D team has the most intimate knowledge of the new product's attributes and benefits. One of the challenges that product managers face is sifting through large amounts of detailed information from R&D to determine what is relevant for successfully marketing the product. In this context, the R&D knowledge transfer initiatives should focus on discovering the unmet market needs to incorporate those needs in R&D and product development through effectual knowledge transfer between the different cross-functional R&D, commercialization, and product development teams. The key questions at this stage are:
- What is the discovery history?
 - Has the discovery history recognized any unmet patient (consumer) need(s)?
 - How compelling is the drug's clinical performance to satisfy the patient need(s)?
 - Where was the R&D performed?
 - What is the research team's "vision" for the product?
5. Regulatory Affairs Guidance
- The rigid regulatory approval process faced by all new pharmaceutical products poses a serious barrier to entry for many companies. Therefore, expert regulatory affairs knowledge can be a competitive advantage in the commercialization process. Key questions here are:
- What was the quality of forethought in clinical design related to regulatory issues?
 - How will regulatory issues affect the promotional latitude afforded the new drug?
 - Can the product escape the FDA-mandated "black box" warning label?
6. Legal Counsel
- The legal team must fight to defend the company's intellectual property and provide the rules of engagement for going forward. Important questions that product managers need to ask for planning purposes are:
- How secure is the patent? Can the company extend the drug's patent life?
 - What are the financial commitments to development partners?
 - How do those commitments affect profitability?
 - What are the legal, regulatory, and promotional constraints on and opportunities for the product?
7. Market Research
- Market research ensures product success by aiding decision-making during every turn in the product cycle. The following nine primary market research studies can ensure market success through promotional risk reduction while supporting a new drug launch: (1) The target market's attitudes toward current therapies, (2) the extent of market competition, (3) market positioning, (4) promotional message development, (5) ad testing, (6) pricing, (7) managed care decision-makers, (8) packaging, and (9) post-launch tracking. The key questions to be asked are:
- What should be the marketing research budget?
 - How can the company use marketing research to reduce risk?
 - How can marketing research accelerate growth and increase profitability?

8. Communication

Customers' purchase decisions come at the end of a physical and cognitive journey. The product manager's main objectives are to aid the product adoption process through effective communications. The key questions to explore at this stage are:

- What key market hurdles will the product face?
- Who are the key stakeholders in the adoption process?
- How can product managers integrate health economics into the communication strategy?
- Does managed care affect product adoption?
- Is the message consistently integrated among the various communication channels?
- What would be the evaluation criteria to recognize the impact of the overall communication strategy?

9. Sales Training and Strategy

For many pharmaceutical companies, the salesforce is one of their most valuable assets. A skilled and motivated salesforce will expedite the product's adoption and frequently magnifies its market potential. Here, marketing planners have to ask the following questions:

- How can the salesforce augment the communication plan?
- What selling tools do sales reps need to put in front of decision-makers and to close the sale?
- What percentage of the promotional budget should be allocated for direct selling?
- What are decision-makers' hot buttons?

10. Manufacturing Investments

Manufacturing is a major cost hurdle in the commercialization process. The biggest challenge is to determine how the clinical development and manufacturing processes can move in tandem. The key questions that need to be addressed here are:

- Is manufacturing ready?
- Is the product ready on, or by, the day of approval?
- Is the packaging ready?
- How can patented manufacturing processes be used as a competitive weapon?
- Does the packaging tie into brand strategy?

11. Distribution Issues

More than 90% of all medical supplies are purchased from distributors or wholesalers today. Therefore, a critical role for product managers is to evaluate the distribution strategy and to manage relationships with distribution members. The key points to be addressed at this stage are:

- How can product managers work with distributors to promote awareness and differentiation of their product?
- Should the company sell direct at all?
- What is the expected ratio of direct versus indirect sales?

Commercial planning must accomplish two goals: It must extract as much value as possible from the company's product during its patented protected years, and it must establish long-term brand equity to mitigate lost share when the patent expires. Only through a well-thought-out and timely planning process can companies achieve these goals. Given the complexities of, as well as time pressure for, successful marketing planning, the collective efforts of a team seasoned in product, industry, and process expertise are required.

Sources: Warner, K., See, W., Haerry, D., Klingmann, I., Hunter, A., & May, M. (2018). EUPATI guidance for patient involvement in medicines research and development (R&D): Guidance for pharmaceutical industry-led medicines R&D. *Frontiers in Medicines: Policy and Practice Reviews*, ► <https://doi.org/10.3389/fmed.2018.00270>; Wang, L., Plumm, A., & Ringel, M. (2015). Racing to define pharmaceutical R&D external innovation models. *Drug Discovery Today*, 20(3), 361–370; Garrett, S. A. (2002). 11 steps to successful market planning. *Pharmaceutical Executive*, 23(6): 6–18.

2.1 Introduction

As you can see from the pharmaceutical industry example in the opening vignette, corporate strategy and marketing are closely related, and much of corporate strategy is derived from marketing. The development of the organization's vision, mission, and objectives largely determines its **marketing strategy**. Therefore, this chapter first examines corporate strategy, then moves to strategic marketing, and finally discusses marketing planning, which is, in theory, the central function of marketing.

Marketing strategy—A pattern or plan that generally encompasses the 4 Ps and integrates an organization's major goals, policies, and action sequences into a cohesive whole.

2.2 The Marketing Plan

The need for planning is almost universally accepted by managers, because a well-structured plan effectively guides managers to design, implement, and evaluate the means of achieving an organizational goal. Some of the benefits of planning include the following:

- **Consistency**—The individual marketing action plans will be consistent with the overall corporate plan and with the other departmental/functional plans. They should also be consistent with those of previous years, minimizing the risk of management “fire-fighting,” that is, incoherent case-by-case action plans.

- *Responsibility*—Those who have responsibility for implementing the individual parts of the **marketing plan** will know what their responsibilities are and can have their performance monitored against these plans.
- *Communication*—Those involved in implementing the plans will also know what the overall objectives are, together with the assumptions that lie behind them, and what the context for each of the detailed activities is.
- *Commitment*—Assuming that the plans are agreed upon by all those involved in their implementation, as well as with those who will provide the resources, the plans should stimulate a group commitment to their implementation.
- *Early insights*—Based on developing an early understanding of different advantages and disadvantages of varied management scenarios, and initial insights on how to balance between such scenarios [1], a planning process analyzes the alternative options to recognize the most cost-effective option to achieve an organizational goal. As a result, the planning process itself enables marketers to develop early insights on the marketing management problem and associated challenges and opportunities, related to a particular organizational goal.

Plans must be specific to the organization and to its current situation. There is not one system of planning, but many systems, and not one style, but many styles, and a planning process must be tailor-made for a particular firm in a specific set of circumstances [2].

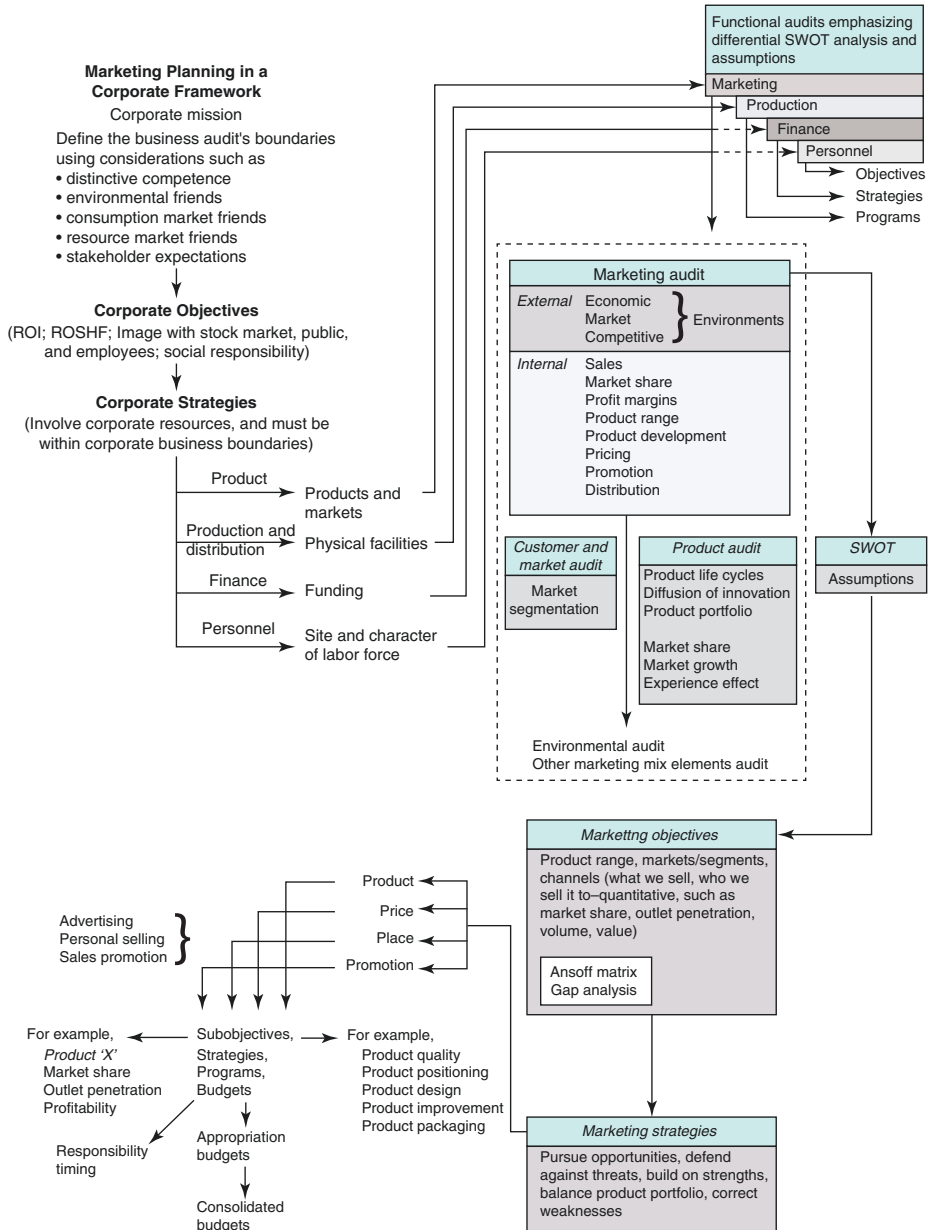
Marketing plan—A formalized strategy that encompasses the overall objectives of an organization, from general goals to individual action steps.

2.2.1 The Planning Process

In most organizations, “strategic planning” is an annual process, typically covering just the year ahead. Occasionally, a few organizations may look at a practical plan that stretches 3 or more years ahead.

To be most effective, the plan has to be formalized, usually in written form, as a formal “marketing plan.” This process typically follows a number of distinct steps, as shown in ■ Fig. 2.1. The process moves from the general to the specific, from the overall objectives of the organization down to the individual action plan for a part of one marketing program. Although at first glance this process looks complex, it is, in fact, a very functional flowchart of the whole planning process and nicely illustrates the relationships between the various components. It is also an iterative process, so that the draft output of each stage is checked—to see what impact it has on the earlier stages—and is amended accordingly.

There are three main approaches, in terms of involvement of the organization as a whole:



■ **Fig. 2.1** Marketing planning in a corporate framework (Source: McDonald, M. H. B. (1995). *Marketing plans* (3rd ed., p. 35). Reprinted with permission from Elsevier)

- **Top-down planning**—Here, top management sets both the goals and the plans for lower-level management. Although decision-making may be quick at the top level, implementation of the plans may not be as quick because the various units (divisions, groups, and departments) need time to learn about the plans and reorganize their tasks accordingly to accomplish the new goals [3].

- *Bottom-up planning*—In this approach, the various units or the organization create their own goals and plans, which are then approved (or not) by higher management. This type of planning can lead to more creative approaches but can also pose problems for coordination. More pragmatically, strategy all too frequently emerges from a consolidation of tactics [4]. ► **Manager’s Corner 2.1** provides an overview on a success story of a restaurant business that follows the bottom-up planning approach.
- *Goals-down-plans-up planning*—This approach is the most common, at least among the organizations that invest in such sophisticated planning processes. Top management sets the goals, but the various units create their own plans to meet these goals. These plans are then typically approved as part of the annual planning and budgetary process [5].

Manager’s Corner 2.1

The Success Story of Haidilao, a Chinese Hotpot Eatery Chain



■ (Source: ► [pexels.com/royalty-free-images/](https://www.pexels.com/royalty-free-images/))

Zhang Yong, a Chinese restaurant business tycoon, launched the first outlet of his now successful chain restaurant, “Haidilao,” in 1994. Mr. Yong could not complete his high school education and did not know how to prepare the usual Sichuan hotpot when he launched the first outlet in his hometown of Jianyang in Sichuan province in China. The budding entrepreneur launched the first outlet of his restaurant after resigning from his job in a local factory in 1994, and today the chain restaurant business has opened around 400 restaurants, with around 20 outlets overseas.

In 2017, Haidilao generated 10.6 billion yuan in revenue, which marked a 36% growth from the preceding year, with 22% increased profit to 1.2 billion yuan. Haidilao is already serving in the United States, Japan, South Korea, and Singapore.

“It’s better to scale fast and be everywhere instead of having a single towering presence.” Following this Chinese maxim, Haidilao is already serving in the United States, Japan, South Korea, and Singapore and planning to open new outlets in Australia, Canada, Malaysia, Thailand, and other Southeast Asian countries. In this expansion plan, Haidilao attempts to customize both its menus and operational strategies (i.e., customer service, value-added services, marketing, and promotion), in consultation with their host country managers and staff members. This bottom-up planning approach enables Haidilao to “localize its menus and its core product—the flavorful broth,” in support of its overseas staff members. “The longer term goal is to fully customize the soup based on the personal preferences of its customers that would be stored in a database and called up whenever patrons return to the restaurant.” In terms of localizing the value-added services, Haidilao’s host country employees’ recommendations are taken into account, in order to offer personalized value-added services to its customers. “Haidilao’s claim to fame is exceptional service and creative entertainment to keep customers lining up. Free manicures while waiting, photo booths to print pictures, freshly made hand-pulled noodles at the tables, mobile phone charges, and even baby cots for their youngest diners. The list goes on.”

In an interview with *Forbes*, Mr. Zhang Yong credited Haidilao’s success to its individual outlet managers for their location-specific customized input on Haidilao’s overall operational plan. Such a bottom-up planning approach not only enables a company to motivate its frontline managers in different locations based on a profit share scheme but also enables the company to customize its offerings based on the location-specific operational experience. Mr. Yong added that “Haidilao’s program of empowering its restaurant managers with an equity-like incentive scheme is one of the factors contributing to the chain’s success. The company is said to reward managers with 3% of the restaurants’ profits, a motivational bottom-up approach that led to its operating model.”

On the one hand, such bottom-up planning approaches are instrumental for successful expansion plans, such as the case of Haidilao. On the other hand, a key challenge for effectively implementing a bottom-up planning approach is effectual coordination between the different operational units in different locations. To overcome this challenge of bottom-up planning, Haidilao has recently partnered with Alibaba to launch “an artificial intelligence platform with Alibaba Cloud to survey and recommend new sites and conduct analysis of the chain’s operational efficiency.”

Source: Ambler, P. (2018). Meet China’s richest restaurateur: A high school dropout who became a hotpot billionaire. *Forbes*. ► https://www.forbes.com/sites/pamelaambler/2018/09/12/meet-chinas-richest-restauranteur-a-high-school-dropout-who-became-a-hotpot-billionaire-2/?utm_source=newsletter&utm_medium=email&utm_campaign=daily-dozen#2c7cd9eb1468. Accessed 19 April 2019.

2.3 The Corporate Plan

2

The starting point for the marketing plan and the context within which it is set is the **corporate plan**. In the corporate planning process, corporate foresight is an instrumental planning capability that “permits an organization to lay the foundation for future competitive advantage” [6]. An effectual analytical capability to foresee the future is valuable for both the corporate plan and the marketing plan. In this context, in most marketing-oriented organizations, the contents of the corporate plan will closely match those of the marketing plan itself, but they will also include the plans for the disposition of the other internal resources of the organization. Thus, the corporate plan is likely to contain three main components: (1) where the organization is now, (2) where the organization intends to go in the future, and (3) how the organization will organize its resources to get there, in order to sustain its long-term competitive advantage.

Corporate plan—The starting point and context for the marketing plan; it contains three main components: where the organization is now, where the organization intends to go in the future, and how the organization will organize its resources to get there, in order to sustain its long-term competitive advantage.

The first category is intimately involved with the customers. In marketing terms, although there are many other factors to take into account, the most important definition of where the company *is* revolves around where it is in the market (and hence where it is with its consumers). The same is largely true of the second stage as well, because no matter how much its managers may wish otherwise, where the company can realistically expect to go is totally in the hands of its customers. It is only at the third stage that the product, price, promotion, and place (or 4 Ps) of the marketing mix come into play as vehicles for moving the company to reach its objectives; see ► Sect. 2.6, “Marketing Strategies,” for further explanation of the 4 Ps.

2.3.1 Corporate Objectives

The overall objectives of commercial organizations are conventionally supposed to be financial, such as maximizing revenue, maximizing profit, maximizing return on investment, or minimizing cost. However, other aims are also possible. Many companies choose long-term growth (which may be quite different from revenue maximization in the short term). Almost all have an implicit and very powerful aim of

survival, which John K. Galbraith spelled out so forcefully in his book *The Affluent Society* [7].

Satisficing—A solution that reaches corporate objectives only satisfactorily due to inability to know the optimum solution with perfect precision.

Marketing objectives—The crux of the marketing process; the match between products and markets based on realistic customer behavior.

One of the best known alternatives to profit maximization, that of **satisficing**, comes from Herbert Simon [8], who pointed out that managers can neither know nor contend with all the factors influencing a decision. Because you cannot know the optimum solution with perfect precision, you should choose a solution that “satisfices” or reaches your corporate objectives satisfactorily. Of course, the terms “best,” “better,” “satisfactory,” and “good enough” are to be understood in terms of marketing managers’ customer-based objectives, such as customer satisfaction and perceived product quality, as well as **marketing objectives**, such as market share and sales growth rate. If we accept the traditional assumption that the objectives of the corporate plan are financially based, then it follows that these objectives are meant to be measured in numerical and, in particular, financial terms.

In the most general terms, though, the “objectives” behind a strategy address two questions: “*Where* do we want to be?” and “*When* do we expect to be there?” For example, First National Supermarkets’ annual report states its objective in terms of direction and scope: “solidify our market leadership position in the greater Cleveland area, expand elsewhere in Ohio, and become a dominant retail supermarket chain in southern New England and eastern New York.” In line with our discussion of the overall aims of the marketing planning process in ► Sect. 2.3, “The Corporate Plan,” these objectives should “provide for a *sense of purpose*,” “help achieve *consistency*,” and “provide a *basis for control*.”

Furthermore, to fulfill these functions, objectives should have a number of characteristics: They should “be *measurable*,” “be *acceptable and agreeable*,” “be *consistent*,” and “be *realistic*.” It is unlikely that First National Supermarkets’ executives and shareholders can visualize the company’s specific strategy plans to accomplish those objectives as stated in the preceding paragraph. However, the objectives would be considered realistic if they stated that “First National Supermarkets strives to capture 10% of the grocery market and achieve a five percent return on sales after tax within four years of implementation of a new strategy.”

2.3.2 Objectives for Nonprofit Organizations

2

In the case of nonprofit organizations, the objectives may be even less clear. Five main factors can be suggested for the differences from commercial organizations [9]:

1. *Ambiguous goals*—More actors and groups of actors are involved.
2. *Lack of agreement in means–end relationships*—Even where there is consensus on the goal, there may be disagreement on how to achieve that goal.
3. *Environmental turbulence*—Nonprofit organizations seem to be exposed more to turbulence than commercial ones.
4. *Unmeasurable outputs*—By definition, nonprofit organizations do not have the classically convenient simplicity of bottom-line profit.
5. *Unknown effects of management intervention*—The lack of precision caused by factors 1–4 is problem enough, but the “culture” seems to add further barriers to managing these organizations.

For example, the mission of the American Red Cross in Greater New York is to improve the quality of human life; to enhance self-reliance and concern for others; and to help people avoid, prepare for, and cope with emergencies. It achieves these goals through services that are governed and directed by volunteers and are consistent with its congressional charter and the principles of the International Red Cross [10]. Although these objectives are not concise, they nonetheless provide a sense of purpose and a basis for control.

Even so, Andreasen and Kotler [11] suggest some possible objectives for such organizations:

- *Surplus maximization*—Equivalent to profit maximization
- *Revenue maximization*—Just as for profit-making organizations
- *Usage maximization*—Maximizing the numbers of users and their usage
- *Usage targeting*—Matching the capacity available
- *Full cost recovery*—Breaking even
- *Partial cost recovery*—Minimizing the subsidy
- *Budget maximization*—Maximizing what is offered
- *Producer satisfaction maximization*—Satisfying the wants of staff

It is important that you recognize the complexity that lies behind corporate objectives and are not seduced by those who would argue that simplicity is the order of the day. Although the problems may have to be artificially simplified to make them easier to handle, this should not blind you to their true nature. It should also alert you to the fact that, with so many variables that may be periodically in a state of flux, each new situation will be unique; and despite the fact that rules of thumb will help, the solutions must be built anew for each problem.

2.3.3 Corporate Mission

Behind the corporate objectives, which offer the main context for the marketing plan, lies the **corporate mission**, which in turn provides the context for these corpo-

rate objectives. This corporate mission can be thought of as a definition of what the organization is and of what it does: “Our business is”

Corporate mission—A definition of what the organization is and of what it does.

This definition should not be too narrow; otherwise, it will constrict the development of the organization. A too rigorous concentration on the view that “we are in the business of making meat-scales,” as IBM was during the early 1900s, might have limited its subsequent development into other areas. On the other hand, the definition should not be too wide, or it will become meaningless. “We want to make a profit” is not particularly helpful in developing specific plans.

The definition should cover three dimensions: *customer groups* to be served, *customer needs* to be served, and *technologies* to be utilized [12]. Thus, the definition of Intel’s “corporate mission” in the 1980s and 1990s was to provide computer users around the world (the customer group) with the state-of-the-art, fastest, and most energy-efficient computing experience (the customer need) by continual improvement and development of microprocessor technology (technology). However, the corporate mission may need to be changed accordingly when market environments change. Microsoft has changed its mission statement, in order to realign with the changing need of their target market. How this change reflects on Microsoft’s redefined mission statement is the topic of ► Marketing in Action 2.1.

Marketing in Action 2.1

Empowering Customers Is the Redefined Mission of Microsoft



■ (Source: ► [pexels.com/royalty-free-images/](https://www.pexels.com/royalty-free-images/))

Microsoft redefined their mission statement in 2015, in order to realign with the changing need of their target market. Starting in 1992, for a quite long time, their mission statement was to put “a computer on every desk and in every home.” Microsoft CEO, Satya Nadella, stated that “when I joined the company in 1992, we used to talk about our mission as putting a PC in every home, and by the end of the decade we have done that, at least in the developed world.” Over time, once Microsoft accomplished this mission at least in the developed economies, they needed to re-focus on the contemporary need of their expanded target market beyond the developed countries. This realignment plan with the expanded markets’ need enables them to redefine their corporate mission, with an aim to ensure their global expansion.

Following this drive to adapt to the change in the market environment, Microsoft looks “forward and force it (their corporate mission) to innovate beyond a vague statement in 2015 for *Microsoft* to ‘empower every person and every organization on the planet to achieve more.’ In recent years this has seen Microsoft switch its focus from *Windows* and PC towards cloud computing.” Once Microsoft had accomplished their initial mission statement to a great extent, the question was “What’s next?” At that stage, Microsoft needed to expand their global reach. One of the lucrative options to expand their global reach is exploiting the contemporary mobile technology, which is considered “a turning point in its evolution as a mobile-first, cloud-first software development company.” In this context, Microsoft has shifted their focus to mobile technology and cloud-based software from their traditional focus on operating system software. This shift in the company’s mission enables Microsoft to reach their global target markets beyond the developed economies, in support of the cloud computing system. As a result, “these changes are leading the company down a different and potentially more lucrative path that focuses on productivity, emphasizes cloud computing, and embraces an agnostic attitude toward the operating systems.” This redefined mission statement focusing on empowering people and organizations across the globe clarifies that the business is all about empowering their customers in different international markets, which could be accomplished through the “utility of the company’s (cloud) computing products.”

In order to explain the redefined corporate mission statement, the Microsoft spokesperson stated that “at Microsoft, our mission is to enable people and businesses throughout the world to realize their full potential. We consider our mission statement a commitment to our customers.” This realignment initiative to cope with the changing market environment (e.g., global expansion and promotion of mobile technology) and redefining their mission statement in line with this change enables Microsoft to operate “under a ‘customer first’ philosophy.” According to market analysts, this redefined mission statement focusing on the “customer philosophy” “frees Microsoft from the self-imposed and unnecessary burden of always trying to be better than a particular competitor,” as well as helping them to deal with the changing market environment upon accomplishing their initial corporate mission. Furthermore, this redefined mission statement enables Microsoft to freely engage in

R&D activities to pursue excellence in innovation, as “making decisions solely on the basis of beating a competitor like Apple or Oracle, instead of making decisions based on what is best for your customers, stifles innovation and often leads companies down the slow spiral of decay and eventually death.”

Sources: Miller, C. (2008). Bill Gates: How a geek changed the world. *BBC*. ► <http://news.bbc.co.uk/2/hi/business/7461783.stm>. Accessed 15 June 2019; Kaelin, M. (2017). Microsoft has set itself up for success-now it's time to make something happen. *TechRepublic*. ► <https://www.techrepublic.com/article/microsoft-has-set-itself-up-for-success-but-now-its-time-to-make-something-happen/>. Accessed 15 June 2019; Weinberger, M. (2017). Microsoft CEO Satya Nadella says Bill Gates' original mission 'always bothered me'. *Business Insider*. ► <https://www.businessinsider.com/microsoft-ceo-satya-nadella-bothered-by-bill-gates-mission-2017-2>. Accessed 15 June 2019; Media Marketing. (2017). Satya Nadella says Microsoft's old mission statement is obsolete. *Media Marketing*. ► <https://www.media-marketing.com/en/news/satya-nadella-says-microsofts-old-mission-statement-is-obsolete/>. Accessed 15 June 2019; Gregory, L. (2019). *Microsoft's mission statement & vision statement (An analysis)*. Panmore Institute. ► <http://panmore.com/microsoft-corporation-vision-statement-mission-statement-analysis>. Accessed 15 June 2019.

Another example of a company that searched for a new corporate mission is Intel, the computer chip manufacturer. Intel went through a change caused by the revolutionary expansion of the internet use that it helped create. People will buy the newest processor only if it makes their software run faster. The software that matters most these days is the internet, and hot new Intel microprocessors do not necessarily improve the typical online experience much. A study shows that for beginning and intermediate PC users, processor speed came in fifth on a list of purchasing criteria. What matters *now* is not how fast Microsoft PowerPoint creates graphics; what matters is how fast your internet access is at your home or office. Bandwidth is what matters in this case, not processor speed. Finally, Intel must face one more problem: the overall slowdown in the PC market. Users are upgrading their machines less frequently and are spending less when they do. Intel seriously needs to rethink the reason for its corporate existence [13].

2.3.4 Corporate Vision

Perhaps the most important factor in successful marketing is the **corporate vision**. Surprisingly, this concept is largely neglected by marketing textbooks, although not by the popular exponents of corporate strategy—indeed, it was perhaps the

main theme of the book by Peters and Waterman [14], in the form of their **superordinate goals**. Nothing drives progress like a strong vision [15].

2

Corporate vision—The most important factor in successful marketing; the driver of organizational progress.

Superordinate goals—The cultlike devotion to accomplishing difficult tasks as if they were a corporate driving principle.

Superordinate Goals Superordinate goals are a cultlike devotion to accomplishing difficult tasks as if they were a corporate driving principle. For example, battered by the Japanese competitors in the global competition for dynamic RAM chips in the 1980s, Motorola's executives felt humbled and began to get the "quality message." The company's chief executive, George Fisher, said, "The issue was survival; the challenge was quality; the solution would come from the people of Motorola. We didn't have a detailed map, but with unity of purpose, we set out to completely change the way we serve our customers." Sometime in 1986, "total customer satisfaction" was articulated as the superordinate goal for everyone in the corporation [16]. Thus began Motorola's renewed journey—which, in the beginning, was very much a process of stumbling and fumbling—to find the way to total customer satisfaction [17].

If the organization in general, and its chief executive in particular, has a strong vision of where its future lies, then the organization has a good chance to achieve a strong position in its markets (and attain that future). The organization's strategies will be consistent and will be supported by its staff at all levels. In this context, all of IBM's marketing activities are underpinned by its philosophy of "customer service"—a vision originally promoted by the charismatic Watson dynasty. Similarly, at Matsushita, a maker of Panasonics, Quasar, and Technics lines of products, this strategy means never cheating a customer by knowingly producing or selling defective merchandise [18–20].

The problem for marketers is that this vision is often unrelated to the markets. IBM and Matsushita are fortunate, in as much as their creeds are of general applicability and of almost religious fervor. Many other organizations have much narrower scope of vision and may be successful only while they approximate to market needs. The vision will move from being a major advantage to being an overwhelming disadvantage if the market shifts. As Peter Drucker [21] says, "Every *right* product sooner or later becomes a *wrong* product." The message for the marketer is that the marketing strategies, to be most effective, must be converted into a powerful long-term vision. Peter Drucker [22], once again, says:

- » In many markets one prospers only at the extremes: either as one of the few market leaders who set the standard, or as a specialist.... What is not tenable is a strategy in between.

2.3.5 Marketing Myopia

Marketing myopia can be defined as the short-sightedness in a marketing plan, in order to predict the anticipated outcome of the plan as accurately as possible. In other words, marketing myopia can be characterized as the difference between the intended and actual outcomes of a marketing plan, when the plan is not able to achieve its goal. In general, marketing plans encounter marketing myopia, if the corporate mission is too narrowly or too broadly defined and too narrowly or too broadly incorporated in the marketing plan. In this context, ► Sect. 2.3.5 offers practical insights on defining/redefining corporate mission in a way that would be valuable to avoid marketing myopia.

Marketing myopia—The short-sightedness in a marketing plan, in order to predict the anticipated outcome of the plan as accurately as possible.

In an influential article, marketing scholar Theodore Levitt [23] stated that:

- » The viewpoint that an industry is a customer-satisfying process, not a goods-producing process, is vital for all businessmen to understand. An industry begins with the customer and his needs, not with a patent, a raw material, or a selling skill. Given the customer's needs the industry develops backwards, first concerning itself with the physical *delivery* of customer satisfactions. Then it moves back further to *creating* the things by which these satisfactions are in part achieved. How these materials are created is a matter of indifference to the customer, hence the particular form of manufacturing, processing, or what-have-you cannot be considered as a vital aspect of the marketing.

Levitt's reason for this emphasis—which was supported by considerable anecdotal evidence in the rest of the article—was that most organizations defined their corporate missions too narrowly, typically on the basis of the technological processes that they employed. For example, it would be myopic for Paramount Pictures to consider itself in the movie-making business rather than the “audio and visual entertainment” business. For a similar reason, Saatchi & Saatchi's chief executive, Kevin Roberts, has redefined his firm's identity: “We're not an ad agency, we're an idea factory” [24].

Levitt's view, which more adventurous organizations enthusiastically seized upon, was that the link with the consumer, the “customer franchise,” was the most important element. Adopting a customer perspective has helped many organizations to appreciate better how they could develop a corporate mission. Honda, once a motorcycle manufacturer, came to define itself as a “personal transportation” company and diversified into automobiles with its Civic and Accord models.



Some organizations, however, have also taken the process too broadly. Holiday Inn, for example, decided that it was not in the “hotel business” but in the “travel industry” and acquired a number of businesses, including a bus company. However, it soon learned that its management skills were not in those areas and divested itself of those enterprises, retrenching to the business it knew best [25]. Obviously, finding an optimum level of breadth of scope is crucial for successful business.

Indeed, it is worth noting that such merger and acquisition activities must be considered as viable alternatives to traditional marketing developments. A useful list of the available alternatives is presented in ■ Table 2.1. The global automobile industry is an excellent case in point in recent decades. BMW is determined to stay concentrated on what it does best with a strong focus on the upper segment of status-conscious, high-performance car lovers. General Motors, on the other hand, is restructuring to identify its niches in an ever-congested automobile market [26].

2.4 The Marketing Audit

As the first formal step in the marketing planning process, the **marketing audit** should involve bringing together only the source material that has already been collected throughout the year—as part of the normal work of the marketing department.

Marketing audit—A comprehensive, systematic, independent, and periodic examination of a company’s marketing environment, objectives, strategies, and activities.

A marketing audit is a *comprehensive, systematic, independent, and periodic* examination of a company’s—or business unit’s—marketing environment, objectives, strategies, and activities with a view to determine problem areas and opportunities and recommend a plan of action to improve the company’s marketing performance [27].

Table 2.1 Strategic alternatives

Strategic alternative	Focus	External or internal	Purpose or function
Status quo	Stability	Internal	Continue in present products/ markets temporarily or permanently, depending on product life cycle
Concentration	Single product line	Internal	Do one thing well
Horizontal integration	Ownership or control of competitors	External	Gain market power and economies of scale
Vertical integration	Transformation of cost center to profit center	External	Improve economies of scale; reduce dependence on suppliers or distributors
Diversification	Broadening of product line	External or internal	Reduce competitive pressures; gain greater profitability; spread risk
Joint ventures	Complementary benefits	External	Spread risk; bring about synergy
Retrenchment	Reduction of activity or operations	Internal	Temporarily respond to adversity by permanent phaseout
Divestiture	Removal of entity that does not fit	Internal	Realign products/markets or organization
Liquidation	Removal of entity that does not fit	Internal	Same divestiture alternative, but situation is usually more severe
Innovation	Seizing of leadership position	Internal	Take initiative; gain position early in product life cycle
Restructuring	Cost reduction; growth potential	External	Concentrate on products and divisions with high potential

Although some organizations have successfully employed external consultants to conduct marketing audits, such actions are, generally speaking, best undertaken by management that “owns” the marketing process. The reason, in part, is that these individuals are the best people to understand the subtleties of the information revealed (assuming that they have cast aside their preconceptions and prejudices). Even more importantly, though, the audit is the best possible learning process for these managers because it introduces them to the factors that are most important to their management of marketing. Finally, and most important of all, it ensures that those who will have to implement the results of the planning process understand and are committed to the assumptions that lie behind it.

In this context, some factors related to the customer that should be included in the material collected for the audit may be posed as a series of questions that define the wants and needs of the customer:

- Who are the customers?
 - What are their key characteristics?
 - What differentiates them from other members of the population?
- What are their needs and wants?
 - What do they expect the “product” to do?
 - What are their special requirements and perceptions?
- What do they think of the organization and its products or services?
 - What are their attitudes?
 - What are their buying intentions?

A “traditional”—albeit product-based—format for auditing materials includes the following features:

1. *Financial data*—From management accounting, costing, and finance sections
2. *Product data*—From production, research, and development
3. *Sales and distribution data*—From sales, packaging, and distribution sections
4. *Advertising, sales promotion, and merchandising data*—Information from these departments
5. *Market data and miscellany*—From market research, which would in most cases act as a source for this information

You can see that a marketing audit can be a complex process, but the aim is simple: It is only to identify those existing (external and internal) factors that will have a significant impact on the future plans of the company.

It is clear that the basic material to be input to the marketing audit should be comprehensive. The best approach is to accumulate this material continuously, as it becomes available. This continuous accumulation of material avoids the otherwise heavy workload involved in collecting it as part of the regular, typically annual, planning process itself—when time is usually at a premium. Even so, the first task of this “annual” process should be to check that the material held in the current data file is actually comprehensive and accurate and can form a sound basis for the marketing audit itself.

The structure of the data file should be designed to match the specific needs of the organization, but one simple format may be applicable in many cases. This format splits the material into three groups:

1. *Review of the marketing environment*—A study of the organization’s markets, customers, competitors, and the overall economic, political, cultural, and technical environment; covering developing trends, as well as the current situation
2. *Review of the detailed marketing activity*—A study of the company’s marketing mix in terms of the 4 Ps—product, price, promotion, and place
3. *Review of the marketing system*—A study of the marketing organization, marketing research systems, and current marketing objectives and strategies

The last of these reviews is too frequently ignored. The marketing system itself needs to be regularly questioned because the validity of the whole marketing plan relies on the accuracy of the input from this system, and “garbage in, garbage out” applies with a vengeance.

Two “bureaucratic,” but nevertheless important, audits should also be added: a marketing productivity audit, to see where marketing costs could be reduced, and a marketing function audit, to identify weaknesses.

2.4.1 Analysis

What is important, and will need to be taken into account in the marketing plan that will eventually emerge from the overall auditing process, is different for each product or service in each situation. One of the most important skills to be learned in marketing is that of being able to concentrate on just what is important.

In the case of Compaq, it was an awareness of a gap between products that customers wanted and products that were available on the market. In the case of Dell, it was an appreciation of competitive pricing structures. In the case of IBM, it was an understanding of the overall environmental factors. Each of these companies, with broadly similar products and operating in the same market, probably asked very different questions of their respective marketing audits.

In addition, all the analytical techniques that are described in this book can and should be applied where relevant. It is important to say not just *what* happened but *why* it happened. The marketing planning process encompasses all the marketing skills. However, a number of these skills may be particularly relevant at this stage:

- **Positioning**—As already stated, the starting point for the marketing plan must be the customer. The techniques of positioning and segmentation therefore usually offer the best starting point for what has to be achieved by the whole planning process.
- **Portfolio planning**—In addition, the coordinated planning of the individual products and services can contribute toward the balanced portfolio. A product portfolio analysis provides a very useful pictorial device that summarizes this information (see ■ Fig. 2.2). In this diagram, the *segments* in which the organization is operating are plotted with the market attractiveness (value to the organization) on the vertical axis and the strength of the organization in that segment along the horizontal axis. In this example, the size of the solid circles shows the relative amount of the organization’s total turnover that they represent. The dotted circles, on the other hand, show where the organization wants to be (including the volume) in 3 years’ time.
- **80/20 rule**—To achieve the maximum impact, the marketing plan must be clear, concise, and simple. It needs to concentrate on 20% of the products or services and on 20% of the customers, which will account for 80% of the volume and 80% of the “profit.”

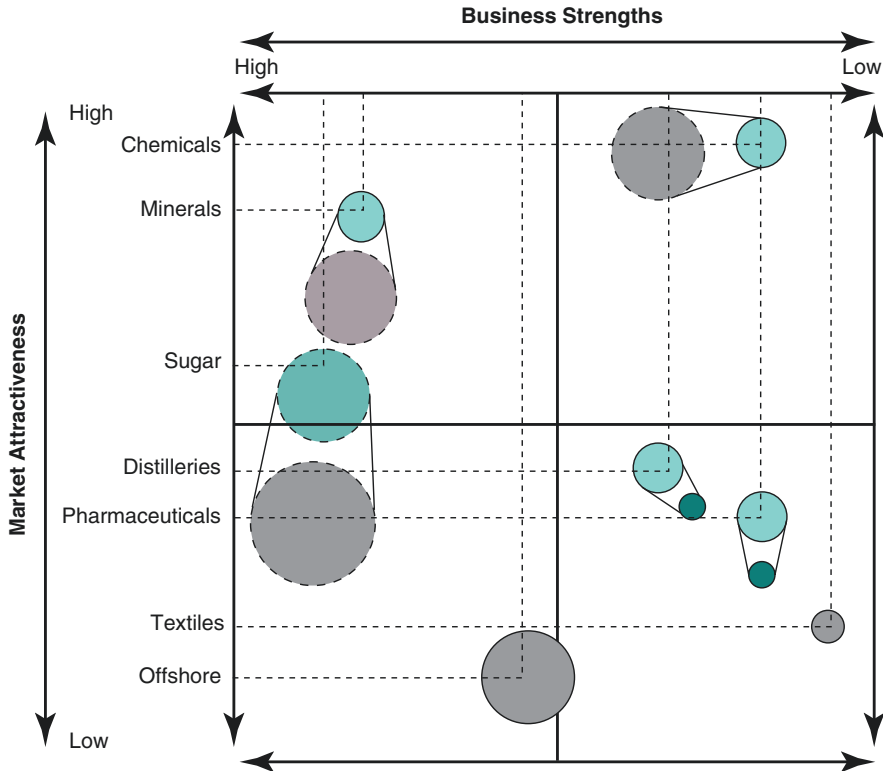


Fig. 2.2 Portfolio planning (Source: McDonald, M. H. B. (1995). *Marketing plans* (3rd ed., p. 43). Reprinted with permission from Elsevier)

- **4 Ps**—As you have seen, the 4 Ps can sometimes divert attention from the customer, but the framework they offer can be very useful in building the action plans.

2.4.2 SWOT Analysis

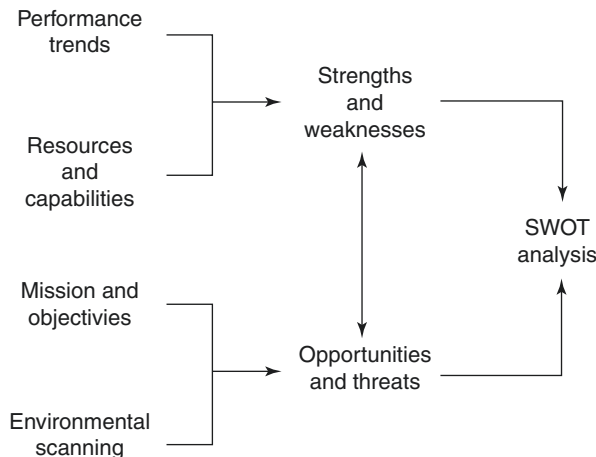
One particularly useful technique in the analysis of the material contained in the marketing audit is that of a strengths, weaknesses, opportunities, and threats (or **SWOT**) analysis. It groups some of the key pieces of information into two main categories (internal factors and external factors) and then by their dual positive and negative aspects (strengths and opportunities as the positive aspects, with weaknesses and threats representing the negative aspects):

SWOT—Strengths, weaknesses, opportunities, and threats: a useful technique in the analysis of the material contained in the marketing audit that groups key information into categories of internal and external factors and sorts again by their dual positive and negative aspects.

- *Internal factors*—*Strengths* and *weaknesses* internal to the organization, its strategies, and its position in relation to its competitors
- *External factors*—*Opportunities* and *threats* presented by the external environment and the competition

The internal factors, which may be viewed as strengths or weaknesses depending on their impact on the organization's positions (they may represent a strength for one organization but a weakness, in relative terms, for another), may include all of the 4 Ps, as well as personnel, finance, and so on. The external factors, which again may be threats to one organization while they offer opportunities to another, may include matters such as technological change, legislation, sociocultural changes, and so on, as well as changes in the marketplace or competitive position.

One such framework for a SWOT analysis is illustrated in ■ Fig. 2.3. A SWOT analysis divides the information into two main categories (internal factors and external factors) and then further into positive aspects (strengths and opportunities) and negative aspects (weaknesses and threats). The internal factors that may be viewed as strengths or weaknesses depend on their impact on the firm's positions; that is, they may represent a strength for one firm but a weakness, in relative terms, for another. They include all of the marketing mix (product, price, promotion, and distribution strategy), as well as personnel and finance. The external factors, which again may be threats to one firm and opportunities to another, include technological changes, legislation, sociocultural changes, and changes in the marketplace or competitive position.



■ Fig. 2.3 SWOT analysis

You should note, however, that SWOT is just one aid to categorization. It is not the only technique. It has its own weaknesses in that it tends to persuade companies to compile lists rather than think about what is really important to their business. It also presents the resulting lists uncritically, without clear prioritization, so, for example, weak opportunities may appear to balance strong threats.

The aim of any SWOT analysis should be to isolate the key *issues* that will be important to the future of the organization and that subsequent marketing planning will address.

2.4.3 SWOT Analysis Limitation

The significance of SWOT analysis is undeniable, in terms of developing a *preliminary* insight on the internal and external factors and focusing on a particular organizational goal. However, the SWOT analysis technique has limitations in *comprehensively* interpreting each of the factors, considering that this technique often presents overly generalized aspects of the different internal and external factors [28]. Following the SWOT analysis technique, it is sometimes difficult to appropriately *define* the problem-specific internal and external factors, based on appropriately *prioritizing* each of the factors and accurately avoiding the factor-specific *subjectivity or bias* [29].

In terms of appropriately *defining* each of the internal and external factors, a major problem is some factors may simultaneously appear as a strength and a weakness, and some other important factors may not fit either as a strength or a weakness [29]. For example, on the one hand, a highly skilled labor force in a manufacturing company would be an internal strength of the company. On the other hand, any prospective dispute between the labor union and the company management could stimulate the highly skilled labor force to call a strike during a peak production period. As a result, the same highly skilled labor force may turn into an internal weakness of the company, in order to efficiently manufacture the contracted unit of goods to deliver the goods to a large-scale loyal industrial buyer of the company in a timely manner. Furthermore, some internal and/or external factors would have been given too much emphasis or too little emphasis, in relation to a given market situation and focusing on a particular organizational goal [29]. Consequently, the failure to recognize the appropriate extent of *prioritizing* a particular internal or external factor would lead to a wrong analysis from the SWOT technique. Another weakness of the SWOT technique is bias or over-subjectivity in determining the actual impact of a particular internal or external factor [29]. For example, some factors would be given too much importance, based on personal opinion but not actual fact, or because of

a coincidental, unusual event or occurrence in the regular market dynamics; some factors would be evaluated from an erroneous perspective.

The SWOT analysis technique is instrumental in determining all the alternative actual and latent key *issues* that would be important to the future of the organization and that subsequent marketing planning will address. However, considering the weaknesses of this technique that are discussed in ► Sect. 2.4.3 will enable marketers to avoid any future marketing myopia.

2.4.4 Assumptions

Spelling out assumptions in a marketing audit is essential. However, most companies do not even realize that they make such assumptions. Canon, for example, depends on Sunset Direct, a database marketing company, to find customers for its computer printers and scanners [30]. The customer database is assumed to be accurate, and such an assumption is often the key to understanding Canon's marketing plan.

You should, however, make as few assumptions as possible, and very carefully explain those you do make.

As an extension to this process, when you estimate the results expected from your strategies, you should also explore a range of alternative assumptions, in the same way that there might be a range of forecasts, each meeting different needs. For example, if you have assumed that the market will grow by x percent, you might estimate sales from your chosen strategy at $\$y$. However, you should also estimate sales at lower and higher rates of growth in the market ("At rate of growth of $x - 2\%$, sales will be $\$y - 3$. At a growth rate of $x + 2\%$").

The most useful component of this exercise may well be a "sensitivity analysis." Sensitivity analysis is designed to measure, for example, how a small change in one factor (say, prices) will affect the other factor (say, sales). This analysis determines which factors have the most influence over the outcomes—and hence which factors should be managed most carefully.

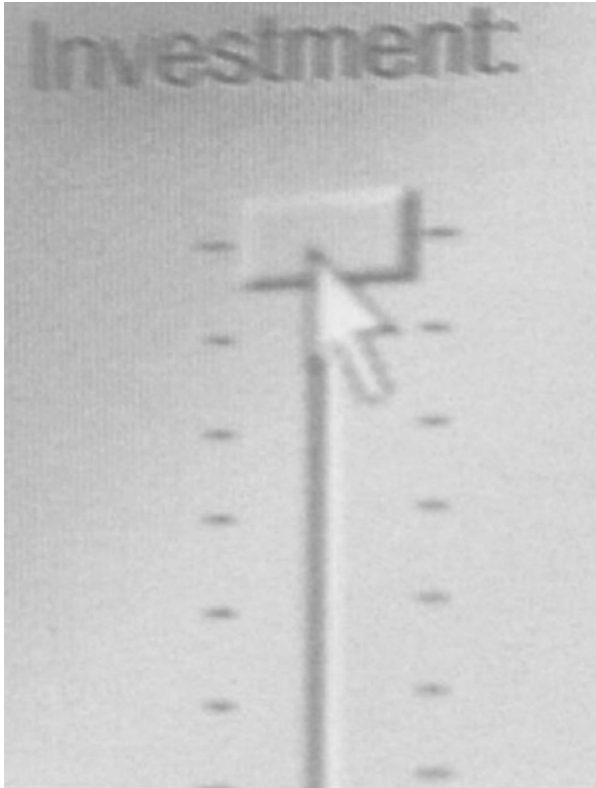
Web Exercise 2.1

Facebook articulates its company mission in a number of ways. Explore the Facebook mission statement (► <https://www.facebook.com/notes/mark-zuckerberg/bringing-the-world-closer-together/10154944663901634/>) to see how the company's creativity and drive makes it one of the most innovative idea-generating businesses today. How do you identify a Transformational Idea? How do you generate one?

2.5 Marketing Objectives

2

With the results of the audit available, the active part of the marketing planning process begins. This stage in marketing planning is indeed the crux of the whole marketing process. The marketing objectives state just where the company intends to be at some specific time in the future.



Marketing objectives are essentially about the match between products and markets—what products or services will be in what position in what markets—so they must be based on realistic customer behavior in those markets. Objectives for pricing, distribution, advertising, and so on are at a lower level and should not be confused with marketing objectives, although they are part of the marketing strategy needed to achieve marketing objectives.

To be most effective, objectives should be *measurable*. This measurement may be in terms of sales volume, money value, market share, percentage penetration of distribution outlets, enhanced corporate reputation, and so on. As it is measured, it can, within limits, be unequivocally monitored and corrective action can be taken as necessary. Marketing objectives must usually be based, above all, on the organization's financial objectives; financial measurements are converted into the related

marketing measurements. An example of a measurable marketing objective might be “to enter the market with product Y and capture 10% of the market by value within one year.” An example of a nonmeasurable marketing objective was stated by Kevin Roberts, the former chief executive officer of Saatchi & Saatchi Worldwide. He stated, “My goal is to have Saatchi revered as the hottest ideas shop on the planet—hotter than Disney, hotter than MIT or Microsoft” [24]. Mr. Roberts’ statement was not intended as a marketing objective, and as you can see, it clearly would not meet the criterion of being measurable.

2.6 Marketing Strategies

James Quinn points out that “goals (or objectives) state *what* is to be achieved and *when* results are to be accomplished, but they do not state *how* the results are to be achieved” [31]. That is where marketing strategies enter the picture. A marketing strategy is essentially a *pattern* or *plan* that *integrates* an organization’s major goals, policies, and action sequences into a *cohesive* whole [32]. Marketing strategies are generally concerned with the 4 Ps:

- Product
 - Developing new products, repositioning or relaunching existing ones, and scrapping old ones
 - Adding new features and benefits
 - Balancing product portfolios
 - Changing the design or packaging
 - Managing product life cycle
- Price
 - Setting the price to skim or to penetrate
 - Pricing for different market segments
 - Deciding how to meet competitive pricing
- Promotion
 - Specifying the advertising platform and media
 - Deciding the public relations brief
 - Organizing the salesforce to cover new products and services or markets
 - Planning for integrated marketing communication
- Place
 - Choosing the channels
 - Deciding levels of customer service

In principle, these strategies describe how the objectives will be achieved. The 4 Ps are a useful framework for deciding how the company’s resources will be manipulated to achieve the objectives. *It should be noted, however, that they are not the only framework and may divert attention from the real issues. The focus of the strategies must be the objectives to be achieved—not the process of planning itself.* Only if it fits the needs of these objectives should you choose to use the framework of the 4 Ps.

The strategy statement can take the form of a purely verbal description of the strategic options that have been chosen. Alternatively, and perhaps more positively, it might include a structured list of the major options chosen.

One often overlooked aspect of strategy is *timing*. Choosing the best time for each element of the strategy is often critical. Taking the right action at the wrong time can sometimes be almost as bad as taking the wrong action at the right time. Timing is, therefore, an essential part of any plan and should normally appear as a schedule of planned activities. Lotus Development Corp. was a victim of bad timing when it announced to its biggest customers that it would ship a new version of its popular Notes program priced 50% less than its current product. Naturally, the customers stopped ordering in anticipation of the better and cheaper upcoming version. As a result of the announcement's bad timing, revenue from Notes fell 40% from the previous quarter [33].

Having completed this crucial stage of the planning process, you will need to recheck the feasibility of your objectives and strategies in terms of the market share, sales, costs, profits, and so on, which these demand in practice. As in the rest of the marketing discipline, you will need to employ judgment, experience, market research, or anything else that helps you to view your conclusions from all possible angles.

The following is a list of criteria for evaluating individual strategies [34]:

1. Does it contribute to the proposed strategic structure or to a proposed primary strategy?
2. Is it likely to show a return on investment that exceeds the company's cutoff rate?
3. Is its risk profile acceptable?
4. Does it make use of or reinforce strategic strengths?
5. Does it rely on weaknesses or do anything to reduce them?
6. Does it exploit major opportunities?
7. Does it avoid, reduce, or mitigate the major threats? If not, are adequate contingency plans in place?
8. Does it accord with company morals?
9. Is it consistent with other primary or secondary strategies?
10. Are the managers fully confident that this strategy is capable of being carried out in a practical way in the real world?

Strategy deals with the unknowable, not the uncertain. It involves forces of such great number, strength, and combinatory powers that you cannot predict events in a probabilistic sense. Pragmatically speaking, you should never forget to proceed flexibly and experimentally from broad concepts toward specific commitments, making the latter concrete as late as possible to narrow the bands of uncertainty and to benefit from the best available information [32]. **Yield management** is one such technique used by an increasing number of companies to maximize revenues under uncertainties of customer purchase by discounting, overbooking, and limiting early sales for capacity-contained services [35] (see the

► Manager's Corner 2.2).

Yield management—A strategy used to maximize revenue under uncertainties of customer purchase by discounting, overbooking, and limiting early sales for capacity-contained services.

Manager's Corner 2.2

Yield Management

Yield management is now commonly used in the allocation of airline seats, hotel rooms, railroad cars, rental cars, advertising space, elective surgeries, satellite transmission, and printing press runs. It is the defining feature of the demand management, order-booking, and capacity planning processes of a variety of firms. Yield management provides two benefits to the firm's financial performance.

First, it manages capacity to avoid unused capacity *and* stockouts. Second, it protects profit margins by decreasing the attractiveness of across-the-board price discounting by competitors. The proliferation of information technology enables the use of yield management to increase significantly. Companies that incorporate yield management into their planning processes may find themselves at a considerable competitive disadvantage. For example, American Airlines calculates that it saves an estimated \$470 million per year through the use of yield management.

Firms with relatively high levels of the following characteristics are most likely to benefit from using yield management:

1. Fixed Capacity
 - Adding capacity may be infeasible or prohibitively expensive.
 - Example: Adding a room to a hotel.
2. Perishable Inventory
 - How long can unsold merchandise be stored for future sale?
 - Example: An unused yet available rental car.
3. Demand Uncertainty
 - With random demand, both unused capacity and stockouts (lost sales) are more likely.
4. Fixed Costs
 - Fuel costs are high for an airline flight regardless of whether the plane is occupied.

These characteristics make a firm more willing to use yield management. The next question is: How feasible is the implementation? Three factors in the external environment make the use of yield management more feasible: (1) segmentable markets, (2) ease of preventing arbitrage, and (3) advance reservation requirements.

Segmenting

Two key components of making yield management work are segmenting markets and setting strategic price differentials. In the airline industry, the corporate market is less price sensitive than the travel market. Airlines have instituted discounts for

“staying over the weekend” precisely to prevent corporate clients from getting the lower prices targeted for noncorporate passengers.

Measuring demand and price sensitivity for each segment is a necessity for setting differential pricing and allocating capacity to each segment.

Preventing Arbitrage

Obviously, this is to prevent low-margin customers from subsequently selling to high-margin customers. Referring again to the airline industry, tickets are typically booked in the passenger’s name and can be used only by that passenger.

Advance Reservation

The availability of historical demand information on a per-segment basis greatly assists in the process of profit maximization through price and capacity setting.

The ease of yield management implementation is also increased if a firm has the following internal competencies: (1) a historical sales database, (2) sales forecast accuracy, and (3) Market Information System (MIS) sophistication. The first deals with measuring sales performance and could include estimations of price sensitivity, low and peak demand periods, and so on. The second is a separate but related capability. The third, MIS sophistication, is especially important to the kind of dynamic reallocation employed in yield management. Capacity is allocated for each segment in advance. However, given advance and last-minute bookings, the segment capacity must be constantly reallocated to adjust for current bookings/orders. People Express Airlines lacked the MIS infrastructure to handle last-minute bookings for its business travelers and thus lost this high-margin segment to competitors such as Piedmont.

Because of the perishability of service inventory, yield management has been largely a service industry phenomenon, including lodging, transportation, rental firms, hospitals, and satellite transmissions. The advance of information technology, however, is facilitating the use of yield management, so this discipline is being introduced into new industries.

This highly complex, multiperiod pricing system is both popular and profitable among many airlines. However, in recent years, the yield management concept has received criticism, especially from the hotel industry. For example, a recent study reveals that “customers perceive YM (yield management) practices as unfair when they are not the result of cost increase or external factors.” Despite such criticisms, the yield management concept is popular and has been used widely. Along with the traditional yield management practices, there has also been a movement toward simplified pricing. Attempts at simplification of pricing are finding more success in other industries. For example, railroads and other freight and transportation services are trying to simplify their pricing schedules. Companies such as AT&T, American Hawaii Cruises, Premier Healthcare Alliance, Yellow Freight System, Novell, CIX,

Infonet, and Dow Jones News/Retrieval have recently moved to more simplified pricing (see ► Web Exercise 2.2).

Sources: Sahut, J. M., Hikkerova, L., & Pupion, P. C. (2016). Perceived unfairness of prices resulting from yield management practices in hotels. *Journal of Business Research*, 69(11), 4901–4906; Oloa, R. (2004). Multiple forecasts. *Hotels*, 38, 53–54; Desiraju R., & Shugan, S. M. (1999). Strategic service pricing and yield management. *Journal of Marketing*, 63, 44–56; Harris, F. H., & Peacock, P. (1995). Hold my place, please. *Marketing Management*, 4, 34.

Web Exercise 2.2

Many companies dealing in travel offer special limited-time web-based fares and rates. Try looking at several airlines and hotel chain websites once a week for several weeks to see how these promotions and programs change according to holidays, season, and other factors. Here are a few places to look:

Delta Airlines ► www.delta.com	Quality Inn ► www.qualityinn.com
American Airlines ► www.aa.com	Hilton ► www.hilton.com
United Airlines ► www.united.com	Marriott ► www.marriott.com

2.7 Detailed Plans and Programs

Detailed plans – The most important elements in the overall marketing strategy that spell out exactly what programs and individual activities will take place over the period of the plans and constitute the “marketing” of the organization.

You will need to develop your overall marketing strategies into detailed plans and programs. Although these detailed plans may cover each of the 4 Ps, the focus will vary depending on your organization’s specific strategies. A product-oriented company will focus its plans for the 4 Ps around each of its products. A market or geographically oriented company will concentrate on each market or geographical area. Each will base its plans on the detailed needs of its customers and on the strategies chosen to satisfy these needs. Again, the most important element is the detailed plans, which spell out exactly what programs and individual activities will take place over the period of the plan (usually over the next year). Without these

specified—and preferably quantified—activities, the plan cannot be monitored, even in terms of success in meeting its objectives.

2

It is these programs and activities that will then constitute the “marketing” of the organization over the period. As a result, these detailed marketing programs are the most important, practical outcome of the whole planning process. These plans should therefore be:

- *Clear*—They should be an unambiguous statement of *exactly* what is to be done.
- *Quantified*—The predicted outcome of each activity should be, as far as possible, quantified so that its performance can be monitored.
- *Focused*—The temptation to proliferate activities beyond the numbers that can be realistically controlled should be avoided. The 80/20 rule applies in this context, too. Bonoma and Crittenden, reporting the results of their research into marketing implementation, noted: “The number of marketing programs in a firm, compared to relevant competitors, will be inversely related to the quality of marketing practices observed” [36].
- *Realistic*—They should be achievable.
- *Agreed upon*—Those who are to implement them should be committed to them and agree that they are achievable.

The resulting plans should become a working document that will guide the campaigns taking place throughout the organization over the period of the plan. If the marketing plan is to work, every exception to it (throughout the year) must be questioned, and the lessons learned must be incorporated in the next year’s plan.

It is at this stage that all the various elements of the plan—objectives, strategies, and detailed plans—are finally brought together.

2.7.1 Reasons for Inadequate Planning

The marketing plan, no matter how detailed and well developed it is, may not work as expected for various reasons. One study shows that ten main factors lead to problems in the marketing planning process [37]:

1. Weak support from chief executive and top management
2. Lack of a plan for planning
3. Lack of line management support, in the form of hostility, lack of skills, lack of information, lack of resources, or inadequate organizational structure
4. Confusion over planning terms
5. Numbers instead of written objectives and strategies
6. Too much detail too far in advance
7. Once-a-year ritual
8. Separation of operational planning from strategic planning
9. Failure to integrate marketing planning into a total corporate planning system
10. Delegation of planning to a planner

2.7.2 Marketing Plan Structure

The marketing plan itself should, of course, be formalized as a written document, although, in practice, too few companies take this step seriously. The shape that this document takes will depend on the *exact* requirements of the business, but it might contain the following sections [38]:

1. Mission statement
2. Summary of performance (to date, including reasons for good or bad performance)
3. Summary of financial projections (for 3 years)
4. Market overview
5. SWOT analysis of major projects/markets
6. Portfolio summary (a summary of SWOTs)
7. Assumptions
8. Objectives
9. Detailed financial projections for 3 years

2.7.3 Contingency Plan

Few marketing plans are ever implemented exactly as intended: The marketing environment is a particularly uncertain one, so it is essential to include full backup plans to cover for the eventuality that some of the assumptions are proved incorrect. You can imagine the difference in IBM's fortunes had it fully considered the possibilities that mainframes might be replaced someday by personal computers. Given a different set of assumptions, IBM might have remained the dominant computer manufacturer in the world. The following questions should be answered for each assumption in the form of a table [39]:

- What is the basis of the assumption?
- What event would have to happen to make this strategy unattractive?
- What is the risk of such an event occurring (percentage or high/low and so on)?
- What is the impact if the event occurs?
- What is the trigger point for action?
- What is the actual contingency action proposed?

2.7.4 Budgets as Managerial Tools

The classic quantification of a marketing plan appears in the form of **budgets**. Because they are so rigorously quantified, they are particularly important. They should represent an unequivocal projection of actions and expected results, and

they should be capable of being monitored accurately. Indeed, performance against budget is the main (regular) management review process.

2

Budgets—The classic quantification of a powerful marketing tool by managers can analyze the relationship between desired result and available means.

The purpose of a marketing budget is to pull all the revenues and costs involved in marketing together into one comprehensive document. It is a managerial tool that balances required spending against affordable spending and helps make choices about priorities. It is then used in monitoring performance in practice. The marketing budget is usually the most powerful tool by which you think through the relationship between desired results and available means. Its starting point should be the marketing strategies and plans, which have already been formulated in the marketing plan itself. In practice, the two will run in parallel and will interact. At the very least, the rigorous, highly quantified budgets may cause businesses to rethink some of the more optimistic elements of the plans.



Many budgets are based on history, and they are the equivalent of “time-series” forecasting. It is assumed that next year’s budgets should follow some trend that is discernible over recent history. Other alternatives are based on a simple “percentage of sales” or on “what competitors are doing.” However, many other approaches are used, including the following:

- *Affordability*—This may be the most common approach to budgeting. Someone, typically the managing director on behalf of the board, decides what is a “reasonable” promotional budget—what can be afforded. This figure is most often based on historical spending. This approach assumes that promotion is a cost and sometimes is seen as an avoidable cost.
- *Percentage of revenue*—This is a variation of “affordable,” but at least it forges a link with sales volume in that the budget will be set at a certain percentage of revenue and thus follows trends in sales. However, it does imply that promotion is a result of sales, rather than the other way round.

- *Competitive parity*—In this case, the organization relates its budgets to what the competitors are doing; for example, it matches their budgets, or beats them, or spends a proportion of what the brand leader is spending. On the other hand, it assumes that the competitors know best, in which case the service or product can expect to be nothing more than a follower.
- *Zero-based budgeting*—This approach takes the objectives, as set out in the marketing plan, together with the resulting planned activities and then costs them out.

Both the affordability and percentage of revenue methods are considered by many managers to be “realistic” in that they reflect the reality of the business strategies as those managers see it. On the other hand, neither makes any allowance for change. They do not allow for the development to meet emerging market opportunities, and, at the other end of the scale, they continue to pour money into a dying product or service (the “dog”).

2.7.5 Measurement of Progress

The final stage is to establish targets (or standards) against which progress can be monitored. Accordingly, it is important to put both quantities and timescales into the marketing objectives (e.g., to capture 20% by value of the market within 2 years) and into the corresponding strategies.

Changes in the environment mean that often the forecasts and the related plans may need to be changed. Continuous monitoring of performance, against predetermined targets, represents a most important aspect of this. Perhaps even more important is the enforced discipline of a regular formal review. As with forecasts, the best (most realistic) planning cycle will revolve around a quarterly review in many cases. Best of all, at least in terms of the quantifiable aspects of the plans, if not the wealth of backing detail, is probably a quarterly rolling review—planning one full year ahead each new quarter. Of course, this approach does absorb more planning resources, but it also ensures that the plans embody the latest information and—with attention focused on them so regularly—forces both the plans and their implementation to be realistic.

Plans have validity only if they are actually used to control the progress of a company: Their success lies in their implementation, not in the writing.

2.7.6 Performance Analysis

The most important elements of marketing performance, which are normally tracked, are described further here.

Sales Analysis Most organizations track their sales results or, in nonprofit organizations, for example, the number of clients. The more sophisticated track them in terms of *sales variance*—the deviation from the target figures—which allows a more

immediate picture of deviations to become evident. **Micro-analysis**, which is a nicely pseudoscientific term for the normal management process of investigating detailed problems, then investigates the individual elements (individual products, sales territories, customers, and so on) that are failing to meet targets.

Micro-analysis—The management process of investigating detailed problems and the individual elements that are failing to meet targets specified in the marketing plan.

Marketing in Action 2.2

Increasing Roswell Park Cancer Institute's Market Share

Roswell Park Cancer Institute (► www.roswellpark.org/) is a premier cancer research, treatment, and education center. Located in Buffalo, New York, it was the first such institute opened in the United States and is now the third largest. With a \$241.5-million rebuilding project under way, the Institute opened a new hospital in 1998.

Roswell Park's market share is estimated to be less than 20% of the potential market, although it has a staff of 2700 devoted to patient care and research. Interestingly, many Western New Yorkers do not even know what happens at the Institute. Both Kaleida Health System (► <https://www.kaleidahealth.org/>), the largest single provider of cancer treatment in this area, and Catholic Health System's Sisters Hospital, strong in breast cancer surgery, are major competition for the local business.

Recognizing that the Institute needed more cancer cases, focus groups (consisting of both former patients and those who chose not to use Roswell) were used to gather information about the market's perception of the facility. Results suggested that the Institute was perceived to be a research-oriented facility that cancer patients would go to for experimental therapy—a “last resort” facility—and that the Institute was too expensive.

Executives at Roswell are considering an approximately \$500,000 1-year media campaign to address such misperceptions. The only significant hospital advertising that has occurred in the Buffalo area has been done by the Erie County Medical Center (► www.ecmc.edu). Instead, local medical facilities have focused attention on doctors. Unfortunately, Roswell has never formed a good referral network with local community physicians.

Is consumer advertising the best way to increase Roswell's market share? Might Roswell be overlooking other elements of the marketing plan in its focus on a media campaign?

Source: Becker, C. (2004). A new public face. *Modern Healthcare*, 34, 28–31.

Market Share Analysis Relatively few organizations, however, track their market share, and in some circumstances, this may well be a much more important measure. In an expanding market, sales may still be increasing, while share is actually decreasing—boding ill for future sales when the market eventually starts to drop. Where such market share is tracked, a number of aspects may be followed:

- Overall market share
- Segment share—that is, the specific, targeted segment
- Relative share—in relation to the market leaders

► Marketing in Action 2.2 shows how market share can be a driver—for good or for bad—of marketing activities.

Expense Analysis The key ratio to watch in this area is usually the “marketing expense to sales ratio,” although this may be broken down into other elements (advertising to sales, sales administration to sales, and so on).

Financial Analysis The “bottom line” of marketing activities should, at least in theory, be the net profit. For nonprofit organizations, the comparable emphasis may be on remaining within budgeted costs. A number of separate performance figures and key ratios need to be tracked:

- Gross contribution
- Gross profit
- Net contribution
- Net profit
- Return on investment
- Profit on sales

Considerable benefit can be gained in comparing these figures with those achieved by other organizations (especially those in the same industry), using, for example, the figures that can be obtained from 10-K Reports. The most sophisticated use of this approach, however, is typically by those who use Profit Impact of Management Strategies (PIMS). Initiated by the General Electric Company and then developed by Harvard Business School, PIMS is now run by the Strategic Planning Institute and covers nearly 4000 strategic business units (SBUs) across North America and Europe [40].

The performance analyses described in the preceding paragraph concentrate on the quantitative measures that are directly related to short-term performance. However, a number of indirect measures, essentially tracking customer attitudes, can also indicate the organization’s performance in terms of its longer-term marketing strengths and may accordingly be even more important indicators. Some useful measures are:

- *Market research*—Includes customer panels (which are used to track changes over time)
- *Lost business*—Identifies the orders that were lost because, for example, the stock was not available or the product did not meet the customer’s exact requirements

- *Customer complaints*—Indicates how many customers complain about the products or services, or the organization itself, and about what

2

Relationship Analysis Relationship marketing has become important for a company's long-term success because getting a new customer costs five times more than keeping a current one [41]. Clearly, companies that value commitment and trust relationships with their customers will outcompete those that believe in a “Hand over money, and we will deliver” school of thought. Although quantitatively measuring the “quality” of relationship marketing is not easy, both inputs and outputs need to be examined [42]. The input factors that have direct bearing on relationship marketing that a company can manage are as follows:

- Understanding customer expectations
- Building service partnerships with customers
- Empowering employees
- Ensuring total quality management

Based on these inputs, various relationship-based outputs can be measured:

- Customer satisfaction
- Customer loyalty
- Customers' perception of product and service quality
- Profitability

2.7.7 Ethics in Marketing Planning

The market is culturally broadening its horizons [43]. Today's multicultural society has transformed the market dynamics and the nature of business. With the increased number of multicultural customers in today's markets, the need to consider the cross-cultural values, norms, and ethical issues becomes important in contemporary marketing planning. In particular, the target markets' culture-specific ethical concerns, moral philosophies, and cultural and ethical norms should be considered in marketing planning [44], so that the marketing plan could not only align with its ethical concerns but also could avoid any potential marketing myopia. As a societal concept, a marketing plan should aim to make profit while not impairing the society and the socioeconomic and ecological value chain of the market, where the marketing plan will be implemented.

Designing new products, exploring new markets, aligning with the business law, and making profits are all valuable and essential, but the concern in the marketing plan is also to make sure that our marketing initiatives (e.g., new product development) do not harm the society and the environment. On the one hand, innovation in electric car batteries is imperative to reduce carbon emission, as well as to explore new market opportunities. On the other hand, it is neither ethical nor sustainable in the long run, if such innovation processes in improving electric car batteries harm the environment and abuse the labor law and human rights. Amnesty International argued that electric car manufacturers have been manufacturing elec-

tric car batteries based on unethical and fossil fuel-intensive methods. Such “unregulated industry practices for the extraction of the minerals used in lithium-ion batteries have led to ‘detrimental human rights and environmental impacts’” [45] that may bring some short-term profits for the electric car manufacturers, but not long-term success. Amnesty International also reported that “it had documented serious human rights violation linked to the extraction of cobalt in the Democratic Republic of the Congo including child labour and exposure to serious health risks” [45]. “It also said that indigenous communities near lithium mines in Argentina are not properly consulted about mining projects on their lands and given insufficient information about the potential impacts it may have on their water sources as mining lithium is water-intensive” [45]. In response to such ethical concerns in producing electric car batteries, Amnesty International urges that all electric car manufacturers must make data about their supply chains publicly accessible.

Summary

In general, the use of plans conveys a number of advantages: (1) consistency, (2) responsibility, (3) communication, and (4) commitment.

The *corporate plan* should contain three main components:

- Where the organization is now
- Where the organization intends to go in the future
- How it will organize its resources to get there

Corporate objectives, which are usually more complex than just financial targets, should reflect the *corporate mission* (including customer groups, customer needs, and technologies), which may reflect a strong corporate vision.

The starting point of the marketing planning process is the marketing audit, the output of which may be one or more fact books, covering a wide range of questions about internal (“product”-related) and external (“environmental,” as well as market) factors, and the marketing system itself, as well as the following basic questions:

- Who are the customers?
- What are their needs and wants?
- What do they think of the organization and its products or services?

A SWOT analysis may be used to collate the most important information about the organization’s strengths and weaknesses and the opportunities and threats of the environment in which it operates. Whatever the form of analysis, the inherent *assumptions* must be spelled out.

This step will lead to the production of *marketing objectives* and subsequently to *marketing strategies* (typically covering all elements of the 4 Ps).

A suggested structure for the marketing plan document itself might be as follows:

1. Mission statement
2. Summary of performance (to date, including reasons for good or bad performance)
3. Summary of financial projections (for 3 years)

4. Market overview
5. SWOT analysis of major projects/markets
6. Portfolio summary (a summary of SWOTs)
7. Assumptions
8. Objectives
9. Financial projections for 3 years (in detail)

All these detailed plans should be, as far as possible, (1) number-based and “deadlined,” (2) briefly described, and (3) practical. These programs must be controlled, particularly by the use of budgets, for which the overall figures may be derived by (1) affordability, (2) percentage of revenue, (3) competitive parity, or (4) zero-based budgeting.

Finally, the actual performance of the marketing strategy needs to be examined. The most important elements of marketing performance are (1) sales analysis, (2) market share analysis, (3) expense analysis, (4) financial analysis, and (5) relationship analysis. Although much of the relationship analysis may not be quantifiable, it has become an increasingly important determinant of a company’s long-term success.

Key Terms

Budgets
Corporate mission
Corporate plan
Corporate vision
Detailed plans
Marketing audit
Marketing ethics
Marketing myopia
Marketing plan
Marketing objectives
Marketing strategy
Micro-analysis
Satisficing
Superordinate goals
SWOT
Yield management

? Review Questions

1. What advantages accrue to the use of the plans in general? What would be contained in the corporate plan?
2. How may corporate objectives be derived from the corporate mission? What elements may they contain? Where does corporate vision fit in?

3. What may be contained in the marketing audit?
4. How may a SWOT analysis be carried out? How are assumptions dealt with?
5. What are the differences between marketing objectives and marketing strategies? What should marketing strategies cover?
6. What might the structure of a marketing plan look like? What rules might be applied to its content?
7. What is the relationship between the mission statement and the SWOT analysis? What is the relationship between the mission statement and the firm objectives?

Discussion Questions

1. Evaluate the following marketing plan:
A consortium of 2200 independent grocers under the IGA Inc. umbrella has stepped up its marketing and advertising efforts to compete for shoppers. The collective resources of IGA, or Independent Grocers Alliance, enable the owner of a single supermarket in Iowa to market as effectively as a 15-store chain in Connecticut. The benefit has become more important in recent years as rapid industry consolidation has created huge regional chains such as Walmart and Kroger, with enormous purchasing power and hefty marketing budgets. As a result, IGA has nearly doubled its annual marketing and advertising budget in the past 5 years to about \$100 million.
2. Soft Sheen Products Inc., which sells products such as Care Free Curl, Optimum Care, Sportin' Waves, and Baby Love, is bringing out Alternatives, a line of relaxer and styling products aimed at Black women, primarily aged 18 to 25. The marketing plans for the new brand—developed and produced after a year of research—are infused with elements meant to appeal to the younger consumer, which range from packaging the product in bold, vibrant colors to a television commercial centered on a hot trend, poetry recitals at urban clubs.
Find other such examples that are emblematic of the changes marketers and media are making to capitalize on a rising number of female consumers in their teens and early 20s.
3. Known for maintaining a fierce tempo of producing a film per month, on average, including commercial successes such as *The Exorcist* and *Superman* while being a senior Warner Brothers executive, John Calley turned around the troubled Sony Pictures Entertainment after taking over as its president. Sony's two studios, Columbia Pictures and TriStar Pictures, brought in several hundred million dollars at the box office at a record pace for the film industry. Mr. Calley oversaw last-minute changes in the marketing plans and expanded the promotional budget, moves widely credited for turning potentially popular films into blockbusters.
Substantiate Mr. Calley's marketing plan with his specific project successes. You might need to research Sony Pictures as well as the film production industry to complete your response.
4. ServiceMaster Industries Inc.'s corporate objectives read: "To honor God in all we do, to help people develop, to pursue excellence, and to grow profit-

ably”—precisely in that order. For the past 10 years, profits have been growing at an annual compound rate of 31%, and stockholders’ equity has increased 17%.

ServiceMaster got its start 32 years ago cleaning furniture and moth-proofing carpets in homes and offices. Among the more famous places its specialists spruce up include Buckingham Palace, the Houses of Parliament, and the White House. The company’s biggest business, however, is cleaning hospitals. About 95% of ServiceMaster’s hospital contracts are renewed, but so far the company has cornered business from only 11% of the nation’s 7100 hospitals.

Make a 5-year marketing plan for ServiceMaster that is compatible with its corporate objective as well as the nature of its market.

5. Superdrug changed its vision statement from “to be the No. 1 retailer of toiletries in the UK, in terms of consumer perception, market share and profitability” to “to be the customer’s favorite, up-to-the-minute health and beauty shop, loved for its value, choice, friendliness and fun” to give employees and suppliers a clear understanding of what the firm is trying to do in the business. Evaluate this change in terms of its ability to be a “touchable” statement, which supports individual employees to see what they can do to move Superdrug toward its mission.
6. Gap Inc. will continue to build its brands this year by rolling out 300 to 350 stores in the United States and abroad, opening a store a day, and an aggressive \$225 million marketing plan. Gap’s first-quarter comp-store sales are expected to increase 10%. The Gap division will add 80 to 90 units, Banana Republic will open 35 to 40 new stores, and GapKids will open 45 to 50 stores. Evaluate the justification and competitiveness of such marketing plans in the light of prevailing industry characteristics.
7. The number of berths expected in the North American cruise market is increasing at 7.5% a year, while the attractiveness of new ship features (such as show lounges, miniature golf courses, and wine-and-caviar bars) is also improving. Seventy percent of the new tonnage in the next 4 years is being built by the three industry leaders. Meanwhile, the passenger growth in this industry has slowed to 2.2% a year. What assumptions are the three major cruise lines making about the future of this industry?

Practice Quiz

1. Which of the following is NOT a benefit of an organization’s marketing plan?
 - (a) Consistency
 - (b) Commitment
 - (c) Cost saving
 - (d) Communication
2. In which of the following approaches for involvement of the organization do the most problems of coordination occur?
 - (a) Top-down planning
 - (b) Bottom-up planning

- (c) Goals-down-plan-up planning
 - (d) Plan-down-goals-up planning
3. The marketing manager uses the 4 Ps of the marketing mix to answer which of the following questions?
 - (a) Where is the organization now?
 - (b) Where does the organization intend to go in the future?
 - (c) How will the organization organize its resources?
 - (d) When does the organization want to implement its strategy?
 4. The benefits of marketing planning do NOT include
 - (a) Consistency
 - (b) Communication
 - (c) Criticism
 - (d) Commitment
 5. A nonprofit organization's objectives may be less clear than a commercial organization for all the following reasons EXCEPT
 - (a) Environmental turbulence
 - (b) Measurable outputs
 - (c) Ambiguous goals
 - (d) Unknown effects of management intervention
 6. A corporate mission should NOT include which of the following dimensions?
 - (a) Customer groups to be served
 - (b) Customer needs to be served
 - (c) Customer locations to be served
 - (d) Technologies to be utilized
 7. To be most effective, marketing strategies must be converted into a _____.
 - (a) Long-term vision
 - (b) Long-term consistency
 - (c) Short-term profit maximizer
 - (d) Short-term harmonizer
 8. A traditional product-based format for auditing includes all the following materials EXCEPT
 - (a) Advertising data
 - (b) Market research
 - (c) Financial data
 - (d) Competitor research
 9. What is the aim of the marketing audit?
 - (a) To identify existing factors that have a significant impact on the future plans of the company
 - (b) To allocate resources such that the future plans of the company will be achieved
 - (c) To minimize the cost of acquiring factors needed for the company's future
 - (d) To check for mistakes in the marketing plan

10. A review of the marketing environment includes a study of all the following EXCEPT
 - (a) Customers
 - (b) Political environment
 - (c) Developing trends
 - (d) Marketing organization
11. Which of the following is the most often overlooked aspect of strategy?
 - (a) Pricing
 - (b) Placement
 - (c) Promotion
 - (d) Timing
12. A marketing plan, no matter how detailed and well planned it is, may not work as expected for all the following reasons EXCEPT
 - (a) Lack of support from top management
 - (b) Once-a-year ritual
 - (c) Separation of operational planning from strategic planning
 - (d) Contingency plan
13. Which of the following CANNOT be used to measure relationship-based outputs?
 - (a) Profitability
 - (b) Customer loyalty
 - (c) Customer satisfaction
 - (d) Return on investment

(You can find the correct answers to these questions by taking the quiz, and then comparing your answers with the answers that are provided at the end of the book, under the “Practice Quiz Answers” part of the book.)

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Understanding the Market Environment and the Competition

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■ The Impact of the Internet



■ (Source: ► [pexels.com/royalty-free-images/](https://www.pexels.com/royalty-free-images/))

The information revolution promises to reverse many of the social trends that characterized the twentieth century. Clearly, this has important implications for marketers. More splintered media are changing the rules for niche manufacturers and mass marketers alike. An example of this is the internet.

The internet empowers consumers. Growing numbers of car buyers shop online before showing up at a dealership, arming themselves with information on dealer costs. The internet represents the ultimate triumph of consumerism. Though the internet still represents a smaller portion of total purchases, its growth is mind-boggling. “Retail e-commerce sales worldwide are forecast to nearly double between 2016 and 2020. During an April 2017 survey, **40%** of internet users in the United States stated that they purchased items online at several times per month, and **20%** said they bought items or services online on a weekly basis.” There is no other channel in which revenues are growing at anywhere near this rate. “Since 2000, the growing adoption of the internet, rising from 52% of total population in 2000 to 89% in 2018, has really boosted e-commerce sales. The estimated e-commerce revenue of top 5 countries in 2018 are (Source: Statista, Roland Berger):”

- China – US\$584 billion
- United States – US\$474 billion
- Japan – US\$105 billion
- United Kingdom – US\$103 billion
- Germany – US\$70 billion

3

There are three ways in which the internet is changing the market and how companies are rushing to take advantage of them. First, in the offline world, the cost of directly comparing products or services was often high. Online, mediocrity will have no place to hide. CompareNet (► www.compare.com) is typical of the new breed of neutral brokers; here consumers can compare products feature for feature and dollar for dollar. Skeptical customers can read unbiased product reviews and participate in online discussion groups. In this environment, it is hard to make a second-rate product a success.

Second, before the internet, goods and services were often planned and built far in advance of customer needs, and customers could do little to configure those products to their own requirements. Today, in support of the internet, companies enable customers to cocreate/codesign products and services to meet the customers' specifications and requirements. For example, many computer vendors, car manufacturers, and even real estate developers offer their customers the opportunity to design their own computer, car, or home. For instance, similar to many other automobile manufacturers, Mercedes-Benz (► <https://www.mercedes-benz.co.uk>) invites their customers to design their own Benz as per their own choices. Based on the internet-enhanced software on the company's website, customers can easily select the color, wheels, upholstery, internal and external equipment, safety and security features, buying terms and conditions, and postpurchase services, based on their own preference. Third, no longer will geography tie down a company's aspirations or the scope of its market. ► Alibaba.com spans the globe, as an online supermarket selling different types of products to their customers worldwide. A physical supermarket serves an area of a few square miles, and you cannot peruse its inventory without getting into your car. But whether you're in Albania or Zambia, ► Alibaba.com is just a click away.

In fact, for marketers, the internet has evolved a much more cost-effective and interactive means of reaching target markets, in comparison with traditional media. For example, email marketing, website marketing, search engine marketing, blogging, Wikipedia, social media, Google ads, online customer forums, and online and on-time chat with customers empower marketers to endorse their products and services more expediently, in comparison with traditional newspapers, postal mail, and TV commercials. In support of this view, in general, it can be argued that 30 years ago, small business enterprises did not have effective promotional mediums to promote their products and services to their wider target markets, based on their small budget, since the traditional mediums (i.e., television adverts) are more expansive than contemporary social media marketing. Today, even a next door shop or a small bread and breakfast accommodation service provider can conveniently reach their wider target audiences through different free web applications, such as social media and other free or low-cost websites. In particular, the internet-based e-commerce platforms enable the enterprising marketers to create value for ensuring win-win outcomes, based on minimal resources, in comparison with their return on initial investment. For example, today, the world's (Kennedy 2015):

- Largest taxi company owns no taxis, which is Uber
- Largest accommodation provider owns no real estate, which is Airbnb

- Largest phone companies own no telecom infrastructure, which are Skype and WeChat
- Most valuable retailer has no inventory, which is Alibaba
- Most popular media owner creates no content, which is Facebook
- Fastest-growing banks have no actual money, such as SocietyOne
- Largest movie house owns no cinemas, which is Netflix
- Largest software vendors don't write the apps, such as Apple and Google

These online-based service providers demonstrate how the internet brings opportunities for innovative marketers. As a result, irrespective of the marketers' initial available resources, the sky becomes the only limit for them, in terms of their return on initial investment and prospective societal and ecological contribution.



Sources: Hamel, G., & Sampler, J. (1998). The E-Corporation: More than just web-based, it's building a new industrial order. *Fortune*, pp. 80–92; Soberman, D. (1998).

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3.1 Introduction

No organization is completely self-contained; each is embedded in an environment composed of federations, associations, government agencies, customers, suppliers, and competitors. Societal expectations, customs, and laws define and control the nature and limits of an organization's relationships within this environment. Most organizations' bottom-line profits are dependent more on the vagaries of external environmental events than on how well their internal operations are managed [1]. Moreover, this **external environment** is not only changing, it is changing fast.

External environment—The context of federations, associations, government and nongovernment agencies, customers, suppliers, business partners, and competitors on which the organization's profits are dependent.

Atari's "Pong" was first introduced in the early 1980s; today, action games and movies are made with lifelike computerized humans. Email was introduced to a mass market only in the 1990s. The mobile technology-enhanced short message service was introduced during the same time in the last century. Today, college students hardly ever send personal notes using a stamp and an envelope [2]. As a result of this quickening pace, the impact of environmental change has become more unpredictable. ■ Figure 3.1 illustrates how this turbulence has increased and how a greater speed of change and a decreased visibility of the future lead to a lower familiarity with events.

Most organizations devote immense efforts to optimizing the internal factors that are within their control. However, firms also need to be aware of their external environment and its current and potential effects. Any changes in the business environment, whether at home or abroad, may have serious repercussions on the marketing activities of the firm. Managers must therefore spend an increasing

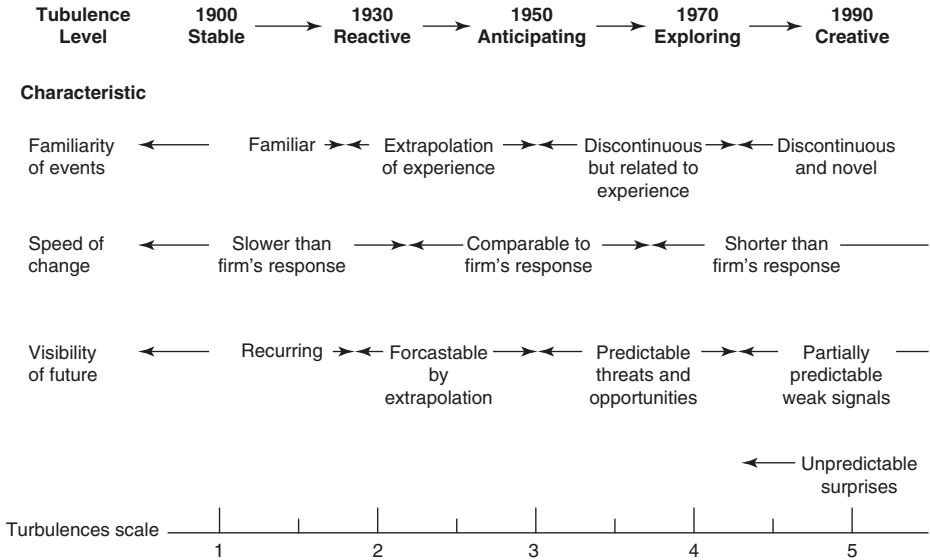
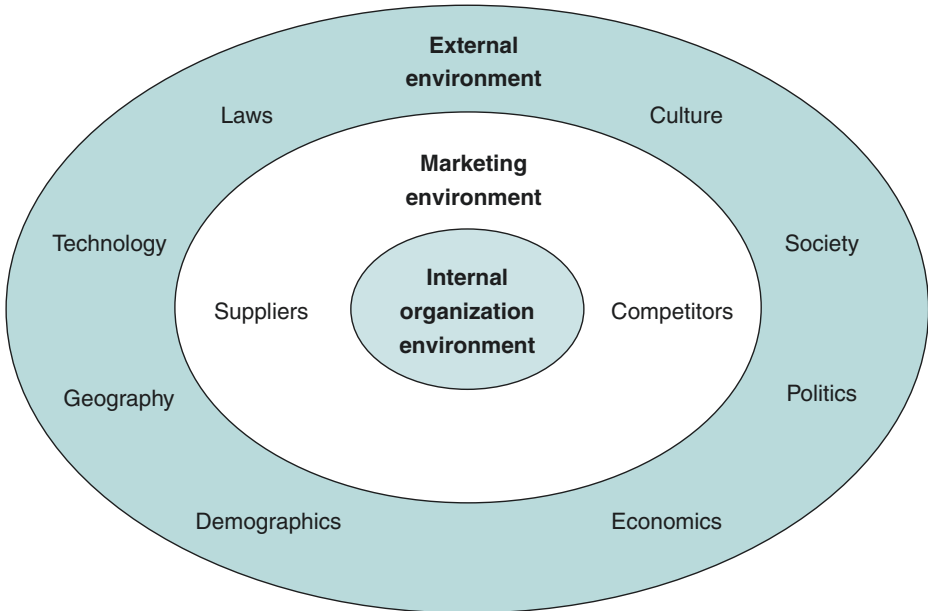


Fig. 3.1 Growing environmental turbulence (Source: Ansoff, H. I., & McDonnell, E. J. (1990). *Implanting strategic management* (2nd ed.). Reprinted by permission of the trustees of the Ansoff Family Trust)

amount of their time on matters external to the firm and try to understand their effects on the company. In doing so, they must first develop a firm grasp of those environmental dimensions that are likely to influence corporate activities the most. This step involves a close scrutiny of societal, cultural, demographic, technological, economic, political, and legal factors. Next, the manager needs to analyze the changes in the environment in terms of their impact on the firm, including a clear identification of the desires and needs of the different publics that the company serves. In addition, the marketer should develop an in-depth understanding of the position, motivation, and capabilities of competing organizations, as well as these organizations' responses to the actions of other firms. All this knowledge is then used to develop competitive strategies that allow the firm to strengthen its position in the market. The vignette at the beginning of this chapter outlines some of the effects that one change in technology—the internet—has on corporate marketing practice.

3.2 Theoretical Frameworks

Figure 3.2 likens the environment surrounding the firm to the layers of an onion. This model distinguishes between three different types of environments: the internal environment, which focuses on activities contained totally within the organization; the marketing environment, which is composed of those suppliers and competitors that have the most immediate impact on the marketing efforts of the organization; and the general external environment, which contains additional



■ **Fig. 3.2** The overall environment (Source: Ansoff, H. I., & McDonnell, E. J. (1990). *Implanting strategic management* (2nd ed.). Reprinted by permission of the trustees of the Ansoff Family Trust)

major factors affecting the performance of the organization. These external factors are often referred to as the sociocultural, technological, economic, and political/legal (STEP) factors. We will look at each of these factors separately but also examine their interaction. In each case, we will not only consider the issues involved but also search for the main drivers of change.

3.2.1 The Sociocultural Environment

Cultural traditions are not easily overturned, but over the years they can change quite significantly. In the latter half of the last century, for example, the role of women in society—and in particular their role at work—changed dramatically. This change is obviously of considerable significance to those marketers supplying services to women: No longer can they assume that the average woman is a traditional housewife. The women's magazine industry, for example, changed beyond all recognition due to these shifts.

Over the past decades, major changes have occurred in several other areas of the sociocultural environment. For example, most industrialized nations have experienced a shift from a goods-producing to a service-based economy, and occupations have changed with the rise of professional and technical expertise. This shift is evoked in ► **Web Exercise 3.1**. Innovations in communications and computer technology have further accelerated the pace of change by collapsing what is known as the **information float**; the amount of time information spends traveling

through communication channels has been reduced from a few days for a letter to only a matter of seconds for electronic mail. As a result, responses are now expected almost instantaneously, leaving less time for contemplation and evaluation.

Information float—The amount of time information spends traveling through communication channels.

New information technologies are also giving birth to new activities, processes, and products. For example, Robert Reich noticed the creation of a new class of workers, the **symbolic analysts**, who are employed by firms that concentrate not on production but on analysis. Reich stated that in the “new world-economy, symbolic analysts hold a dominant position” [3]. With this shift in focus, process innovation now has to be applied to learning in the same way it is applied to all other economic activities. Terms such as *learning efficiency*, *effectiveness*, *retention*, and *relevance* are likely to emerge as key performance criteria. The use of new learning technologies, self-paced instruction, the tailoring of content to specific individual learning needs, and the development of just-in-time learning approaches are likely to become commonplace in the business education industry [4]. Overall, these changes affect how people live, where they live, how they learn and work, and how they expect to satisfy their needs. Understanding these shifts is crucial for the formulation of winning market strategies.

Symbolic analysts—A new class of workers who concentrate not on the production but on analysis.

Web Exercise 3.1

Drastic changes in the sociocultural environment have been felt across the globe in the last century. Gender roles, industrialization levels, technological advances, and countless other innovations, evolutions, and paradigm shifts have resulted in a rate of change unequalled by any other historical moment. One company aware of and embracing these changes is ABB. Go to the ABB website at ► www.abb.com and look closely at the text and images used to promote the company. How do these images evoke the changes in the environment, and how do they cast ABB’s role in working with those changes?

Another important sociocultural change may be the move from a materialist to a postmaterialist society in industrialized nations. Inglehart and Appel postulate that “the most basic values that motivate the publics of Western societies have been changing gradually but steadily during recent decades.” Newer generations appear to replace materialist values and economic and physical security with “Post-

Materialist values that place greater emphasis on such goals as self-expression and belonging” [5].

Such a reprioritization of values may already be taking place around the globe. In some societies, the goals of financial progress and further improvements in the quantitative standard of living may well give way to new priorities. Such reorientations would result in major reversals of currently held business values. For instance, the abandonment of a consumption orientation would require a substantial readjustment of the activities of marketers. Consider, for example, Western Europe’s growing concern about the **physical environment**. No longer are all corporate actions acceptable simply because they are profitable and legal. Customers demand that firms consider the environmental impact of their products and that they take measures to reduce harmful effects. If firms are not responsive to such expectations, they face declining customer interest in their products or, worse, active consumer boycotts of their goods. Some of the adjustments marketers have had to make in response to this reorientation include the production of more environmentally responsible products, less wasteful packaging, and the use of recyclable materials.

Physical environment—The environmental surroundings in which organizations must take measures to reduce harmful effects.

The increased awareness of today’s customers as to whether a particular product or service and its associated value delivery chain detrimentally impact socioeconomic and/or ecological issues is also shifting the focus of marketers. For example, marketers are now more focused on how to make profit while contributing to a social cause, instead of just making profit. The reason for this change is mainly because customers, such as “individuals, and especially those within the millennial generation (today), are more socially aware than ever, and thus, the (term) ‘ethical consumer’ has come about” [6]. The term “ethical consumer” is characterized as the consumers who are socially responsible and value the ethical perspectives in their everyday purchasing decisions, which is related to the “feel-good factor” [7], so that consumers feel better about their buying decisions, as well as about themselves, because of the ethical significance of their decision [7] that contributes to any socioeconomic cause at least to some extent. Because of this “feel-good factor,” “consumers around the world have placed increasing value on corporate social responsibility (CSR)” [8]. This has led to a refined scope for cause-related marketing (CRM) as a CSR approach and as a business management functional area.

As a consequence, in practice, CRM has received considerable attention in recent years [9]. CRM generally stimulates marketers to recognize socioeconomic and/or ecological concerns, in order to design marketing plans, in a way that not only helps to make profit but also contributes to a particular socioeconomic issue. Therefore, in everyday shopping decisions, consumers are increasingly confronted with “cause-related” products [10], as esteem need of consumers, related to their

Youth population, ages 15–24

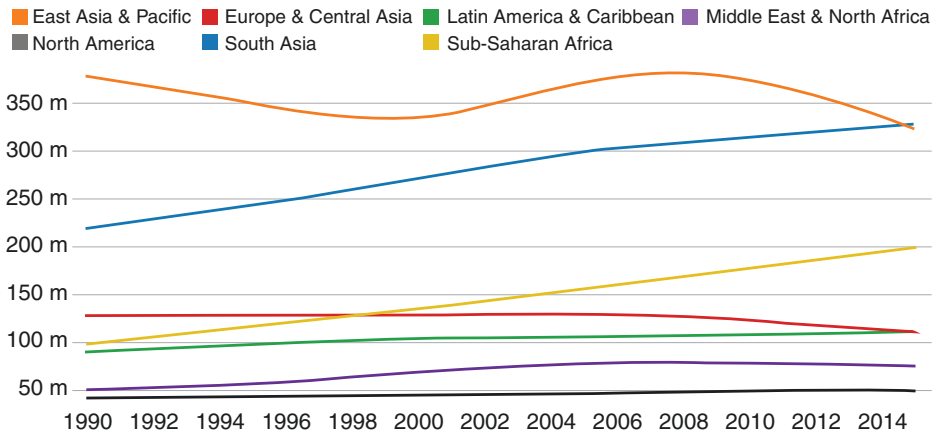


Fig. 3.3 The changes in the global youth population (Source: Khokhar, T. (2017). Chart: How is the world's youth population changing? *World Bank Blogs*. ► <http://blogs.worldbank.org/opendata/chart-how-worlds-youth-population-changing>)

“feel-good factor,” in order to contribute to social and environmental causes. In fact, today, CRM is adopted by hundreds of companies to enhance customer loyalty and sales performance for thousands of products from coffee to cars [11], as a valuable marketing tool [12].

Following the sociocultural environmental context, the most predictable changes in market are those that originate from demography. The Western baby boom of the 1950s and 1960s and the subsequent dramatic decline in birth rates have produced very different population cohorts, with accompanying changes in earnings and consumption. Any marketer is well advised to develop or acquire up-to-date demographic analyses. As an indication of some of the global trends that should be watched, Fig. 3.3 shows the world's youth population (ages 15–24). Demographic shifts result in increasingly youthful populations in Asia and increasing aging populations in almost all Western countries. Differences in the size of age groups have major implications for consumption patterns as well as for social expenditures such as education, health care, and pensions. For example, the growth in demand for housing is likely to decrease, which will have repercussions for the furniture industry.

3.2.2 The Technological Environment

The impact of contemporary technology is another major factor in the external environment. The growth of use of mobile technologies, cloud computing, big data analytics, blockchain technology, and cryptocurrency demonstrates the evolution of unrestricted communication flows. Data communications are exploding, propelled by the internet and the rapid convergence of data and video with tra-

ditional voice traffic. Data have already overtaken voice on telephone networks. Concurrently, the availability of information to be communicated is increasing dramatically. Because all this information includes details about lifestyles, opportunities, and aspirations, the implications of this technology revolution for marketers are major. For example, a growing global awareness of products is likely to ease international product introductions. At the same time, such greater ease will also encourage the emergence of greater global competition for market share both at home and abroad. On the other hand, a growing detrimental image of a product in international markets would also affect its usage, production, and marketing in local markets. For example, “the excessive production and consumption of plastic has serious consequences on the environment and human health” [13]. As a result, the growing global awareness of the impact of plastic and plastic products is urging the reduction of plastic bag production, and many countries have already started to invent and use biodegradable packaging items to replace plastic-made shopping bags in their local markets. For instance, “a Thailand supermarket came up with a genius way (in early 2019) to reduce plastic packaging: wrap its produce in banana leaves instead” [14]. Another example is in Bangladesh, where a newly invented jute-made 100% biodegradable shopping bag’s production is scheduled to begin its commercial production and marketing to reduce the production and marketing of the plastic bags in local markets and gradually in international markets [15]. In this way, in the contemporary local and international markets, the enormous flow of data and information across borders, and growing awareness and interests about a particular product or service in both local and international markets influence marketers’ decision-making.

The Impact of Information Technology on Marketers The use of **electronic data interchange** (EDI), merchandise scanning, and increased data sharing is restructuring the ways firms do business. In fact, technological capabilities influence a firm’s operational and innovation capabilities [16]. Consequently, technology affects the entire marketing strategy framework and covers the relationships with suppliers and manufacturers, the internal organization of the firm, and the firm’s interaction with its customers. Even though the technology has been available for some time, we are entering a new era in terms of its application. As Bill Gates, cofounder of Microsoft Corporation, stated:

- » The tools and connectivity of the **digital age** now give us a way to easily obtain, share, and act on information in new and remarkable ways. For the first time, all kinds of information—numbers, text, sound, video—can be put into a digital form that any computer can store, process, and forward. Standard hardware combined with a standard software platform has created economies of scale that make powerful computing solutions available inexpensively to companies of all sizes. And the ‘personal’ in personal computer means that individual knowledge workers have a powerful tool for analyzing and using the information delivered by these solutions [17].

Because much of marketing is a dialogue, and information technology both enhances and restructures the existing forms of communication, marketers will be affected by information innovations more than ever before.

Electronic data interchange—An electronic data entry system that allows manufacturers, logisticians, and vendors to communicate to maximize efficiency in production, delivery, and sales.

Digital age—The current era in which all kinds of information—numbers, text, sound, and video—can be put into digital form such that it can be stored, processed, and forwarded by any computer.

Upstream Relationships The key to technology application rests with the building of information exchange relationships that convey vital knowledge accurately and rapidly and enable the recipients of the knowledge to respond by adapting their activities to the market realities. Most supermarkets and drugstores in the United States use electronic data entry and share data with vendors or develop special forms of cooperation in order to become more efficient in their market operations. For example, Hewlett-Packard has signed on with RFID (radio frequency identification) technology which is used to place radio tags on shipments in order to track and record their movement [18]. Suppliers and vendors can jointly use this technology to reduce costs and increase availability. For international shipments, the technology can also ensure that the shipment has not been opened and manipulated or altered by unauthorized parties. In an era of major international security concerns, such joint tracking can relieve much uncertainty from the shipping process. Some firms have gone even further in their upstream relationships by fully integrating some marketing aspects with their vendors. For example, Ahold Zaandam in the Netherlands has made one of its vendors, Heineken, fully responsible for maintaining supplies at its warehouses and for determining when and how to make its deliveries. As a result, the firm holds as little as four hours' demand worth of inventory at the warehouse [19].

The use of information technology has also had distinct implications for the power relationships between manufacturers and their channel members. Increasingly, the point of purchase represents a crucial node of information. This is the place where critical information is accumulated regarding consumer behavior and promotional response. The available information lets retailers know what they are selling in each of their stores, how much money they are making on each sale, and who their customers are. Retailers no longer need to be saddled with stock that does not sell or run out of items that customers want to buy [20]. Consequently, retailers have amassed so much power over manufacturers and other supply chain members that they can dictate the structure of the relationships and are able to force their vendors to either implement and adapt to information systems or lose the account. In light of the global sourcing policies of corporations, participation of vendors in information systems will become increasingly important for man-

ufacturers around the world. Firms in countries that are not able to provide an adequate information infrastructure will be severely handicapped in their ability to compete internationally.

3

Internal Effects of Information Technology The information revolution also has major effects on the internal operations of firms. Leading-edge users of technology are able to develop cost advantages that permit them to assume leadership positions in their industry. For example, Tesco, one of the largest food retailers in the United Kingdom, has used information technology to control its ordering and stocking levels, with the following results:

- Major reduction of total stocks at its distribution centers
- Lead times of 1–2 days on fresh foods
- Out-of-stock conditions reduced by 30%
- Reduction of storage space from 40% to 20% of total store floor space
- Productivity benefits of more than \$31.7 million [19]

Such improvements are at the core of developing a position of strategic advantage and are therefore crucial to the marketer. These types of improvements enabled Walmart to surge ahead of its competitors Kmart and Sears to become the leading retailer in the United States.

Information also has an effect on the structure of firms and their hierarchies. For example, with better information flow, smaller organizations may be able to achieve economies of scale more quickly. In larger organizations, information availability can transform corporate structure by encouraging horizontal communications—for example, via electronic mail—and reducing the need for the traditional hierarchical organizational structure. New ways of handling information can also be decisive in determining the location of the firm's activities. For example, the ability to conduct banking via automated teller machines has enabled financial institutions to greatly expand their reach of customers. With the increasing use of banking by telephone, this expansion will also diminish the importance and value of old-fashioned bank buildings.

In terms of internal branding, for example, to attract and retain employees, updated data and information on a firm's successes and advantages are also helpful to proactively plan, implement, and monitor internal branding campaigns. For instance, the experience of the UK-based mobile phone operator Vodafone's internal branding campaigns on providing up-to-date information to employees, in order to ensure effective internal knowledge transfer within the company, is relevant to further demonstrate the internal effect of information and communication. Vodafone regularly undertakes internal branding campaigns, in order to ensure that “the confidence of employees is built through giving more knowledge of how the company operates, and how the company can be differentiated from competitors. As these employees are the direct communication line between the company and the customer, their confidence and the value of the brand in their mind is important” [21].

Information Technology and the Customer Technology also permits marketers to work with customers in more efficient ways. By linking purchases with specific customers, marketers can develop promotional programs based on specific purchase behavior. At the checkout point, for example, coupons can be automatically issued based on the scanned purchases. A customer who purchases Pampers may get a coupon for baby food. Similarly, by using frequent shopper cards, customers can be identified and promotions can be targeted. For example, a family with a child can receive information on and coupons for diapers, baby formula, or breakfast cereal depending on the age of the child [22]. Alternatively, given the proper pieces of information, mail-order companies can compose individual catalogues based on specific customer profiles [23]. Information technology-enhanced social media networks and analytics also enable marketers to develop novel insights on customers' preferences, as well as to promote brands to the wider target audience in a cost-effective way. The "social media platform has created an exemplary scope for any brand to advertise its product through exposure, attention and perception; to develop opinions; and to create values" [24]. Information will also offer major new opportunities for customers. For example, television shopping decreases the need to visit stores, and online product information makes price comparisons easier and reduces the need for marketers to differentiate prices based on location. Simply put, information provides greater transparency of the market and therefore enhances the customers' ability to make better decisions.

Other Technology Factors Information is not the only technology driver, of course. The development of superconductive and composite materials has made progress possible in fields such as transportation and electric power, pushing the frontiers of human activity into yet unexplored areas such as outer space and the depths of the oceans. Concerns about the environment are leading to new perspectives on products, production processes, and consumption and are likely to lead to new technologies that will provide substitute products and enhanced environmental "friendliness." The development of biotechnology is already leading to revolutionary progress not only in agriculture, medicine, and chemistry but also in manufacturing systems [25]. For example, California-based Calgene (part of the Monsanto Company) has planted fields of cotton that are already colored red, blue, black, and tan by the use of color-producing bacteria rather than toxic dyes. IBG of Baton Rouge, Louisiana, has cultivated a fat-eating strain of bacteria to produce McFree, which is sold to the McDonald's Corporation to clean french-fry fat from restaurant drains. Proteins are beginning to be used to "stone wash" blue jeans and chinos [26].

All these changes in technology are likely to introduce major discontinuities into the marketer's life. Although no one can foresee all changes, the marketer must at least be open-minded enough to be ready for them. In addition, it is important to avoid four common errors that can lead to the downfall of the firm:

- The belief that an evolutionary approach to technology will be enough
- The assumption that there will be ample early warning about a coming discontinuity

- The expectation that customer contact and input is sufficient preparation for change (customers may well be wrong in predicting what they want, particularly when new technology is concerned)
- The conviction that one's firm can always react fast enough to change [27]

3

3.2.3 The Economic Environment

Although the market is clearly at the heart of marketing, it is also central to economic theory and to the basic philosophy of capitalism. The way in which each of these two disciplines approaches the concept of the market is, however, quite different.

Modern microeconomics theory has no problem describing the activities of the perfect firm. This ideal organization is involved in perfect competition, with price as the one factor to be manipulated in the many economic equations used to describe that firm. All decisions are made rationally, based on profit, and all the relationships are exactly known and can be plotted with definitive graphs.

Yet microeconomists find considerable difficulty dealing with imperfect competition, because no generally accepted model for representing this state has yet emerged. Worse still, particularly in a climate of uncertainty, microeconomics recognizes but cannot easily handle those relationships that do not fit neatly into exact equations. As the economist John Kenneth Galbraith has observed, management decision-making is often anything but rational. It is frequently not designed to achieve the simple monetary outcomes that are the staple of economics; instead, it reflects more complex motivations [28]. With an increase in conflicting priorities within and between societies, this complexity appears to be on the rise.

Marketing, conversely, thrives on precisely these elements, which constitute the real business world. Thus, the aim of every brand manager is to make competition ever more imperfect, aiming for the ideal brand that holds a monopoly over its customers, who will stridently demand their favorite brand of cola or beer and reject any alternatives. In this environment, the intangible, and often seemingly irrational, needs and wants of the consumer predominate. The tools of marketing are frequently the creative approaches used to formulate the most attractive good or service and to develop the most effective promotions. Having to compete on price alone, as many microeconomists wish, is usually seen as defeat by such marketers.

The marketer is also affected by shifting economic factors, primarily globalization, regional **economic integration**, and exchange rates. World markets today are more intertwined than ever before. During the last two decades of the last century, world trade remained within the range of \$200 billion a year, which increased to more than \$9 trillion at the beginning of this century, and it reached \$19.48 trillion in 2018 [29, 30]. As a result, a global reorientation of production strategies has taken place. For example, only a few decades ago, it would have been thought impossible to produce parts for a car in more than one country, assemble the car in yet another nation, and sell it in still other countries. But such global

investment strategies, coupled with production and distribution sharing, are occurring with increasing frequency. In the 1970s, half of all multinational corporations were based in the United States or Britain. By 2002, only 6 of the top 25 transnational corporations were headquartered in the United States [31]. Also, “production by foreign affiliates increased in 2011: sales rose by 9% to \$28 trillion; employment rose by 8% to 69 m; and total assets rose from around \$75 trillion in the previous two years to \$82 trillion” [32]. Marketers must therefore broaden their horizons when looking at market opportunities and threats. A firm’s customer base is no longer restricted to one home country but can be found around the world; likewise, competition does not emanate only from established domestic competitors but can appear overnight from foreign shores.

Economic integration—The process in which countries engage in economic cooperation to use their respective resources more efficiently and to provide larger markets from member-country producers.

Multinational corporations—Firms that operate facilities outside their home country, which is the location of headquarters.

Regional economic integration is another major phenomenon affecting the marketer. Increasingly, countries engage in economic cooperation to use their respective resources more efficiently and to provide larger markets for member-country producers. Integration efforts have facilitated marketing activities across borders but, on occasion, inhibited them between trading blocs. The emergence of regional economic agreements such as the European Union; the North American Free Trade Agreement (NAFTA) between the United States, Mexico, and Canada; Mercosur in South America; ASEAN in Asia; BRICS among Brazil, the Russian Federation, India, China, and South Africa; and other regional bodies is profoundly changing the landscape for the marketer. On the one hand, the Brexit (UK’s exit from the European Union) issue also impacts on the changing marketplaces. On the other hand, China’s belt and road initiative that encompasses more than 60 countries from Eastern Europe, Central Asia, the Middle East, and Southeast Asia will have further implications for marketers. This belt and road “project is often described as a 21st century silk road, made up of a ‘belt’ of overload corridors and a maritime ‘road’ of shipping lanes” [33]. Often these changes mean that the firm has to do business within a given bloc, mainly through direct investment, to remain competitive. At the same time, global integration has also successfully reduced red tape, documentation hassles, and transportation difficulties. Harmonization of rules and standards has made the achievement of economies of scale easier. By reducing the barriers between markets, such integration has also increased the levels of efficiency and competition—a boon for customers and for marketers on the cutting edge but a bane for traditionalists who long to keep doing things the old-fashioned way.

3



The economic environment has also been greatly affected by the powerful exchange rates. Traditionally, exchange rates were mainly the consequence of trade flows between nations and were relatively stable in the short and medium term. But because of liberalized currency flows around the world, exchange rates today have taken on a power of their own and have begun to determine the level of trade between nations. Rapid changes in currency value have a major effect on the marketer, particularly when doing business internationally. For example, sudden change in foreign currency exchange rate will affect the overall export and import costs. Long-term strategic plans can be ruined if major shifts in exchange rates occur. Viable trade relations or investment projects may have to be shifted or even abandoned because of exchange rate effects. For example, the entire business strategy of Airbus was placed at risk because of the decline in the value of the dollar. The consortium quoted the sales price of its airplanes in dollars but had to pay for production inputs in foreign currency. When the underlying assumption of an exchange rate of the foreign currency to the dollar met the market reality of a lower value for the dollar, producing and selling the planes at a profit became impossible [34].

3.2.4 The Political and Legal Environment

Politics and laws play a critical role in marketing. Even the best-laid plans can go awry as a result of unexpected political or legal influences, and the failure to anticipate these factors can be the undoing of an otherwise successful venture. Governments affect firms through their legislation and regulations, which might specify anything from the ingredients that firms may put into their products to the buildings in which their employees may work. Interest groups can place pressure on firms and alter corporate activities by shaping selective dimensions of the way the

public sees the firm—for example, its environmental responsibility or its position toward child labor. In addition, other stakeholders can demand that the firm's management accept their views.

Laws and Regulations Many laws and regulations may not be designed specifically to address marketing issues, yet they can have a major impact on a firm's opportunities. For example, in the international education industry, the student visa processing requirements and its legislation system change frequently across the major international education destinations, such as the United States, the United Kingdom, and Australia [35]. Scrambling to keep up with these changes, universities (the marketers who recruit international students) dedicate ever more resources to ensure compliance with the rules but still feel perpetually on the back foot [35]. Minimum wage legislation, for example, affects the international competitiveness of any firm using production processes that are highly labor intensive. Similarly, the cost of adhering to safety regulations may significantly affect the pricing policies of firms. Intellectual property rights legislation and the extent of its enforcement may either allow a firm to recoup its investment into innovation or deprive it of its rightful returns, thereby determining the firm's ability to invest in further research and development to create new products. In addition, firms are often affected by administrative regulations developed by agencies to implement broader laws, particularly in the international arena. For example, the case study on “The Icelandic Libation,” presented at the end of this book, shows how federal and local regulations can affect the import of water into the United States.

Most aspects of marketing transactions are covered by one or another form of legislation and at least by contract law. The marketing manager must be aware of the legal aspects that directly affect the firm. These effects vary from industry to industry and from country to country. The chemical industry, for instance, is driven by legislation on safety, whereas financial service providers may operate under the jurisdiction of the Interstate Banking Act. Legal issues must be handled expertly, because only some of the vast array of laws affect individual industries or organizations in specific countries, and many of them change quite rapidly. The worldwide move to deregulation in recent decades, for example, has had major implications for organizations in areas as diverse as financial services and airline operation. Both of these industries have seen many new entrants, while a significant number of their traditional members have gone out of business.

Because political viewpoints can be modified or even reversed, and new laws can supersede old ones, existing legal and regulatory restraints need not always be accepted. To achieve change, however, there must be some impetus for it, such as the clamors of a constituency. Otherwise, systemic inertia is likely to allow the status quo to prevail. In dealing with onerous laws, the marketer has various options. One is to simply ignore prevailing rules and expect to get away with it. This is a high-risk strategy because of the possibility of objection and even prosecution. A second, traditional, option is to accept all existing rules. The drawback to this option is, of course, the cost and opportunity loss due to restrictive rules. A third option involves the development of coalitions or constituencies with like interests that can motivate legislators and politicians to consider and ultimately implement

change. This option can be pursued in various ways. The marketer can explain the employment and economic effects of certain laws and regulations and demonstrate the benefits of change. The picture can then be enlarged by including indirect linkages; for example, suppliers, customers, and distributors can be asked to participate in demonstrating the benefit of change to political decision-makers. Developing such coalitions is not an easy task, and companies often seek assistance in effectively influencing the government decision-making process. Such help is particularly beneficial when narrow economic objectives or single-issue campaigns are needed. Typical providers of this assistance are **lobbyists**, well-connected individuals and firms that can provide access to policymakers and legislators.

Web Exercise 3.2

One way of enhancing lobbying efforts in foreign countries is to sponsor, underwrite, or contribute to social programs. Corporate sponsorship reached \$18 billion by end of 2014 and is implemented by global brands, which suggests that such sponsorship-based lobbying campaigns are effective, in terms of the return on investment, related to such donations from a part of business profits. Examples of such initiatives include the Product (RED) campaign, in which companies such as Gap and Apple contributed up to 50% of profits from designated brands to provide antiretroviral medicine to AIDS patients in Africa, and eBay's campaign, Giving Works, which raised more than \$500 million for charities. In practice, such lobbying efforts have raised significant funds for nonprofit organizations and increased bottom-line profits for businesses. Thus, lobbying is today a strategy adopted by hundreds of companies and is used to enhance loyalty and sales performance for thousands of products from coffee to cars. Visit the Product (RED) campaign website (► <https://www.red.org/>) and look at the different web links of partnership's impact, getting involved to understand how it works to create value for its stakeholders.

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Lobbyists—Well-connected individuals and firms that can provide access to policymakers and legislators.

Foreign countries and companies have been particularly effective in their lobbying efforts in the United States. For example, the US Department of Justice reports that more than 2001 lobbyists representing foreign principals have registered with the department [36]. As an example, Brazil alone has held on average nearly a dozen contracts per year with US firms covering trade issues. Brazilian citrus exporters and computer manufacturers have hired US legal public relations firms to provide them with information on relevant US legislative activity. Likewise, the Banco do Brasil lobbied for the restructuring of Brazilian debt and favorable banking regulations. A crucial factor in successful lobbying, however, is the involvement of citizens and companies (see ► Web Exercise 3.2).

Although representation of the firm's interests to government decision-makers and legislators is entirely appropriate, the marketer must also consider that major questions can be raised if such representation becomes very strong. In such instances, short-term gains may be far outweighed by long-term negative repercussions if the marketer is perceived as exerting too much political influence.

Interest Groups Political action is not confined just to governments and legislatures; it can result from other groups as well. Pressure groups often campaign to change legislation but also work to change the public's awareness and buying habits. For example, in the mid-1990s, after negotiating governmental permission, Shell Oil Company planned to dump a massive oil storage buoy in the Atlantic Ocean. A massive publicity effort by Greenpeace, however, led millions of consumers to boycott Shell's gasoline stations. Shell therefore had to abandon its plans [37].

Firms themselves may also join pressure groups to force the government to protect their entrenched positions, and they are often successful. You might think that only the larger organizations are the direct targets of pressure groups or have the resources to be involved in pressure groups themselves, but it is just as important that the smaller organizations understand that the number of interest groups and nongovernmental organizations (NGOs) is rising around the world. Some groups focus on issues; others on organizations or constituents. For example, the Sierra Club and Greenpeace concentrate on the environment, Transparency International scrutinizes corporate behavior, whereas the AFL-CIO focuses on worker rights around the world. ► Web Exercise 3.3 describes Greenpeace demonstrators in Brazil protesting against climbing fossil fuel usage and the effects of global warming. Common to all groups are their broad reach and use of very sophisticated information and communication tools to affect the political and economic process. Defending an organization against pressure groups requires skill and tact. Most important, it requires a sound understanding of their viewpoint and, to be most effective, a sympathetic approach. It is rarely possible to defeat such groups head-on without incurring heavy costs; it may be much more realistic to focus on solutions that are attractive to them and preferable to the organization.

Web Exercise 3.3**3**

Interest groups are an influential force in the external marketing environment. Often able to garner support very quickly, special interest groups can have a dramatic impact on a company's marketing efforts. The environmental group Greenpeace is known for relentlessly pursuing companies perceived as violating environmental laws and ignoring environmental concerns. Check out the Greenpeace site at ► www.greenpeace.org. What companies is Greenpeace targeting right now? How are they protesting these companies' actions? What kinds of marketing strategies will targeted companies need to use?

Multiple Stakeholders A number of different groups can also claim an interest or stake in the organization. The stakeholders of an organization are defined as “any individual or group which can affect or is affected by an organization's activities” [38].

Some believe that only the owners are legitimately entitled to an interest in what the organization does. But today the belief that “the fundamental goal of all business is to maximize shareholder value” may be either commonplace or controversial, depending on one's location. For example, in the United States, management is expected to achieve maximum shareholder value. If this is not the case, activist shareholders may exert pressure or even launch a hostile takeover bid. In many other countries, however, legislation and societal expectations have brought about greater consideration of different stakeholder positions. Maximizing shareholder value is often seen as short-sighted, inefficient, simplistic, and even antisocial [39]. Such a perspective, of course, brings trade-offs that shift resources from one group to another. For example, in Japan the social desirability and acceptance of small retail stores run by pensioners have resulted in a very complex distribution system that in turn results in relatively high consumer prices [40]. In Germany, employees have the right to share in the decision-making of firms and elect half of the representatives of the company's supervisory board directly. **Workers' councils** composed of nonexecutive employees have the power to share decisions on personnel and social matters [39].

Workers' councils—A group of nonexecutive employees who have the power to share decisions on personnel and social matters.

Clearly, the actions of marketers are affected by the degree to which different stakeholders must be considered. However, such consideration should be taken into account even when not mandated by law or expected by society. Good marketing requires an understanding of and responsiveness to the local environment. Nevertheless, an increasingly global marketplace for financial resources will encourage

investment flows to those areas, countries, and firms where the returns are greatest. The marketer must therefore strike a balance by focusing on the shareholders—the providers of capital—while conducting good marketing with the divergent publics.

3.2.5 The Ecological Background

Producing and marketing eco-friendly products have considerable competitive advantage in the contemporary marketplaces. Today, “individuals, and especially those within the millennial generation, are more socially (and ecologically) aware than ever, and thus, the ‘ethical consumer’ has come about” [6]. The term “ethical consumer” is defined as the consumers who are socially and environmentally responsible, and value the ethical perspectives in their buying decisions, which is related to the “feel-good factor” [7], so that consumers feel better about their purchase decisions, as well as about themselves because of the ethical significance of their decision [6] that they as the consumers do not buy any product that detrimentally affects the environment. In this context, eco-friendly products have considerable competitive advantage in contemporary markets, in comparison with products that are not eco-friendly. Because of this “feel-good factor,” “consumers around the world have placed increasing value on corporate social responsibility” [8], with an aim to ensure that any corporate actions, such as production process and value delivery chain of a product, do not adversely affect the ecological settings. As a result, the ecological setting of the target market is also a key concern for marketers to plan, implement, and monitor a marketing strategy.

Overall, as this market environmental analysis that includes the analyses of socio-cultural environment, the technological environment, the economic environment, the political and legal environment, and the ecological background has shown, we are living in a time of very rapid and significant change. Economically advanced nations seem to be approaching a historic turning point. The 200-year-old industrial era is winding down, but the postindustrial era has not yet come into focus. Coinciding with the coming of the postindustrial era is a shift in paradigm. How we think of the world largely shapes how we behave in it. There are ample signs in all the major institutions that new paradigms are being developed [41]. The increasing scale of the discontinuous changes means that marketers must be ever more sensitive to these potential, dramatic shifts in the market environment. They must also develop the ability, based on adequate resources and prior planning, to cope with such changes.

3.3 Environmental Analysis

To cope with all the changes in its external environment, the firm must first discover what opportunities and threats this environment holds for the organization. This process requires an environmental analysis. Three main mechanisms that serve to conduct such an analysis are environmental scanning, Delphi studies, and scenario building.

3.3.1 Environmental Scanning

To identify changes in the business environment, corporations need to track new developments and obtain continual updates. Some organizations have formed environmental scanning groups to carry out this task. They receive ongoing information on political, social, and economic affairs; on changes of attitudes held by public institutions and private citizens; and on possible upcoming alterations in markets. Environmental scanning models can stretch the minds of managers to incorporate new dimensions, assist in the development of broad strategies and long-term policies, and help in formulating action plans and operating programs.

Obviously, the precision required for environmental scanning varies with its purpose. Whether the information is to be used for mind stretching or for budgeting, for example, must be taken into account when constructing the framework and variables that will enter the scanning process. The more immediate and precise the exercise is to be in its application within the corporation, the greater the need for detailed information. At the same time, such heightened precision may lessen the utility of environmental scanning for the strategic corporate purpose, which is more long term in its orientation.

Environmental scanning can be performed in various ways. One method consists of obtaining **factual input** regarding many variables. For example, the International Data Base (IDB) of the US Census Bureau collects, evaluates, and compares a wide variety of demographic, social, and economic characteristics of countries all over the world. Estimates are developed particularly on economic variables such as labor force statistics, GDP, and income statistics but also on health and nutrition variables. Similar factual information can be obtained from organizations such as the World Bank or the United Nations.

Frequently, corporations believe that such factual data alone are insufficient for their information needs. Particularly for forecasting future developments, other methods are used to capture underlying dimensions of social change. One significant method is **content analysis**. This technique investigates the content of communication in a society and entails literally counting the number of times preselected words, themes, symbols, or pictures appear in a given medium. It can be used productively in marketing to monitor the social, economic, cultural, and technological environment in which the organization is operating. The use of content analysis is facilitated by tools such as optical scanners and software packages that can accommodate texts in Chinese, Japanese, Hebrew, Korean, and Arabic [42]. By attempting to identify trendsetting events, corporations can pinpoint upcoming changes in their line of business as well as new opportunities.

Content analysis—A technique that investigates the content of communication in a society and entails counting the number of times preselected words, themes, symbols, or pictures appear in a given medium.

By monitoring the use of the names of corporate products in online chat groups, a firm can determine how interested and aware the public is about a product, how much such a product is part of the lives of individuals, how and where these individuals live, and what complaints users are sharing with each other. Such information can then be useful not only in developing product improvements but also in developing entire new product families and marketing strategies. For example, a growing mention of fruit-enhanced cereal by inner-city parents may lead to the rethinking of the advertising theme and focus by a cereal producer.

Various groups within and outside the corporation conduct environmental scanning. Frequently, small corporate staff are created at headquarters to coordinate the information flow, but subsidiary staff can be used to provide occasional intelligence reports. Groups of volunteers are also formed to gather and analyze information and feed individual analyses back to corporate headquarters, where they serve as input into the “big picture.” Increasingly, large corporations also offer services in environmental scanning to outsiders. In this way, profits can be made from an in-house activity that has to be conducted anyway.

Typically, environmental scanning is designed primarily to aid the strategic planning process rather than the tactical activities of the corporation. A survey of corporate environmental scanning activities found that CEOs who experience greater environmental uncertainty tend to do more scanning. They are most interested in keeping themselves informed about their customers, regulations, and the competition [43]. Although many corporations perceive environmental scanning as being quite valuable for the corporate planning process, there are dissenting voices. For example, researchers have noted that “in those constructs and frameworks where the environment has been given primary consideration, there has been a tendency for the approach to become so global that studies tend to become shallow and diffuse, or impractical if pursued in sufficient depth” [44]. Obviously, this trade-off between the breadth and depth of information presents a major challenge. However, the ever-increasing capabilities of data processing may at least reduce the scope of the problem. Possibly the simplest and best advice is for all employees to cultivate a deep, ongoing curiosity about the external world, coupled with an ability to recognize which signals, from the mass of data that arrives every day, are relevant and important to the future of the organization.

3.3.2 Delphi Studies

To enrich the information obtained from factual data, corporations also resort to the use of creative and highly qualitative data-gathering methods, such as **Delphi studies**. These studies are particularly useful because they are “a means for aggregating the judgments of a number of experts who cannot come together physically” [45]. This type of research approach clearly aims at qualitative rather than quantitative measures by collecting the information of a group of experts. It seeks to obtain answers from the few who know instead of the average responses of many with only limited knowledge.

Delphi studies—A type of research that aims at qualitative rather than quantitative measures by collecting information from a small group of experts.

3

Typically, Delphi studies are carried out with groups of about 30 well-chosen participants who possess particular in-depth expertise in an area of concern, such as future developments in the marketing environment. These participants are asked, via mail, fax, or email, to identify the major issues in an area—say, the effect of concerns about the physical environment on packaging. They are also requested to rank their statements according to importance and to explain the rationale behind the order. Next, the aggregated information is returned to all participants, who are encouraged to clearly state their agreement or disagreement with the various rank orders and comments. Statements can be challenged, and in another round, participants can respond to the challenges. After several rounds of challenge and response, a reasonably coherent consensus is developed.

The Delphi technique is particularly valuable because it is able to bridge large distances and therefore makes individuals quite accessible at a reasonable cost. It does not suffer from lack of interaction among the participants, which is the drawback of ordinary mail investigations. However, one problem with the technique is that it requires several iterations; so much time may elapse before the information is obtained. Moreover, substantial effort must be expended in selecting the appropriate participants and in motivating them to participate in this exercise with enthusiasm and continuity. When obtained on a regular basis, Delphi information can provide crucial augmentation to the factual data available to the marketer.

3.3.3 Scenario Building

For information enrichment purposes, some companies use scenario analysis. The principal method here is to have a group of participants from across the organization identify the forces of change and look at different configurations of key variables in the market [46]. For example, economic growth rates, import penetration, population growth, and political stability can be varied. By projecting such variations for medium- to long-term periods, companies can envision completely new environmental conditions. These conditions are then analyzed for their potential domestic and international impact on corporate strategy.

Of major importance in scenario building is the identification of crucial trend variables and the degree of their variation. Frequently, experts are consulted to gain information about potential variations and the viability of certain scenarios. A wide variety of scenarios must be built to expose corporate executives to multiple potential occurrences. Ideally, even far-fetched variables deserve some consideration, if only to build worst-case scenarios. For example, oil companies need to work with scenarios that factor in dramatic shifts in the supply situation, precipitated by, for example, regional conflict in the Middle East, and that consider major

alterations in the demand picture due to, say, technological developments or government policies.

Scenario builders also need to recognize the nonlinear nature of factors. To simply extrapolate from currently existing situations is insufficient. Frequently, extraneous factors may enter the picture with a significant impact. Finally, the possibility of joint occurrences must be recognized, because changes may not come about in an isolated fashion but may be spread over wide regions. An example of a joint occurrence is the possibility of “wholesale” obsolescence of current technology. Quantum leaps in computer development and new generations of computers may render obsolete the technological investment of a corporation. For example, the rapid development of digital photography has already placed great pressure on the viability of traditional photo labs.

For scenarios to be useful, management must analyze and respond to them by formulating contingency plans. Such planning will broaden horizons and may prepare management for unexpected situations. Familiarization can in turn result in shorter response times to actual occurrences by honing response capability. The difficulty, of course, is to devise scenarios that are unusual enough to trigger new thinking yet sufficiently realistic to be taken seriously by management [47].

An organization’s environmental analysis should also mesh closely with the corporate strategy. For example, organizations using a differentiation strategy can scan for opportunities, whereas organizations with a cost leadership strategy can scan for threats [48]. Overall, environmental analysis can aid the ongoing decision process and become a vital corporate tool in carrying out the strategic planning task. Only by observing and absorbing global trends and changes can the firm maintain and improve its competitive position.

3.4 Competition

Competition is a major factor in most markets. The marketer must therefore understand the relative performance of his or her offering when compared to the competition. Only with an in-depth understanding of the competition is it possible to formulate competitive strategies that permit the firm to prevail in the fierce battle for resources.

3.4.1 The Industry

The first level of the competitive environment is the industry within which the organization operates. **Industry** is defined as a group of organizations that offer products that are near substitutes for each other; in economic terms, these products have a high cross elasticity of demand. The character of a given industry largely determines the competitive activities taking place within it and the profits of most of the participants. Some of the factors that contribute to this overall character are the size of the market, its age, and its structure.

Industry—A group of organizations that offer products that are near substitutes for each other; in economic terms, these products have a high cross elasticity of demand.

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The larger the market, the more attractive it is to new entrants; but the larger the market, the more likely it is to become segmented as well. Segmenting allows niche marketing, thus reducing direct competition. The age of a market and its rate of change also have an impact on the players within it. The older markets are often more competitive, as growth slows down and the competitors look for growth at each other's expense.

The number of organizations competing and the concentration of the industry are also important. It might seem that a greater number of organizations in a market increase competition. This is generally true if the brands are of roughly the same size. But the level of competition is also affected by the degree of concentration of the overall industry in the hands of major players. A monopoly or oligopoly will significantly reduce competitive forces. The most stable and profitable markets (apart from a pure monopoly) usually have one or two dominant brands and a few smaller brands. On the other hand, if the comparable number of brands—say four or five—are all of the same size, then the market may be viciously competitive.

3.4.2 Competitive Structure

Economies of scale are often the main feature of a market. The theory is that the greater the economies of scale, the greater the benefits accruing to those with large shares of the market. As a result, the competition to achieve larger shares is intense. Economies of scale can come about because larger plants are more efficient to run and their cost per unit of output may be relatively less. There may be overhead costs that cannot be avoided—even by the smaller organizations—but can be spread over larger volumes by the bigger players. Economies of scale may also be the result of learning effects: With increasing cumulative production, the manufacturer learns more and finds more efficient methods of production. All these effects tend to increase competition, by offering incentives to buy market share to become the lowest-cost producer. By the same token, economies of scale also produce significant barriers against new entrants to the market. The higher the initial investment, the more difficult it is to justify the investment for a new entry. But such economies of scale do not always last forever, particularly in view of the new computer-based manufacturing technologies and the increasing trend in many markets to offer a wider choice to consumers through niche marketing.

In many instances, the existing firms in large markets have managed to persuade government (paradoxically, often as a response to complaints about cartels) to

enact legislation to govern the competitive behavior of the main players. Such government intervention can erect nearly impenetrable entry barriers. This situation is perhaps most obvious in the medical profession, but it also applies to the suppliers of the defense industry. On an international level, firms are often able to convince governments to erect formidable barriers to the entry of foreign competitors. Such actions are justified with the infant industry argument—“our industry is too young to compete and needs to grow first”—or with the invocation of some higher good, such as the protection of bank depositors or telephone customers from fly-by-night foreign operators. Such barriers often serve only to provide ample income to the protected industries and to deprive customers of choice and lower prices. Even though international negotiations and economic integration have begun to reduce the scope of this type of barrier, many marketers are still handicapped in their activities through such impediments.

Understanding the competitive history of firms is also important. The previous reactions of competitors to a large extent determine what the new competitive moves will be, particularly in terms of reactions to new entrants. If existing brands have shown that they will react strongly by defending their position with aggressive promotion and pricing, then new entrants may be deterred. Instability may be created, however, if the organizations in the market differ in their structures, goals, and cultures and cannot easily read the intentions of their competitors. Michael Porter suggests that there are good and bad competitors. Good competitors play by the rules that the industry has tacitly recognized; they typically limit price competition, help to expand the industry, and do not aim to destroy other competitors. Bad competitors, on the other hand, usually do the opposite: They break the rules, buy market share (often by starting a price war), and upset the equilibrium. To optimize their results, good competitors should, within the very strict legal guidelines, aim to constrain the bad [49]. However, competitive history may pale in significance in the face of shifts outside the market. For example, the oil market was very stable until the 1973 Arab–Israeli War, which resulted in major market discontinuities.

Distribution channels can also have a major effect on the structure of competition. For example, if distribution channels can be denied to competitors, then competition can be limited. Forward integration, or the development of arrangements that tie distributors to their suppliers through measures such as financing or trade credit, can be very effective at limiting distribution access. Oil companies have succeeded in limiting the distribution of their gasoline to tied outlets. The development of close relationships with distribution outlets can have a similar effect. For example, many retailers will stock only a few leading brands of consumer goods, thus effectively limiting competition. If firms have been able, through collaboration, technical advice, or other support activities, to build close ties with their distributors, any new competitor must break these bonds and create new ones to use the existing distribution channel. The only other option is to set up an alternative distribution system, which may be prohibitively expensive [50]. Distribution can also be a barrier to international market entry. For example, international trade

negotiations between the United States and Japan have long focused on the existence of captive distribution channels, which greatly inhibited the market entry of foreign goods into Japan [40]. It is perhaps significant that Japanese corporations have invested heavily in distribution and sales and marketing infrastructure to aid their overseas penetration.

3

The capacity configuration in a market is also an important factor. If firms in an industry have insufficient capacity to fulfill demand, the incentive is high for new market entrants. However, such entrants need to consider the time required to bring new or additional capacity online, the likelihood of such capacity being developed by existing suppliers, and the possibility of changes in demand. Firms also often have overcapacity of supply. In such instances, particularly when economies of scale play a role, competitors are likely to focus on sales levels and market share, almost regardless of price. This tends to lead to low, commodity-based prices.

Michael Porter has developed a framework that adds five other influences on competition:

1. Industry **competitors** that determine the rivalry among existing firms
2. **Potential entrants** that may change the rules of competition but can be deterred through entry barriers
3. **Suppliers** whose bargaining power can change the structure of industries, as OPEC did in the 1970s
4. The bargaining power of the **buyers**—for example, the retailer's control of the destiny of many consumer goods suppliers
5. The **threat of substitute products or services** that can restructure the entire industry, not just the existing competitive structure (as the World Wide Web is doing to the publishing industry and retailing industry) [49, p. 36]

Substitutes are a particularly important element of competition because they normally appear from unexpected sources. Perhaps the most famous example is that of the US motorcycle industry, which was almost destroyed not by domestic competition but by the Japanese, to whose growing experience the US manufacturers had remained blind. In the case of service organizations, the choices offered by substitutes may sometimes represent the main competition. ■ Figure 3.4 illustrates the chain of competitive decisions facing the audience that eventually arrives in a theater [51]. Unless the decision-makers in the theater recognize their competition and offer performances that the public prefers to alternative forms of entertainment, the longevity of the theater may be endangered.

3.4.3 Competitive Response

An important aspect of any competitive assessment is the determination of how competitors will respond to future changes:

- **Nonresponse (or slow response)**—This competitor will not respond directly to any changes in the environment or at least will not do so in the short term. It

3.4 • Competition

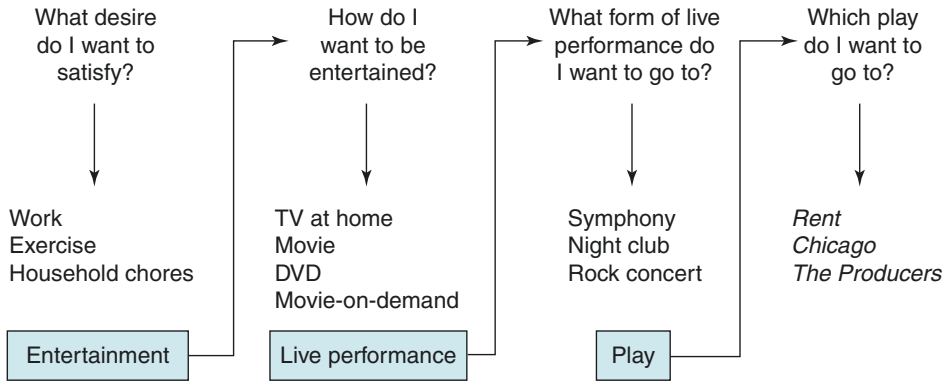


Fig. 3.4 Types of competitors facing a theater (Sources: Adapted from Kotler, P., & Andreasen, A. R. (1996). *Strategic marketing for non-profit organizations* (5th ed.) © 1996. Reprinted by permission of Pearson Education, Inc., Upper Saddle River, NJ)

may be a dominant brand leader that can afford to ignore most competitive threats, or it may be a competitor in a particularly weak position.

- **Fast response**—A few organizations, such as Procter & Gamble, have a policy of immediate and substantial response. Such a strategy is usually the most effective and the most profitable because the sooner the threat is removed, the sooner higher profits can again be generated.
- **Focused response**—Some competitors will respond only to certain types of challenges (typically challenges to price), by either refusing to accept or simply not recognizing other forms of challenge, particularly those in the form of new product developments.

The type of response varies depending on the change that has occurred and the specific situation of a competitor at that time. It has been found, for example, that more firms will react to a new product introduction than to a new firm entering the market [52]. Similarly, aggressive reactions are more likely in industries that have high patent protection than in those with low patent protection, perhaps because competitors in patent-rich industries are more sensitive to each other's moves and less willing to allow momentum to shift to a competitor [53]. Response analysis must therefore investigate the degree to which firms are likely to respond to a particular change rather than to change in general.

3.4.4 Competitive Strategies

Michael Porter, a leading exponent of competitive strategy, states that there are just three potentially successful generic strategic approaches to outperforming other firms in an industry: overall cost leadership, differentiation, and focus [49, p. 7].

The first alternative, overall cost lechoreship, has come to prominence in recent decades, as organizations have invested vast sums to achieve economies of scale. Markets have been expanded to entire continents to support massive new plants, as in the European car industry. Porter's second and third alternatives, however, rely on factors other than price to contain competition. Product differentiation, particularly branding, removes the product from some of the most direct elements of competition. Segmentation focus and product positioning, which will be discussed in ► Chap. 7, are also particularly effective devices for containing competitive pressure. They allow the marketer to concentrate on defending the offering within a small segment of the market and to make inroads on the most vulnerable competitive goods or services.

However, firms do not need to concentrate on just one strategy. For example, the Maxwell House division of Kraft General Foods has established a cost leadership position in regular ground coffee but carved out a differentiated position with several of its other coffees, such as Rich French Roast and Colombian Supremo. Similarly, the Honda Civic hatchback occupies a cost leadership position in sub-compact cars, but the Honda Accord occupies a differentiated position [54]. An example of HSBC's global strategy to position itself as a local bank is presented in ► Marketing in Action 3.1.

3.4.5 Leaders and Followers

Firms can employ a wide range of competitive actions. However, a firm's market position largely determines the range of such actions. One useful differentiation can be made between leaders, whose products typically have a market share of 50% or more, and followers, who have minor shares and marginal positions in the market.

Leaders stand to gain significantly from market expansion. Therefore, the two main strategies of a market leader are market expansion and defense of market share. To expand the total market, the firm can search for new users by, for instance, attracting nonusers to the brand. Alternatively, it can develop new uses by finding other things for the product to do. Finally, the firm can seek to encourage more usage by persuading existing users to buy more. For example, MCI Inc. (trading name: Verizon Enterprise Solutions), as a technology-based communication service provider, used all three strategies. To find new users, the firm expanded into Europe from the United States. It encouraged card calls and collect calls while traveling and offered special rates on weekends to increase the willingness of subscribers to make telephone calls.

Marketing in Action 3.1

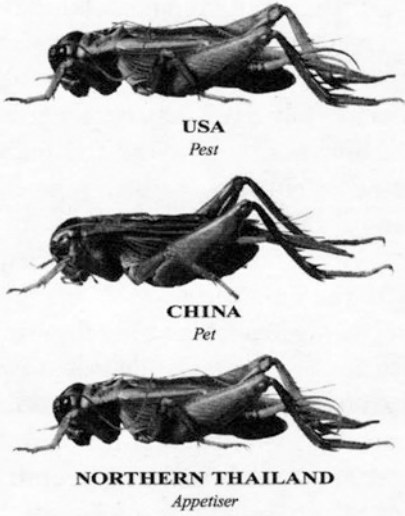
HSBC: The World's Local Bank

Headquartered in London, HSBC (► www.hsbc.com) is one of the largest banking and financial services organizations in the world with a presence in more than 80 countries and more than 39 million customers. HSBC gets its competitive edge from an intense commitment to client needs. Although it is a global bank with huge commercial power, it acts very much like a local bank in each country in which it works. HSBC believes that to truly understand a country and culture, you have to be a part of it. That is why HSBC has local banks in more countries than any other bank. In addition, all offices around the world are staffed by local people. One of the company's objectives is to assure customers that they are not dealing with a faceless monolith but a bank whose staff have local knowledge.

For example, HSBC has been active in Russia for more than 95 years, which makes it one of the oldest banks in the region. This history breeds local knowledge, which helps the bank to understand local markets and consequently to understand the needs of local clients. It is this type of insight that allows HSBC to recognize financial opportunities that are invisible to outsiders. In Russia, HSBC has learned that clients value the opportunity of conducting all their banking business with one reliable bank. Consequently, HSBC offers full corporate banking services there. Each client has a dedicated relationship manager who acts as a single contact point for the client in all areas of local operations.

The concept of marketing itself as the world's local bank was developed following global consumer research, which indicated that customers questioned the "one-size-fits-all" global model of marketing. Consequently, HSBC started a new marketing strategy highlighting its ability to perform as a totally local company in each market it serves.

Also, insights and innovations are shared within the HSBC network so that all the bank's clients and partners can benefit. For example, in Australia customers going into HSBC branches are met by a greeter, who welcomes them to the bank and asks them what they would like to do. The greeter gives the bank a human face and keeps queuing to a minimum. Customers who have opened an account over the telephone or by internet application receive a phone call from a representative of the bank within a week of opening an account. The purpose of the call is to welcome them to HSBC and ask them if everything is working satisfactorily. These types of simple ideas allow HSBC to preserve the local bank atmosphere while incorporating easily transferable innovations, such as the new service of allowing customers the ability to monitor transactions over the web rather than through a PC-based software package, in all its branches.



USA
Pest

CHINA
Pet

NORTHERN THAILAND
Appetiser

Never underestimate the importance of local knowledge.

To truly understand a country and its culture, you have to be part of it.

That's why, at HSBC, we have local banks in more countries than anyone else. And all of our offices around the world are staffed by local people.

It's their insight that allows us to recognise financial opportunities invisible to outsiders.

But those opportunities don't just benefit our local customers.

Innovations and ideas are shared throughout the HSBC network, so that everyone who banks with us can benefit.

Think of it as local knowledge that just happens to span the globe.

HSBC 
The world's local bank

Issued by HSBC Holdings plc

Photography by Richard Pullar

Sources: HSBC Group. (2020). ► www.hsbc.com. Accessed 15 June 2019; Whai, Q. H. (2002). The brand's the thing. *The Business Times*; HSBC Group. (2020). HSBC in Russia. ► <https://www.about.hsbc.ru/hsbc-in-russia>. Accessed 6 July 2019; HSBC Bank Australia. (2020). ► <https://www.hsbc.com.au/>. Accessed 6 July 2019.

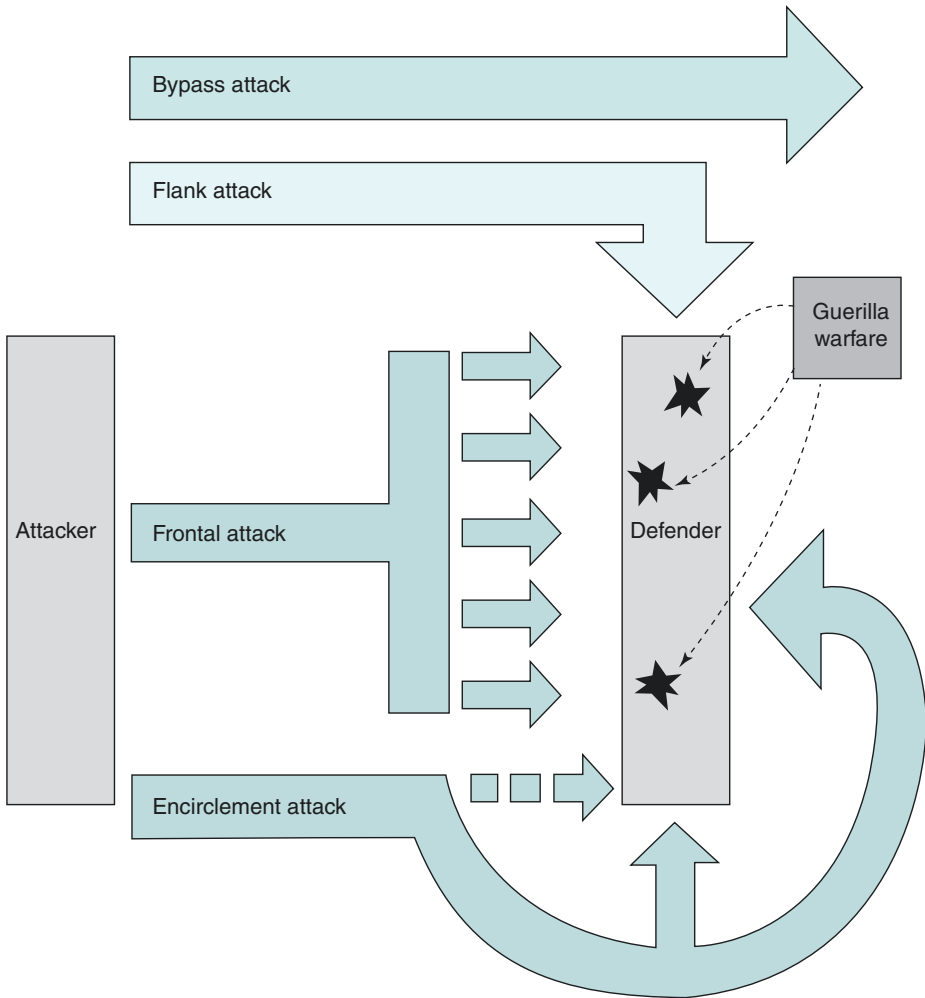
In defending market share, the firm also has several alternatives: position defense by making the brand position impregnable, preemptive defense by launching an attack on a competitor before it can be established (this defense also discourages other potential competitors), and counteroffensive defense by attacking the competitor's home territory so that it has to divert its efforts into protecting its existing

products [55]. For example, some US firms have entered the Japanese market mainly to force Japanese firms that had entered the US market to reconcentrate their efforts back in their home market. Of these three strategies, position defense is the most risky because, as the long history of fortifications has shown, supposed impregnability often results in being blindsided by innovative competitors.

In terms of competitive activity, companies with major brand leaders will typically concentrate their efforts on advertising. With their large sales, they can easily generate large advertising budgets. A 10% advertising budget on a \$20 million brand produces \$2 million of advertising, which will probably dominate advertising in the sector. A comparable 10% cut in price would probably go unnoticed. The advertising messages may well stress the brand or particular attributes of the offerings, which are likely to be positioned close to the customer's ideal.

On the flip side of the coin, the strategy for followers is fiercely competitive, aiming to grab the largest possible piece of the existing pie. The main competitive device is likely to be price competition because the small volume of business means that followers often cannot generate significant advertising budgets. A 30% price cut may be seen by the consumer as significant, whereas a similar 30% advertising budget, even on a \$1 million brand, would generate only \$200,000, barely enough for one small campaign. A more profitable approach, however, is to avoid the main competitors altogether by using niche marketing, which concentrates on small segments that are not addressed by the major brands. Most successful are those followers that are able to hone in on two types of customers: those that are "switchable" at relatively low acquisition costs and the "high-profit customers" that generate the most return [56].

Several alternative strategies are available to the firm that wishes to improve its position. Using military analogies, researchers have identified five key attack options, shown in  Fig. 3.5 [57]. In a **frontal attack**, the challenger takes on the market leader in its own territory and attacks the opponent's strengths rather than its weaknesses. Considerable resources are needed for this strategy. The outcome depends on who has the greater firepower and endurance but can be very profitable if successful. In a **flank attack**, the challenger zeros in on a segment (or geographical region) where the market leader is most vulnerable. An alternative is to target market needs not covered by the leaders, a strategy used very effectively by Japanese corporations. The **encirclement attack** strategy involves launching a grand offensive against the enemy on several fronts where the aggressor has, or is able to muster, enough force to break the opponent's will to resist. **Bypass attacks** are most prevalent in high-tech markets, where a challenger puts its efforts into bypassing existing technology and winning the battle for the next generation of technology to be brought to the market. Such a move needs significant funding and innovation in product development, but it can put the winner in an almost impregnable position. In **guerrilla warfare**, the attacker makes intermittent forays, typically on grounds of its own choosing, so that the cost to the attacker is minimized and that to the opponent maximized. The sole aim is to weaken and demoralize the market leader, eventually leading to concessions.



■ **Fig. 3.5** Attack strategies (Source: Kotler, R., & Singh, R. (1981). *Marketing warfare in the 1980s. Journal of Business Strategy*, 2, 30–41. © Emerald Group Publishing Limited. Reprinted with permission)

Frontal attack—A strategy in which the challenger takes on the opponent directly on its strongest market position.

Flank attack—A strategy in which the challenger zeros in on a segment where the market leader is most vulnerable.

Encirclement attack—A strategy in which a grand offensive against the enemy is taken out on several fronts such that the aggressor is able to break the opponent's will to resist.

Bypass attacks—A strategy in which a challenger puts its efforts into bypassing existing technology and winning the battle for the next generation of technology to be brought to the market.

Guerrilla warfare—A strategy in which the attacker makes intermittent forays so that the cost to the attacker is minimized and that to the opponent is maximized.

On a final note, the Boston Consulting Group makes the following observations based on its experience of market warfare [58]:

- If there are many competitors, a shakeout is nearly inevitable.
- All but the two largest share competitors will be either losers (and eventually eliminated) or marginal cash traps.
- Anything less than 30% of the relevant market or at least half the share of the leader is a high-risk position.
- The quicker any investment is cashed out, or a market position second only to the leader gained, the lower the risk and the higher the probable return on investment [43].

As difficult as maintaining a leadership position may be, being a follower is even harder; hence, the great attraction of segmentation, which splits the market into smaller, though still viable, pieces, allowing the firm to be the market leader in the segment of its own choosing.

Summary

An understanding of the environment is important for the marketer. Social, technological, economic, political, and ecological factors can have a major impact on the firm's opportunities and threats. Key social and cultural elements to consider are the redefinition of occupations, a societal trend toward postmaterialism, and major demographic shifts. In the area of technology, the outlook for marketers is likely to be thoroughly changed by transformations in information processing and the subsequent shifts in business practices as well as the emergence of new materials, new biotechnological products, and growing environmental concerns. In the economic area, increasing globalization, regional integration, and exchange rate effects represent major influences on marketing practice. The political environment is characterized by legislative and regulatory actions that influence the firm but that can also be influenced by the firm. However, the political arena is also increasingly defined by the activities of special interest groups whose actions can have a major effect on firms. Furthermore, the marketer is likely to be required, either by regulation or by good marketing sense, to take into account various stakeholders beyond the shareholders if the firm and its products are to remain acceptable to society at large. The ecological background of the target market also needs to be considered, in order to satisfy the contemporary ethical customers.

To deal with the environment, the firm must first analyze and understand it. Such analysis can be accomplished by environmental scanning, Delphi studies, and scenario building. To understand the competition, however, the firm must evaluate more specific issues such as market structure, products and production processes, and industrial changes taking place.

After understanding these dimensions, the firm can achieve a successful strategic position through economies of scale, political clout, and captive distribution systems. Firms that are unable to win the competitive battle in the field of commerce in particular are increasingly seeking victory in the halls of government. Building and maintaining a successful position also require an understanding of the likely competitive response from adversaries and the different strategies that leaders and followers can employ. Overall, you should remember that as difficult as it may be to maintain a leadership position, it is even harder to be a profitable follower.

Key Terms

Bypass attack
Content analysis
Delphi studies
Digital age
Economic integration
Electronic data interchange (EDI)
Encirclement attack
External environment
Flank attack
Frontal attack
Guerrilla warfare
Industry
Information float
Lobbyists
Market environment
Multinational corporations
Physical environment
Symbolic analysts
Workers' councils

? Review Questions

1. What are the five main dimensions of the external environment? How do they relate to the marketing environment?
2. What might be the main technological drivers over the near to medium term? What social changes is the information revolution leading to?
3. List some major recent changes in lifestyles and demographics.

4. How and why is the role of pressure groups changing?
5. How can you conduct environmental analyses?
6. How do economies of scale and the concentration of business affect competition in an industry?
7. What are some of the main entry barriers into an industry?
8. What are the key competitive strategies for market leaders and followers?

? Discussion Questions

1. Due to the success of such internet concerns as ► Autobytel.com and ► CarPoint.com, coupled with like pressure from Ford and Chrysler, General Motors has been forced to respond in kind with a more customer-oriented website that provides expanded pricing information. Such initiatives were unheard of previously [59]. What are some of the marketing effects of increased price transparency?
2. The Federal Trade Commission implemented the Children's Online Privacy Act passed by the US Congress; it required parental consent for children entering chat rooms, posting information on online bulletin boards, or providing personal data on a website targeted at children. Parents can convey consent by fax, email, phone, or submission of credit card information. Despite seemingly broad parental support, web operators fear that the burden of parental responsibility in this area may shift to their industry [60]. Why should governments regulate businesses? Won't the marketplace take care of any problems itself? Consider this and other examples, such as OSHA standards, radiated beef, cigarette advertising, and minimum wage.
3. As China attempts to overhaul its stumbling economic system, it needs many of its MBA graduates to fill positions in its industrial and service sectors. Unfortunately, those jobs may not be as attractive as ones with companies dealing in less concrete products. In fact, many MBA students quit jobs in these sectors to go to school and then gravitate toward careers in consulting, investment banking, and information technology upon graduation. This trend leaves many important managerial positions in the industrial sector open for long periods of time. Manufacturers have tended to respond by offering higher salaries, training, and experience abroad and by grooming current employees to take important managerial positions [61]. If society shifts to symbolic analysts, what about all those who can't or won't participate? Will all the predicted benefits of efficiency really materialize if unemployment is a major side effect?
4. Despite a close relationship that has Procter & Gamble and Walmart sharing sales information and inventory responsibilities, the largest US retailer also goes head-to-head with its largest supplier. One example is its own brand of laundry detergent under the Sam's Choice label. The detergent aims directly at Tide, the leading brand in the United States and one of Procter & Gamble's flagship products, with like-colored packaging and powder and liquid varieties. Sam's Choice is priced 25 to 43% lower, posing a serious threat to Tide's US market share. Will the growing strength of retailers due to the technology revolution result in the ultimate integration and absorption of all manufacturing by retailers?

5. Merck-Medco Managed Care, a division of Merck & Co., uses the internet and tailored software programs to communicate with doctors and patients about medications and other products related to patient health. By entering the patient's name in the computer, along with the diagnosis and potential prescriptions, the doctor can gain a wealth of information on the patient's medical status and history and can perform numerous transactions related to the office visit and general medical care of the patient. The software archives the list of medications the patient is currently taking, identifies possible contraindications for drugs the doctor is thinking of prescribing, and recommends alternative drugs, should the ones the doctor intends to prescribe not be the best suited according to the diagnosis entered. Merck also uses technology to communicate directly with the patient, using the internet to send personalized messages and allowing the patient to process prescription refills. Soon, Merck will have the capability to send electronic reminders for refills to participating patients [62].

How is the increased personal information flow likely to affect individual interaction with fellow humans and society in general? With increasing concerns about privacy, will the social discipline of marketing become a vehicle for antisocial change?

6. To gain ground in the competitive market of printers and cartridges, Lexmark drastically reduced the price of its Color Jetprinter to \$34 in 2004. The company was able to sustain such a steep reduction by subcontracting the assembly of its printers to companies in South Korea and China, where labor is cheaper than in the United States [63]. With wages in developing countries only one tenth of those in industrialized nations, how can industrialized countries hope to compete in the long run?
7. Increasingly, web chat rooms are being opened, offering individuals the opportunity to sound off about products, services, and ideas. This way, their views can be heard by thousands, if not millions, affording at least some satisfaction to unhappy consumers who may feel disenfranchised. Manufacturers, of course, may feel that unwarranted accusations are given free rein. Visitors are invited to post accounts of their bad experiences and are given the hope of having an impact on future customers. Has the power of interest groups gone too far or does it represent the birth of a new form of democracy?

Practice Quiz

1. Which of the following technologies is NOT restructuring the way firms now do business?
 - (a) EDI
 - (b) Scanning
 - (c) Data sharing
 - (d) Standard hardware
2. The use of information technology at the _____ represents a crucial node of information.
 - (a) Point of production
 - (b) Point of distribution

- (c) Point of purchase
 - (d) Point of collection
3. Information provides greater _____ the market and therefore enhances the customer's ability to make better decisions.
 - (a) Transparency of
 - (b) Cost reductions in
 - (c) Communication within
 - (d) Profitability in
 4. All the following are benefits of global integration EXCEPT the
 - (a) Reduction of red tape
 - (b) Reduction of transportation difficulties
 - (c) Increase in efficiency
 - (d) Increased opportunities of marketing activities
 5. In dealing with onerous laws, the marketer can do all the following EXCEPT
 - (a) Ignore prevailing rules
 - (b) Accept traditional rules
 - (c) Accept rules of other markets
 - (d) Implement change
 6. Marketers must perform an _____ analysis to discover an organization's opportunities and threats.
 - (a) Environmental
 - (b) External
 - (c) Internal
 - (d) International
 7. Environmental scanning can help the manager in all the following EXCEPT
 - (a) Incorporating new dimensions
 - (b) Assisting in the development of short-term policies
 - (c) Helping in the formulation of action plans
 - (d) Aiding in the development of operating programs
 8. All the following are benefits of Delphi studies EXCEPT
 - (a) Overcome distances
 - (b) Maintain relatively low cost
 - (c) Decrease participants' interaction
 - (d) Increase individuals' accessibility
 9. All the following are included in Porter's framework for assessing competition EXCEPT
 - (a) Rivalry among firms
 - (b) Threat of substitutes
 - (c) Bargaining power of buyers
 - (d) Bargaining power of potential entrants

10. All the following are potentially successful strategic approaches to outperforming other firms in an industry EXCEPT
- (a) Low-cost leadership
 - (b) High-cost leadership
 - (c) Differentiation
 - (d) Focus

3

(You can find the correct answers to these questions by taking the quiz and then comparing your answers with the answers that are provided at the end of the book, under the “Practice Quiz Answers” part of the book.)

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Understanding the Buyer

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- **Cultural Awareness Is a Key to Understand Buyers, Both at Home and in Overseas Markets**



■ (Source: ► pexels.com/royalty-free-images/)

In many home markets, cultural background, norms, and values appear today as a catalyst to understand and influence local customers. For example, cultural identity is shown to influence the food culture in South Los Angeles, resulting in high popularity of chicken sausage among the African community of the local market. Karen Mama Whitman (64), a longtime local business owner from the community, described that “the sausage was the thing that put us on the map” [1], which turned out to be the underlying cultural motive that drives the popularity of Mama’s Chicken in the market. When the East India Company came and initiated the spice trade in India in the seventeenth century, its members embraced Indian cultural values in order to integrate with society and promote business, upon understanding the target market.

To be effective marketers across cultures and borders, companies must recognize that cultural differences exist and then adapt their approach to marketing accordingly. Even more, because of globalization, many home markets across the globe are broadening their cultural horizons. Therefore, developing cultural awareness is imperative today to explore, understand, and achieve customers’ satisfaction both in home and overseas markets.

Culture defines the behavior patterns that are distinguishing characteristics of members of a society. It gives an individual an anchoring point, an identity, and codes of conduct. Culture has 164 definitions, but all of them accept that culture is

learned, shared, and transmitted across generations. Cultural awareness in business has been recognized over several centuries.

As many parts of the world embrace globalization, there is also a growing fear that cross-border products could threaten one's cultural heritage in home markets too. Without the understanding of cultural norms, marketers face the risk of invading their target market's traditions and customs. One must adapt to different cultures and respect traditions before making important business decisions in today's cross-cultural markets both at home and abroad. The process of acculturation—adjusting and adapting to a specific culture other than one's own—is one of the keys to success in understanding cross-cultural consumers.

Source: Czinkota, M. R. (2018). *In search for the soul of international business*. New York: Business Expert Press.

4.1 Introduction



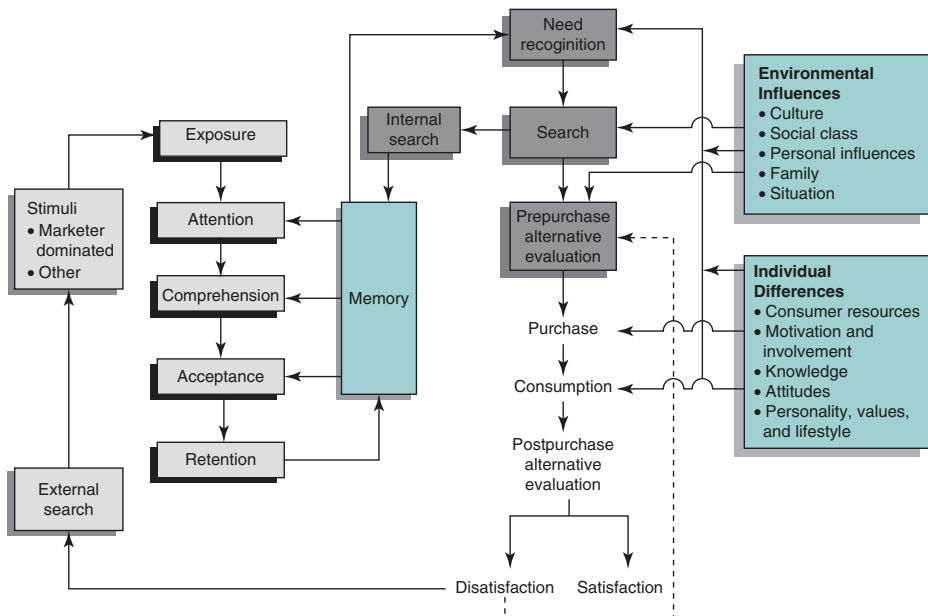
Two keys to successful marketing are understanding and responding to the wishes and needs of the buyer. This **customer–consumer orientation** is what sets marketing apart from all other business disciplines. Because each individual good or service evokes a specific, and possibly unique, response from its set of buyers, each buying situation is unique. Those employing face-to-face selling in traditional marketplaces or one-on-one internet marketing in the contemporary marketplace can exploit this uniqueness, whereas those in mass markets need to deal in terms of groups and averages. But all suppliers need to determine their customers' specific needs and wants. The focus of this chapter is, therefore, on the buyer, both as consumer and as customer. We will first concentrate on the consumer (or end user),

analyze how buying decisions are made by an individual consumer, and explore the factors that influence these decisions. We will then look at customers, or organizational buyers in industrial markets, and highlight their purchase decision processes.

Customer–consumer orientation—The key to successful marketing; the focus on understanding and responding to the wishes and needs of the buyer.

4.2 A Model of Consumer Behavior

The question “How do consumers make their decisions?” is more difficult to answer than you might expect. Consumers do not approach each buying decision with conveniently blank minds and then rationally consider all the options. Their decision-making is an extended, complex, and often confused process. Especially in the current ICT age, consumers are overwhelmed with information about competitive products and services, and alternative value propositions available in the market [2, 3], which makes the individual consumer’s buying decision-making process more complex. Typically, the consumer’s behavior is the result of the influence of a variety of factors and the interaction between them. ■ Figure 4.1 presents a total model of consumer behavior, which shows the different dimensions and fac-



■ **Fig. 4.1** A model of consumer behavior (Source: Engel, J. E., Blackwell, R. D., & Miniarci, P. W. (1994). *Consumer behavior* (8th ed.). Reprinted by permission of South-Western, a division of Thomson Learning)

tors and their connections to each other. Starting with **need recognition**, which is triggered either internally or by outside stimuli, the consumer proceeds to search for fulfillment of that need. Influenced by past experiences and by environmental influences, the consumer begins to evaluate different alternatives. This evaluation is affected by individual aspects such as resources, knowledge, and lifestyle and leads eventually to a purchase decision. After this decision comes the consumption or use process, which, through a **postpurchase evaluation**, results in consumer satisfaction or dissatisfaction. This result in turn is fed back into the search process as a component used for future evaluations. Although this model does not allow us to fully understand each particular purchase, it serves as a framework to explain the kinds of information required to understand different consumer decision processes and provides essential insights for marketing strategy [4]. In the following subsections of this chapter, we will explore the most relevant individual components of this model in more detail.

Need recognition—The stage of consumer behavior in which the consumer searches for fulfillment of a need, which is triggered either internally or by outside stimuli.

Postpurchase evaluation—The stage after consumption during which the consumer becomes satisfied or dissatisfied.

4.2.1 The Consumer Decision-Making Process

To appreciate some of the complexities in the way consumers make their purchase decisions, let us examine the apparently simple case of buying a can of tuna. A purchaser in a supermarket may have many factors in mind when faced by the large number of competing brands. The purchaser probably has tried several brands and decided that some are acceptable and others are not. There may have been a bad experience with a particular brand, or one brand may have been found to be especially good. Or perhaps the purchaser is simply bored with the taste of the “usual” brand. Experience is a much undervalued factor, particularly by those who believe that creative marketing is all it takes to move a product. The consumer usually takes practical experience into account before any other factors. If the product is not liked, no amount of advertising will succeed. Experience will, of course, change over the years. Consumers learn from their consumption decisions and adjust their expectations and behavior. As a result, a certain approach that once worked does not necessarily keep on working.

Apart from the physical experience of the product, the prospective purchaser will also demand that it conform to his or her *values* and *attitudes*. Some consumers seek out cans of tuna packed in water because these products match their need

to be weight conscious. Others may decide to discontinue the consumption of tuna due to the dangers that tuna fishing nets pose to dolphins. The marketing communication that they have been exposed to in the past, such as advertising, has to some extent shaped the consumer's views—at least, that is the fervent hope of marketers. But it should be recognized that the most influential promotion may come by way of recommendation from a friend, from an opinion leader (i.e., someone who is looked up to or whose opinion is valued), or from a family member. Faced with choices, the purchaser compares the value, or benefit, derived from the various brands. In this evaluation, consumers balance the benefits of the purchase against the cost or price. Some consumer groups or segments are more sensitive toward price, whereas others may be more benefit oriented [5]. For example, some consumers may always buy the cheapest brand or try a new brand because it's on sale that week. Unless willing to make a visit to another supermarket, the purchaser is also limited in the choice to be made among the brands available. It is often said that consumers have the ultimate decision **sovereignty** because their purchasing decisions determine who will survive in the market. However, the decisions made by intermediaries such as retailers often dictate or limit the selections of merchandise from which consumers can choose. The willingness to experiment with new products may therefore reflect more the willingness on the part of retailers than of consumers. This chapter's opening vignette discusses one company's response to consumer reluctance to purchase new products. The principle "If it's not on the shelf, it won't be sold very often" holds true in the consumer goods sector. After the purchase has been made, the buyer will evaluate the purchase—and promptly apply the results of this evaluation to future purchasing decisions.

Sovereignty—The notion that consumers' purchasing decisions decide who will survive in the market.

4.2.2 Problem or Need Recognition

The *buying process* starts with the stimulus of a consumer's *recognition of a need*. That recognition may be internally generated or externally imposed by environmental factors or by a supplier's promotional stimulus. For example, a pamphlet distribution campaign by a restaurant in residential letter boxes could stimulate someone's desire to taste a new recipe, which could influence the decision to select the restaurant for the next family dinner. As a general rule, the marketer cannot do much about the internal processes, except to recognize them, in order to possibly synchronize with the consumers' internal decision-making factors. On the other hand, the marketer can do a great deal in terms of external environmental influences, from recognizing them to steering them in the direction most favorable to the supplier's intentions.

4.2.3 Information Search

For most goods and services, the consumer obtains information passively, by subconsciously absorbing messages from the media and from friends and acquaintances. For particularly important decisions, the information search is active. Instead of just absorbing information, the consumer is looking for it. Matters are discussed with friends and experts, and knowledge is sought from sources such as consumer magazines or a web search. The marketer enters the picture during this information search stage by making certain that suitable information—for example, in the form of carefully planned advertising—is available to the consumer. The consumer then decides how much attention to devote to the communication, based on the degree of interest toward the message and the environment in which the exposure occurs. The next step is comprehension of the message, which may not be the same comprehension the marketer expects. When noise clutters the communication process, the consumer may misinterpret a message. If the message conflicts with the beliefs of the consumer, the message may even be distorted to conform with expectations. Acceptance of the message follows, together with retention, which ensures that the message will be remembered for future use. At any time, the communication can be screened out, and, in fact, most information communicated by marketers is ignored or dismissed. That is why so much money is spent on sending messages and devising ways to make them stick with the consumer.

4.2.4 Evaluation of Alternatives

Most products have numerous competing brands on the market, ranging from internationally distributed brands, such as Coca-Cola, to those that can be obtained only in a few local shops. The process of choosing between alternative brands can be represented as a series of filtering stages, some of which are under the consumer's control and some under the supplier's.

The first consideration is whether the consumer is even aware of a particular product or brand. *Awareness* is mostly under the control of the supplier and reflects the intensity and success of the communication strategy. A second issue is whether the consumer has access to the product. Availability is mainly under the control of the producer and distribution chain. How far the consumer is prepared to venture in search of a difficult-to-obtain product depends on the characteristics of the product and specificity and intensity of the consumer's desire. A can of beans has to be on the shelf of the supermarket visited by the consumer just when needed. On the other hand, some consumers will wait several months and travel hundreds of miles to see a star-studded musical performance. The information revolution makes it increasingly easier for suppliers to cope with the availability factor. Ongoing analysis of consumer behavior enables more precise pinpointing of where and when consumers will be looking for a product. Close linkages between producers and distributors through, for example, electronic

data interchange and direct order entry methods permit rapid information flow about sales levels and order replenishment, thereby reducing or even avoiding out-of-stock situations on the retail level.

Consumption system—The postpurchase cycle in which consumers alternate between expecting product and service satisfaction.

Lexicographic decision strategy—A process of evaluating products in which only the most important attributes of a similar product are compared.

Conjunctive decision rule—A process of evaluating products in which minimum standards are set for all attributes and only those products that meet all the standards are chosen.

Except in pure commodity markets, not all brands are identical. Some are clearly more suitable, at least in the consumer's eyes, and some are definitely unsuitable. Typically, the consumer chooses products based on the benefits they offer. First, the consumer decides which benefits are sought and which *attributes* of the product are necessary to obtain these benefits. At the same time, an image of each brand is built in terms of these attributes. Consumers then match attributes of competing brands, somehow keeping track of the importance of the attributes and the varying degrees of match or mismatch. These attributes are not, however, just the physical features beloved by suppliers but rather include a wide range of attitudinal factors. Some claim that consumers buy into a **consumption system**, from which they expect product and service satisfaction, which changes over time [6]. For example, initially, the customer of a Lexus automobile may be equally thrilled by the automobile as well as the service by new dealerships. Later on, the automobile itself may turn out to be more important, whereas after some years, the service again comes to the forefront.

The marketer must understand that the process of evaluating and comparing benefits and attributes varies among consumers. For example, some consumers may use a **lexicographic decision strategy**, in which they compare only the most important attribute of similar products. The product that performs best on this one attribute is then selected. If two or more brands are perceived as equally good, they are then compared on the second most important attribute. The comparisons continue until the tie is broken. Alternatively, consumers may use a **conjunctive decision rule**, in which minimum standards are set for all attributes, and only those products that meet all the standards are chosen. Consumers may also rate the importance of attributes and allow a high rating on one to compensate for a low rating on another. In light of these and other decision-making strategies, varying multiple-attribute models of consumer decision-making have been developed to assist the marketer in responding better to consumers. Suppliers often use **segmentation** (discussed in ► Chap. 7) as a means of targeting the brand to a specific group within the market. Segmentation tries to match brand attributes to a group of consumers with similar needs. This ensures a better fit, but in the process, the attributes become less suitable to buyers in other segments of the market.

Furthermore, along with the comparison of product attributes between the competitive brands of that particular product, a consumer's purchase decision could also be influenced by the actual utility that she/he wants to consume. For example, someone wants to buy ice cream because she/he wants to eat something sweet. While searching the right ice cream in a supermarket, the consumer may come across some sweet cakes that are displayed on the shelf. In this case, the consumer's decision to buy ice cream could turn into buying the cake, especially if some other factors (e.g., price, ingredients, etc.) stimulate the consumer to buy the cake instead of the ice cream. Such buying decisions could be termed **utility-based decision-making**, where the buying decision could be influenced by the core utility of a consumer that she/he wants to consume, which is the taste of sweetness (as the core utility) in the case of this aforementioned example of buying ice cream or cake.

Segmentation—The separation of consumers based on demographic, lifestyle, and consumption information.

Utility-based decision—If two different kinds of products offer the same utility, a buying decision could be changed to buy a different type of product, instead of buying the initially chosen product type, where the buying decision is influenced by the core utility that the consumer wants to consume.

4.2.5 Purchase Decision

At this stage the consumer's choice takes place. A selection is made from the brands that remain after the previous filtering stages. To the consumer, the choice is rational; the brand chosen best meets the perceived needs. Yet lack of information or lack of market transparency may lead to decisions that, to the marketer at least, seem irrational. However, given the increasing availability of comparative information and the growing capability of organizing such information, this entire decision process may well undergo substantial change. For example, if a consumer can browse the internet to check the availability and price of a product, retailers may be less inclined to offer the product at sharply different prices. Similarly, the consumer may find it easier to compare features of different products and thus make a more informed decision, in which case the main differentiating feature of retailers may become their ability to assist the consumer in understanding and fulfilling needs. If that is so, we may well see a return of the expert function of retailers, which goes far beyond today's prevalent function as product locator, product guardian, or cash register operator.

4.2.6 Postpurchase Behavior

After a purchase has been made, the product is consumed or used. During and after this process, **cognitive dissonance** may have an interesting effect on consumer behavior. According to cognitive dissonance theory, if there were conflicting elements in

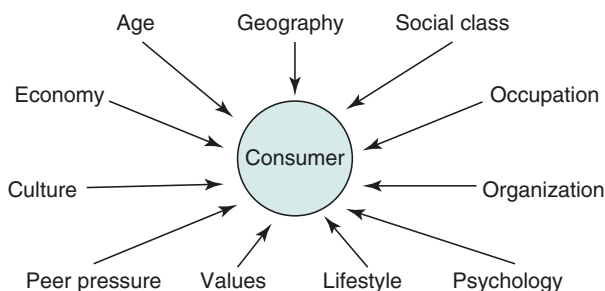
4.3 • What Factors Specifically Influence Consumers?

the original decision to buy (the negative aspects of the product purchased versus the positive elements of the alternatives not purchased), there will be postpurchase tension in the consumer's mind. Buyers tend to read promotional material even more avidly after the purchase than before, to justify their decisions and to displace the dissonant elements by concentrating on those aspects of the promotion that stress the good points of the product purchased [7]. Thus, marketers need to recognize the role of their promotion in general, and of their advertising in particular, in the postpurchase period. Whether the buyer's expectations have been met and whether the consumer is satisfied are the crucial issues. Clearly, the experiences after the purchase process become part of the future evaluation of buyers in similar decision processes. This ongoing feedback loop after the purchase is what motivates suppliers to check on the satisfaction of consumers and to try to rectify any problems that may lead to dissatisfaction. That is why marketers should keep in touch with consumers after the sale and build a relationship that goes beyond the sales transaction.

Cognitive dissonance—The postpurchase stage during which tension arises due to conflicting elements in the original purchase.

4.3 What Factors Specifically Influence Consumers?

In making a final decision, and indeed throughout the whole decision-making process, consumers are influenced by a wide range of factors, not just those relating to the obvious features of the product. ■ Figure 4.2 shows some of the factors most discussed by marketing theorists. Some of these factors exert a direct, measurable influence on buying decisions, whereas others are less tangible and may suggest only patterns of buying behavior. In many cases, intangible factors, such as the perception of the product or the relationship between supplier and consumer, may be important. A good understanding of the different factors that influence consumer behavior is crucial to marketers and is therefore the subject of much market research. Comprehension of these factors is instrumental in segmenting and positioning products and in motivating consumers to buy.



■ Fig. 4.2 Key influences on the consumer

4.3.1 Economic Factors

To many theorists, economic factors constitute the main influence on purchasers. One primary consideration is the economic well-being of the consumers. Put simply, if consumers have more money, they are likely to spend more. One of the methods of categorizing consumers, therefore, is by income group. Income alone, however, provides insufficient information because the behavior of different income groups is modified by the overall economic climate. If an economic boom is under way, the consumer is likely to spend more money and will sometimes borrow to spend even more than he or she earns. Commercial buyers will also spend more, investing in new capacity to take advantage of the favorable economic climate.

4.3.2 Age and Life Cycle

The activities of individuals and families vary over time. Age and family status are likely to influence the needs of consumers and the time and resources available to fulfill these needs. Traditionally, for example, young singles are interested mostly in entertainment, and childless professional couples demand many luxury goods. Couples with children tend to be less able to spend money on nonessentials, whereas older couples without children at home may again be able to afford luxuries.

Life cycle—Individuals' and families' varying stages of activities, needs, and purchases over time.

Many of these traditional life-cycle implications remain valid. For example, couples who marry and have children early tend to display behavioral patterns consistent with the preceding description. However, new groupings are emerging, based on nontraditional or delayed life cycles. For example, many couples today may postpone marriage and parenthood to pursue dual careers [8, p. 583]. A life-cycle grouping developed by Gilly and Enis takes new societal developments into account and focuses only on current household composition [9]. The model explicitly incorporates such nontraditional paths as delayed marriage and parenthood, childlessness, and remarriage and includes middle-aged or older singles, never-married or widowed single parents, cohabiting couples, and mature families. Research has shown this categorization to outperform other models in its ability to differentiate groups [8, p. 582]. Of course, because different societies have varying family patterns, the marketer is well advised to ensure that the assumptions used regarding

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such patterns are based on facts from the specific society that will be exposed to the marketing effort.

Much work has also been conducted on individual age subcategories. In many countries, for example, a longer life span has resulted in a larger proportion of mature consumers. The implications of age effects such as increased ear length, expanded nose breadth, and diminishing height may be profound for marketers catering to more mature groups. Producers of books will need to think about larger typefaces to accommodate the changing eyesight of their readers, and builders of houses must consider the mobility of their buyers both in terms of the height as well as the width of their construction. ► **Manager's Corner 4.1** provides some examples of how marketers position themselves to appeal to customers at different age levels.

Manager's Corner 4.1

Marketers "Graduate" Buyers

How do companies keep customers as they grow older and their lifestyles change? Clothing manufacturers have long recognized the importance of aiming for an array of demographics and lifestyles. A growing number of retailers "graduate" customers, not by pushing them to the next level within their stores but by creating different store environments and clothing geared toward specific demographic groups. Gap (► www.gap.com) is the leader in this concept, starting with BabyGap for babies, then kids at its GapKids stores, and then teenagers at its low-priced Old Navy outlets. Later on, customers are moved to the mid-priced Gap stores and then to the Banana Republic boutiques, which offer more expensive fabrics and career suits. Likewise, if times get tough, the chain hopes customers might trade down to Old Navy again, which protects the company during penny-pinching times.

Retailers say one reason they're looking to graduate customers is that busy shoppers want to be targeted and don't have time to browse. Other chains have been following Gap's example.

Abercrombie & Fitch Co. operates different store concepts specializing in particular age groups. Abercrombie & Fitch stores sell an Ivy League, higher-end product marketed to college students, whereas abercrombie kids focuses on the 7–14 age group. Hollister Co. fills the gap between Abercrombie & Fitch's young adult focus and the younger style of abercrombie (► www.abercrombie.com), with less expensive clothing focused on West Coast consumers. Wet Seal Inc. operates Wet Seal stores for young adults, Arden B boutiques for women between the ages of 20 and 40, and Zutopia stores for girls 5–12. The company expects that the Zutopia stores will become a stepping stone into their other stores as their customers grow older.

The automobile industry also takes advantage of different ages and income levels. Toyota manufactures both the Toyota brand and the luxury Lexus brand. Younger, lower-income customers start with Toyota's lower-priced models such as the Echo and Corolla. As customers' incomes increase, Toyota hopes that brand loyalty will influence their decision to buy another Toyota, like the best-selling

Camry, or move into their line of Lexus luxury cars. By having models affordable for younger buyers, the company hopes they will grow with the franchise and support future business (► www.toyota.com, ► www.lexus.com).

Another example of taking advantage of the different age groups for marketing management could be retrieved from the sports industry. Arsenal Football Club, an English Premier League club, has been retaining a huge fan base, along with its successes in the football arena, as well as in its target markets. Arsenal classifies its membership products and services targeting the age groups 0–3 years, 4–11 years, and 12–16 years, along with several other age groups up to older adults. The branding maxims of each of these initial three age groups are “welcome to our world,” “team junior gunners,” and “young guns,” respectively. In general, a childhood emotion persists forever, especially considering that “what we remember from childhood we remember forever” [10]. Arsenal has profoundly utilized such childhood emotions in their age group marketing campaigns, as part of their customers’ first experience in life. Following such first experiences with the Arsenal brand during the early stages of life, Arsenal takes advantage of age group marketing to build long-term relationship with their customers. Since marketing focuses on building and maintaining buyer relationship, the childhood memories and emotions of Arsenal fans would have an impact on the decisions that would be taken by those customers later in life. Such decisions would include a buying decision, which considers the alternative competitive offerings (i.e., credit card from a bank and the Arsenal credit card that Arsenal offers in association with their banking partner). As a result, Arsenal has moved one step forward with age group marketing strategies to keep their buyers in the relationship, in order to persistently earn the share of their buyers’ wallet over the years and along the different life stages.

Sources: Shams, S. M. R. (2016), Capacity building for sustained competitive advantage: A conceptual framework. *Marketing Intelligence & Planning*, 34(5), 671–691; Stoughton, S. (1999). The customer’s new clothes. *Washington Post*. ► <https://www.washingtonpost.com/archive/business/1999/03/20/the-customers-new-clothes/97b77cd7-a1ed-4f60-8e16-9109362d0e84/?noredirect=on>. Accessed 25 August 2019; Abercrombie & Fitch. ► www.abercrombie.com. Accessed 25 August 2019.

By better understanding the connection between age and life cycle and by analyzing the simultaneous occurrence of consumer needs, the marketer can improve the servicing of these needs and increase sales. For example, management at a large warehouse club noticed a correlation between the sales of disposable diapers and beer. When investigating the matter, they found that young fathers coming to the store after work to buy diapers would also pick up a six-pack of beer on the same trip. The store decided to move a beer display next to the diapers, and sales jumped by 10% [8, p. 585].

4.3.3 Geography

For some goods or services, geographical variations may be quite important. In the United States, for example, distinctly different taste preferences for food exist when comparing the North and South or the East Coast and West Coast, ranging from what to eat for breakfast to what to drink with dinner. These *geographic differences* are even greater around the world. For example, in the United Kingdom, northerners prefer white pickled onions, whereas southerners prefer brown ones. Few people drink orange juice for breakfast in France, but many do so during the day as a refreshment. In Japan, soup is consumed mainly for breakfast; however, in India, soup is preferred for lunch or dinner.

To better understand existing consumer differences based on geography, marketers go to great lengths to research and analyze behavioral patterns. In the United States, Claritas has developed a segmentation database called PRIZM that classifies every US ZIP code into 1 of 40 categories ranging from “Blue Blood Estates” to “Public Assistance.” Each of these categories is defined by detailed demographic, lifestyle, and consumption information and often includes data on specific brands. For example, the “Shotguns and Pickups” cluster is partly defined by high usage of chain saws, snuff, canning jars, frozen potato products, and whipped toppings. Its members are very unlikely to use car rental services, belong to country clubs, read *Gourmet* magazine, or drink Irish whiskey. In contrast, members of the “Furs and Station Wagons” cluster are much more likely than the average US consumer to have a second mortgage, buy wine by the case, read *Architectural Digest*, drive BMW 5 Series cars, and eat natural cold cereal and pumpernickel bread. They are unlikely to chew tobacco, hunt, drive a Chevette, use nondairy creamers, eat canned stews, or watch “Wheel of Fortune” [11].

The availability of such geographic information can help the marketer target mailings, advertisements, or personal sales pitches that will be most effective and efficient. *Geographic clustering* can also be done by region. For example, it has been suggested that Europe can be subdivided into nine superregions and a financial district that offer a better framework for analyzing and anticipating trends on the continent than the current national borders of Europe. The regions suggested are as follows:

- *Latin Crescent*—Most of Spain, southern Portugal, southern France, and most of Italy
- *Baltic League*—Sweden, Finland, the Baltic republics, Russia down to St. Petersburg, the coastal regions of Poland and Germany, the eastern half of Denmark, and a corner of Norway
- *Atlantic Coast*—Great Britain, Ireland, and virtually the entire western coast of Europe, running from northern Portugal through Oslo and along the Norwegian Swedish border
- *Mitteleuropa*—Germany, most of Belgium, the Netherlands, Luxembourg, northern and central France, the northwestern corner of Switzerland, the Czech Republic, and Western Poland

- *Capital District*—The triangle formed by Brussels, Paris, and Strasbourg, including Luxembourg City
- *Financial District*—London
- *Alpine Arc*—Alpine regions of France, most of Switzerland, Western Austria, parts of Italy down to Milan, and Germany up to Munich
- *Danube Basin*—From Bavaria east of Munich through eastern Austria, including Slovakia, all of Hungary and Romania, the former Soviet Republic of Moldova, the northern half of Bulgaria, the new republics of Slovenia and Croatia, and the Adriatic coast of northern Italy as far west as Milan
- *Balkan Peninsula*—Serbia, Bosnia, Montenegro, Macedonia, Albania, Greece, southern Bulgaria, and the European part of Turkey
- *Slavic Federation*—Ukraine, Belarus, Russia west of the Ural Mountains, and parts of Poland east of Warsaw [12]

Not all observers agree with these groupings. For example, some claim that the city of Frankfurt, with the seat of the European Central Bank (ECB), may eventually join with London to form a broader financial district. Similarly, the conflicts in the former Yugoslavia have been a setback to the emergence of a Slavic Federation. Nonetheless, if, as the researcher claims, these divisions indeed reflect cohesive groupings of people and economies, the marketer can use the superregions to develop products, devise marketing campaigns, and make location-specific decisions.

4.3.4 Social Class

One traditional differentiation used by marketers has been that of social class. Depending on the society under consideration, the role and importance of social class may vary significantly. In some countries, social class is an inherited position, assigned by birth or by tradition. In others, the level of social standing is closely linked with an individual's occupation or the income level attained. It used to be assumed that the upper classes were the first to try new products, which then trickled down to the lower classes. Historically, there may have been some justification for this. The refrigerator, washing machine, car, and telephone were all adopted first by the higher social classes. Recently, however, as affluence has become more widespread, the process has become much less clear. It is now argued that rather than a trickle-down effect from classes above, the new opinion leadership comes from people within the same social class.

Nevertheless, the occupation of the individual, or the head of the household, can significantly affect his or her way of life. A manager in a high-tech industry may have a different set of values from those of a worker on a production line in a declining industry or from those of a university professor. When comparing data sets on *occupation* across countries, the marketer is well advised to exercise caution in ensuring that the categories used are indeed comparable. For example, a blue-

collar occupation in one nation may well be a white-collar occupation in another. Even occupational titles may vary in their meaning: An “engineer” in one nation may have a different education, social position, and income than in another, because the term can either designate a degree or a supervisory role in the production process.

4.3.5 Culture

Culture is one of the most important factors affecting consumer behavior and one most noticeable in terms of nations. The culture of the United Kingdom, with its persisting class consciousness, differs in many ways from that of the United States. The way of life under the Mediterranean sun is quite different from Nordic life in the cold. Even within the overall culture of a nation, there are smaller subcultural groupings with their own distinctive values. These are perhaps most obvious in ethnic or religious groupings, which attract their own specialist suppliers. Since local cultural attributes influence the consumers’ behavior of a target market, marketers carefully observe and understand their target market’s consumption behavior, prior to launching any product or service in a particular market. For example, “Starbucks has over 28,000 locations in 78 countries worldwide, bringing in over \$22 billion in revenue in 2017” [13]. However, Starbucks took 47 years to launch their first operation in Italy. Since Italy is the land that has a rich background of espresso culture, Starbucks needed time to appropriately understand their Italian consumers’ culture and consumption behavior, prior to launching their operation in the Italian market. ► Marketing in Action 4.1 discusses why Starbucks took all these years to launch their first ever store in Italy. The Asian American community in the United States may serve as another example of culture in understanding and influencing consumers. Historically, marketers have executed an “umbrella” strategy when targeting the Asian American population. According to the Strategic Marketing Research Institute, seven key principles unify Asian Americans: nostalgia, entrepreneurial spirit, the “American Dream,” in-language dilemma, importance of *viral* or infectious marketing, faith and positive life force, and awareness of unspoken cues. By understanding that many Asian Americans are recent immigrants, leading brands have capitalized by offering products that serve as bridges to connect consumers with their homeland. Health insurance and financial planning firms have gained from the Asian American market, which has a shared attitude in terms of saving and protecting property and family. To successfully tap into this 11 million consumer market that commands a \$253 billion buying power, the astute marketer must realize that despite these commonalities, the Asian American population is also quite diverse. The market includes 13 nationalities, each with its distinct norms and subtle nuances [14].

Vietnamese Americans, for example, desire a great deal of information about products to help them make a decision. They are “label readers,” expecting an advertiser to persuade them by explaining how a product will benefit them.

Korean Americans tend to be extremely brand-loyal and are interested in quality and well-established brand names. Many speak exclusively Korean at home and are best reached by Korean TV and other Korean-language media. Recent Chinese American immigrants from Hong Kong and Taiwan read and watch Chinese media, even though they speak and understand English. Indian Americans, particularly recent immigrants, miss service the most. They are used to cheap labor and are drawn to products that promise to make life easier and more convenient [15].

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Just as important as the Asian American community is the rapidly growing Hispanic community, which now accounts for a considerable percent of the total US population. Marketers have tended to focus on the Hispanic population as a whole, but like the Asian American market, each nationality has its own characteristics, as well as characteristics shared by all. The Mexican population, accounting for more than 66% of the total Hispanic population, prefers a less aggressive method of sales, whereas Cubans, Dominicans, and Puerto Ricans prefer a more strongly directed sales technique. Similarities between nationalities include the importance of the family in major decisions and, most significantly, the Spanish language [16]. Companies recognizing the potential of the Hispanic community have begun Spanish-language marketing. The NFL has started test marketing T-shirts with Spanish phrases in cities with large Hispanic populations, including Miami, San Diego, and Denver [17]. Disney is eager to launch a Spanish-language ESPN, and AOL Time Warner produces *People en Español*, a Spanish-language version of *People* magazine. As the Hispanic population continues to increase, taking this valuable market segment into consideration is becoming more and more important [18].

The marketer must take such differences into account when targeting consumer groups. Moreover, great care must be taken when communication appeals are being adapted to a subculture. A simple translation may not only be insufficient, but it may also be downright dangerous. For example, when a US chicken supplier's slogan, "It takes a tough man to make a tender chicken," was translated to advertise to Hispanics, it was understood by the offended target group to say, "It takes a sexually excited man to make a chick sensual." Even if the language part is working, the projected environmental setting must also be synchronized with the targeted subculture. For example, a promotion will not be successful if it characterizes the average Hispanic in the United States as playing golf at a country club with \$400 clubs or fly-fishing in the high mountain countryside of Colorado while drinking beer. One promotion fizzled when a radio station offered two tickets to Disneyland to Hispanics as a prize. Two tickets were considered far too few for the family-oriented Hispanic [19]. ► Manager's Corner 4.2 shows how culture has affected the construction of e-commerce websites.

Marketing in Action 4.1

Starbucks Took 47 Years to Launch Its First Store in Italy



■ (Source: ► [pexels.com/royalty-free-images/](https://www.pexels.com/royalty-free-images/))

Starbucks used to sell *mainly* coffee beans and machines since its inauguration in 1971 in Seattle. The Starbucks CEO Howard Schultz joined the company in 1982 with a vision to expand business by introducing the Italian espresso culture to America. The company launched its first Starbucks Caffè Latte in downtown Seattle. However, Mr. Schultz left the company in 1985; he purchased Starbucks in 1987 with the help of investors, with an aim to introduce the Starbucks Caffè as a place for friends and family with a sense of community and conversation.

After its 17-store operation in 1987, Starbucks registered as a public company in 1992 with 165 locations in North America. The company launched its first store outside of North America in 1996 in Tokyo, Japan. By that time, Starbucks had reached 1015 locations. By 2015, the company had launched 22,500 stores in different locations worldwide, except Italy.

Italians are proud of their cultural heritage. A notable example of their pride is the way they drink coffee. Italian espresso has its unique tradition, and Italians prefer to drink coffee the Italian way. Traditionally, “not only they (the Italians) consume a lot of it (coffee), but also tend to have plenty of regional rituals, on how (standing, seated, at a bar, on a terrace), with sugar, no sugar, with booze, no booze, hot cup/ cold cup, warm milk, cold milk....ordering coffee in Italy is not as easy,” especially considering that around 20 different types of espresso can generally be ordered in an Italian coffee shop [20]. The reasons for not to enter to the Italian market that can be comprehended from outside would be that food and drinks including coffee are part of the Italian culture, and Italian consumers inherit a rich espresso culture, as well as

Starbucks pioneered in the North American market by introducing the Italian espresso culture in North America. So, the question was why Italians should pay more to a foreign company for the same espresso that they have been enjoying over the millenniums? Therefore, the reason that there were no Starbucks in Italy until September 2018 (47 years since Starbucks' inauguration in 1971 in Seattle) was that the company needed to compete intensively with the local Italian coffee shops.

In the Italian market, in addition to the local Italian consumers, numerous foreign tourists also drink coffee in Italy, traveling every year considering that Italy is an attractive tourism destination too. This niche of foreign tourists in the Italian market could be considered as favorable for Starbucks to step into the country to gradually develop a position in the mind of the Italian coffee drinker while serving the large number of foreign tourists in Italy every year. A difficulty for foreigners in ordering coffee in a local Italian coffee shop is “they most likely do not speak English (or any other foreign language),” and the local coffee shops are “usually small and not comfortable to sit (or stand) for long periods” [20]. In contrast, Starbucks “have comfortable couches, chairs and tables...(along with) free wi-fi, place to charge your phone” [20], which offers a contemporary globalized atmosphere to both foreign tourists and local Italians to drink coffee and spend time with family and friends.

In this context, with an aim to serve both foreign tourists and local consumers in the Italian market, Starbucks launched its first ever outlet in Italy in September in Milan. In May 2019, Howard Schultz described at a food conference that “we are not coming here (in Italy) to teach Italians to make coffee, we’re coming here with humility and respect, to show what we’ve learned” [21]. Following this approach, Starbucks “chose a historic post office in a busy city square for its (Milan) location” [21]. Unlike a usual Italian coffee shop, the Milan Starbucks is “designed in painstaking detail, decked out in marble with hand-chiseled palladiana flooring and a staircase leading to an ‘Arriviamo Bar’ inspired by the Italian tradition” [21]. Industry experts described that this adaptation of local tradition with international design, outlook, and atmosphere in the store enables Starbucks to offer a distinct globalized approach to local Italian consumers, with “different cup sizes (in Italy there’s one), it’s commitment to fast service...and even an array of technicolor drinks” [21].

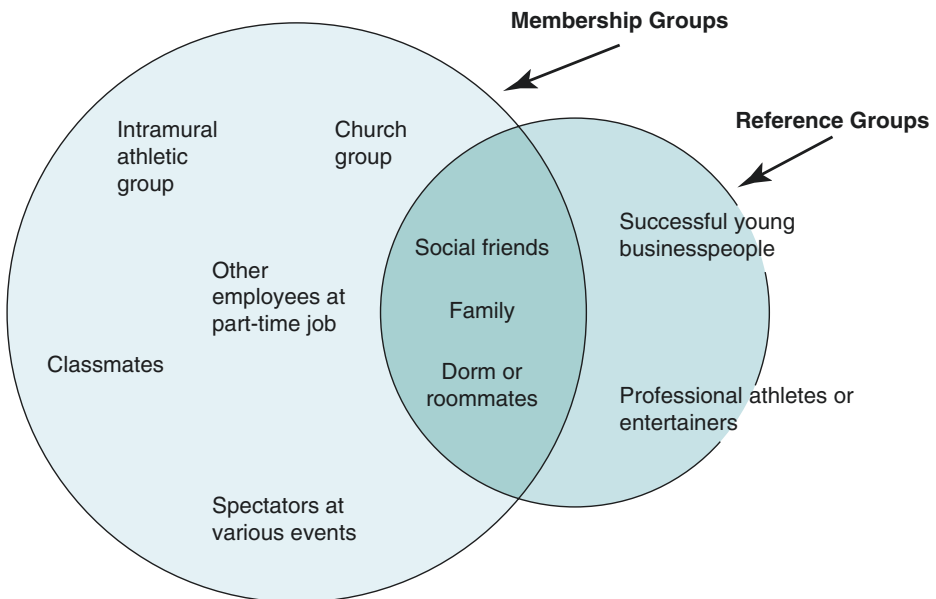
Following this approach, Starbucks opened two more stores in Milan in November 2018 after launching their first store in September 2019 in Milan, Italy, and aims to launch 15 more stores each year in different locations in Italy. Starbucks has partnered with a local brand management company and real estate firm to help them enter the Italian market, where the goal is not to make better coffee than the locals but to serve foreign tourists, as well as to explore and gradually win over local consumers who are interested in drinking coffee in a quite different way. It indicates that the coming years in Italy will be an experiment for Starbucks to adapt to the local traditions to some extent, while at the same time introducing a globalized experience of drinking coffee, with an aim to gradually win over the Italian market.

Sources: Wang, J. (2018). Why it took Starbucks 47 years to open a store in Italy. *Forbes*. ► <https://www.forbes.com/sites/jennawang/2018/09/13/why-it-took-starbucks-47-years-to-open-a-store-in-italy/#53abaff8fc00>. Accessed 27 August 2019; Buehler, N. (2018). If you had invested right after Starbucks' IPO. *Investopedia*. ► <https://www>.

investopedia.com/articles/markets/120215/if-you-had-invested-right-after-starbucks-ipo.asp. Accessed 25 August 2019; Purdy, C. (2018). Coffee culture: Starbucks' bid to conquer Italy has begun. *Quartz*. ► <https://qz.com/quartz/1473903/starbucks-opens-more-outlets-in-italy-following-debut-in-milan/>. Accessed 25 August 2019; Quora Consumers' Forum. (n.d.). Why doesn't Italy have Starbucks? *Quora*. ► <https://www.quora.com/Why-doesnt-Italy-have-Starbucks>. Accessed 28 August 2019; Szabo, L. (1996). Launching Starbucks in Japan – First of 15 stores to open. *The Seattle Times*. ► <http://community.seattletimes.nwsourc.com/archive/?date=19960729&slug=2341589>. Accessed 25 August 2019.

4.3.6 Peer Pressure

Within cultures and subcultures, a powerful force is at work requiring members to conform to the overall values of their group. There are membership groups in which the individual is formally a member (e.g., of a political party or trade union). Individuals may also have **reference groups** (social cliques, such as yuppies) to which they would like to belong. They may also recognize groups with which they would not wish to associate. Typical group behavior results in pressure on an individual to conform. Such peer pressure can sometimes be used to great effect by marketers. If they can sway the few opinion leaders in the reference group, they may capture a large portion of the group. ■ Figure 4.3 gives one example of how these groups interrelate.

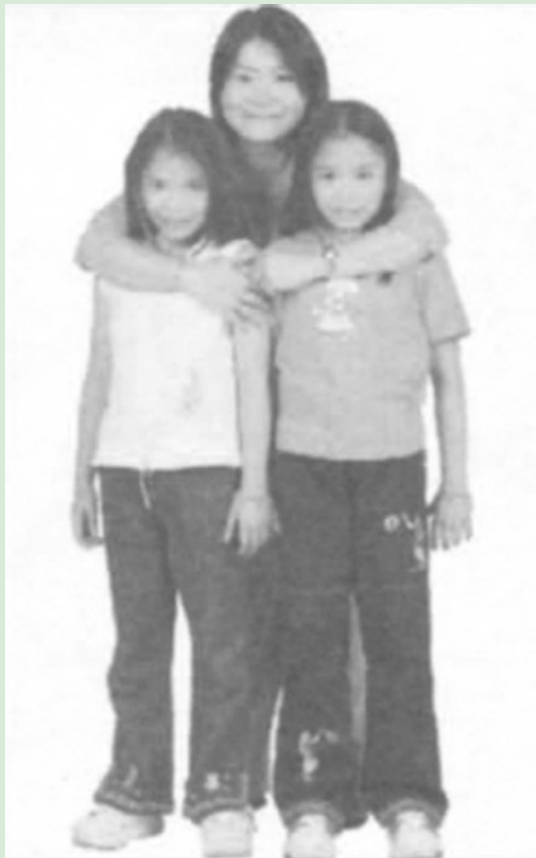


■ **Fig. 4.3** Membership and reference groups for a college student (Source: Myers, J. H. (1986). *Marketing*. New York: McGraw-Hill, 223. Reprinted with permission of the McGraw-Hill Companies)

Reference Groups—Individuals' desire to belong to certain social cliques, which results in pressure for them to conform

4

Perhaps the most influential peer group is the *family*. Because family structure can vary widely between countries, cultures, and subcultures, an analysis of the target consumer's family structure can be crucial. For example, in *nuclear families*, the number of immediate family members and their importance to the individual is limited, whereas in extended families, numerous important family members are available to exercise an influence on the individual's decision-making. Consequently, the influence of peers and referents other than family members is relatively less powerful in *extended families*, so the use of a nonfamily peer in a promotion may not be successful [22].

Manager's Corner 4.2**Multicultural Websites in a Changing World**

4.3 · What Factors Specifically Influence Consumers?

As the internet expands worldwide, English is declining as the dominant language on the web. Since 2001, web usage and e-business have grown at a faster rate in Europe and Asia than in the United States. With more Spanish- and Mandarin-speaking people using the internet, offering websites in each language of the target markets is becoming a necessity. This includes providing automated translation and having a linguistically, culturally, and technically trained staff to deal with sales queries and support issues.

LeAnn Barber, an e-commerce consultant for Scient (now SBI & Company), comments: “[A]s more content becomes available in a particular language, more people use the Internet, and as more people use the Internet, content producers are incentivised to use the Internet as a medium.” Consequently, because content or information attracts web users who are located beyond country borders, companies must prepare to accommodate these customers as well as domestic patrons.

Direct translation is only one of several aspects to consider in creating a multilingual website. Other factors include colors and images, which can have different cultural implications depending on the national origin of the user. In many cultures, for example, black is a somber color of mourning, whereas in others it represents the opposite emotions. Also, if images are provided with captions, they need to make sense within the cultural context of the target audience. For example, a German bank advertisement featured an image of mice sitting on coins, accompanied by the caption, “Here you can bring your mice.” In German, the word “mice” is slang for “money.” However, a direct translation into English would make no sense to non-Germans.

Culture can also affect the design and operations of a website. For example, many Japanese customers do not have any credit card information to send over the internet. In response, many e-commerce websites have reformed sales processes to accommodate Japanese consumers. Buyers can order online and then pick up their goods at a local store or a collection point at which they can pay cash.

The symbol “x” is commonly used to select items or to indicate “yes” in American internet-speak. In Switzerland and Korea, the “x” symbol actually connotes the opposite message. Such examples point out the need to implement a marking system that is sensitive to the various needs of customers around the world.

Furthermore, you must consider the work behind the website, often composed of a large staff strategizing about the exact content that can be used on the front end of the website. Increasingly, companies are outsourcing this process to a local web design team rather than attempting in-house to comprehend the needs of foreign customers. “The dotcom side of this business is just the tip of the iceberg,” says Bryan Richter, European vice president of Stellent, the US-based CMS vendor. “The public website is just a very small subset of the content that a business needs to manage.”

Just think of how the European Commission, which manages EUROPA, the European Union’s (EU) multilingual internet site, needs to incorporate the languages of the ten new EU countries who joined on May 1, 2004. For one of the world’s biggest websites giving access to all the public information and official documents produced by the EU in those new languages requires increasingly automated

information production and content management tools to improve cooperation among information providers, editors, and translators.

Sources: Perkins, J. (2001). Multilingual websites widen the way to a new online world. *Financial Times*, pp. 1–2; Neam, G. (2002). Balancing act on path to inner contentment. *Financial Times*, Wednesday Surveys LON1; The Commission of the European Communities. (2004). “EUROPA” is reborn. Press release by the Commission of the European Communities.

4

Family relations are dynamic as the interplay between generation changes. For example, it has been found in the United States that members of **Generation X** (usually referring to people born in the 1970s) tended to continue to live at home through their late 20s. As a result, many “Xers” became designated decision-makers for their parents or other relatives, particularly in areas where young adults have expertise, such as electronic equipment, computers, or automobiles [23]. Marketers ignore this influence at their own peril when designing communication strategies for their target groups.

Generation X—Those who were born in the 1970s and tended to live at home through their late 20s, which resulted in them becoming the designated decision-makers for parents and relatives.

4.3.7 Lifestyle and Values

Although many firms still use class and age as the main discriminators, increasing affluence has resulted in spending patterns that now vary considerably, even within the same age and class groups; they now reflect individual lifestyles. Marketers wish to appeal to such lifestyles and therefore increasingly develop **lifestyle classification** methods that link different dimensions of consumers, such as activities, interests, and opinions, with their spending or product use patterns. For example, to better understand the behavior of consumers who use high-technology information and communication methods, the market research company Odyssey conducted 4000 consumer interviews and 28 focus groups in 14 cities. The result was the development of six technology-based consumer lifestyle segments: New Enthusiasts, Hopefuls, Faithfuls, Oldtimers, Independents, and Surfers [24]. Perhaps best known is the Values and Lifestyles System (VALS™) developed by SRI International. Unlike many other segmentation systems, VALS divides consumers into groups based on psychological characteristics (such as status-seeking and excitement-seeking) and several key demographics found to be predictive of consumer behavior. VALS yields insights into why people act as they do and the ways enduring internal psychological traits are expressed in external buying patterns and lifestyles. VALS

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classifies US adults into eight consumer groups based on their answers to 35 attitudinal and 4 demographic questions. The VALS classification battery is integrated into several large national syndicated consumer surveys. It is also integrated into clients' custom questionnaires so that their respondents can be VALS-typed. The major tendencies of the four VALS groups with greater resources (e.g., education, income, self-confidence, health, and eagerness to buy) are:

- *Innovators*—Successful, sophisticated, active, and “take-charge” people. Their purchases often reflect cultivated tastes for relatively upscale, niche-oriented products.
- *Thinkers*—Mature, satisfied, comfortable, and reflective. Favor durability, functionality, and value in products.
- *Achievers*—Successful and career- and work-oriented. Favor established, prestige products that demonstrate success to their peers.
- *Experiences*—Young, enthusiastic, impulsive, and rebellious. Spend a comparatively high proportion of their income on fashion, entertainment, and socializing.

The major tendencies of the four VALS groups with fewer resources are:

- *Believers*—Conservative, conventional, and traditional. Favor familiar products and established brands.
- *Strivers*—Trendy, fun loving, and concerned about opinions of others. Favor stylish products that emulate the purchases of those with greater material wealth.
- *Makers*—Practical, self-sufficient, traditional, and family-oriented. Favor only products with a practical or functional purpose such as tools, utility vehicles, and fishing equipment.
- *Survivors*—Narrowly focused, comfortable with the familiar, and resource-constrained. Cautious consumers who are loyal to favorite brands, especially at a discount [25].

Lifestyle classification—A method that links different dimensions of consumers, such as activities, interests, and opinions, with their spending or product use patterns.

■ Figure 4.4 summarizes the structure of VALS. Getting the lifestyles of consumers right can make a big difference to the satisfaction of consumers and the profitability of marketing undertakings. For example, Marriott Corporation has developed several time-share locations, where clients buy the right to occupy a property for 1 week during a specified season. To be successful, Marriott must market the same vacation place to different prospects. A location in Vail, Colorado, can be sold to some during the winter season for skiing but also to others for a summer season of hiking, fishing, and horseback riding. By being able to match the marketing approach, the season, and the type of home to the right individual,

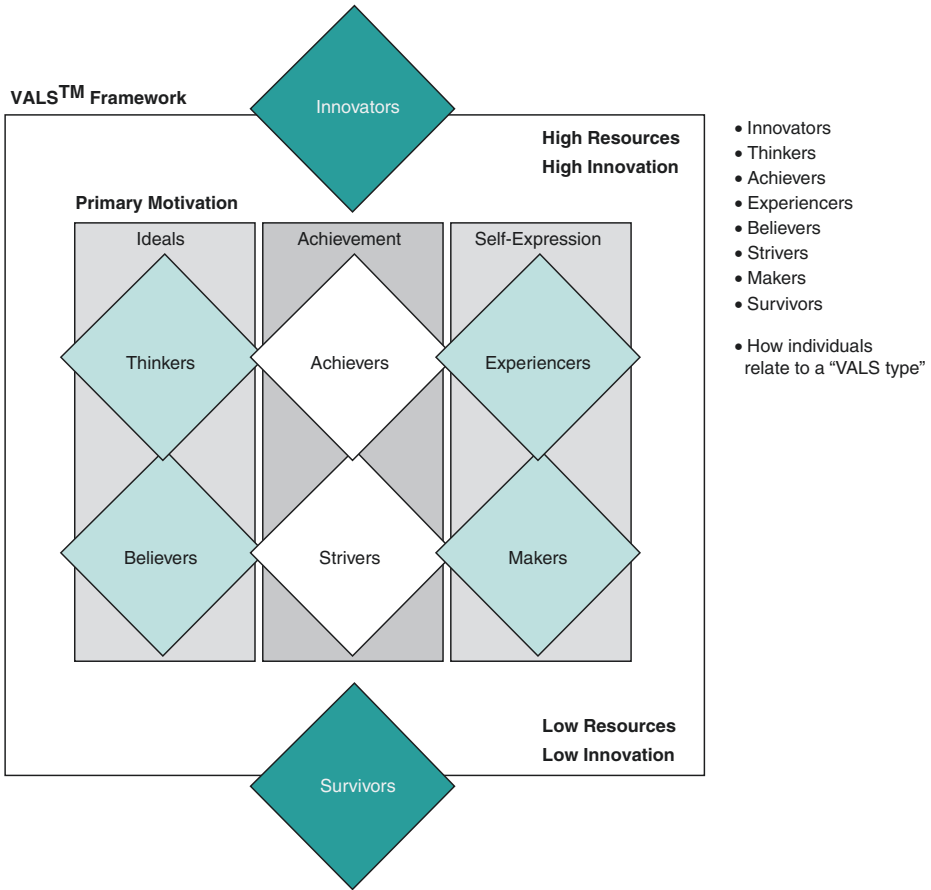


Fig. 4.4 VALS™ segments (Source: SRI Consulting Intelligence website, ► www.sric-bi.com/VALS. Reprinted by permission of SRI International Offices)

the company can save large amounts of promotion expenditures and achieve high rates of closings [26].

Lifestyles can also be used by nonprofit organizations. Versity Blood Donation Center of Wisconsin reportedly turned a deficit of 7000 donors into a surplus of 7000 by concentrating its attention on people who were affluent, busy, and had close-knit families. Clearly, lifestyles depend on the environment in which the consumer lives, so socioeconomic variables can play an important role.

4.3.8 Diffusion of Innovation

One aspect of consumer behavior that is closely related to lifestyles and has attracted considerable interest relates to the way new products or new ideas are adapted. Gatignon and Robertson suggest that the so-called **diffusion** process can

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be characterized in terms of three dimensions: the rate of diffusion, the pattern of diffusion, and the potential penetration level [27]. The rate of diffusion reflects the speed at which sales occur over time. The pattern of diffusion refers to how a new idea or product spreads to different groups. The potential penetration level is a separate dimension indicating the size of the potential market, that is, the maximum cumulative sales (or adoption) over time. Marketing actions are important in influencing the speed of diffusion as well as the process of diffusion by segment. Indeed, in most cases marketing actions are designed to achieve faster penetration, to block competition, and to establish a market franchise.

Diffusion—The pattern that describes how a new idea or product spreads to different groups.

These outcomes are just what ambitious new product managers look for in their launches. But one complication of the consumer decision-making process is the fact that the adoption of new products is not necessarily uniform throughout the population. Everett Rogers, for example, concluded that there are five separate groups of consumers, each one of which shows a different rate of new product adoption. Proceeding from the quickest to the slowest adopters, they are innovators (2.5%), early adopters (13.5%), early majority (34%), later majority (34%), and laggards (16%) [28]. A careful look at these categories will indicate that they follow a normal (or bell) distribution curve. The early and later majorities are captured by one standard deviation; the early adopters and most of the laggards, by the second standard deviation; and the innovators, by the third.

The **innovators** are adventurous and willing to take risks, whereas the early adopters are the main opinion leaders in their community. This classification suggests that the marketer should take a particular interest in these two leading groups when contemplating a product launch. But innovations may have consequences or costs for the consumption system in which they are placed. For instance, the adoption of an innovation might require other changes in the consumption system or the adoption of ancillary services, which raise the total cost of innovating [27]. ► Manager's Corner 4.3 shows how innovations in technology can precipitate new derivative challenges for marketers. One crucial aspect of the adoption process is the changing importance of external influence (mass media) relative to internal influence (word of mouth) over time, as illustrated in ■ Fig. 4.5 [29].

Innovators—A consumer group including those who are adventurous and willing to take risks.

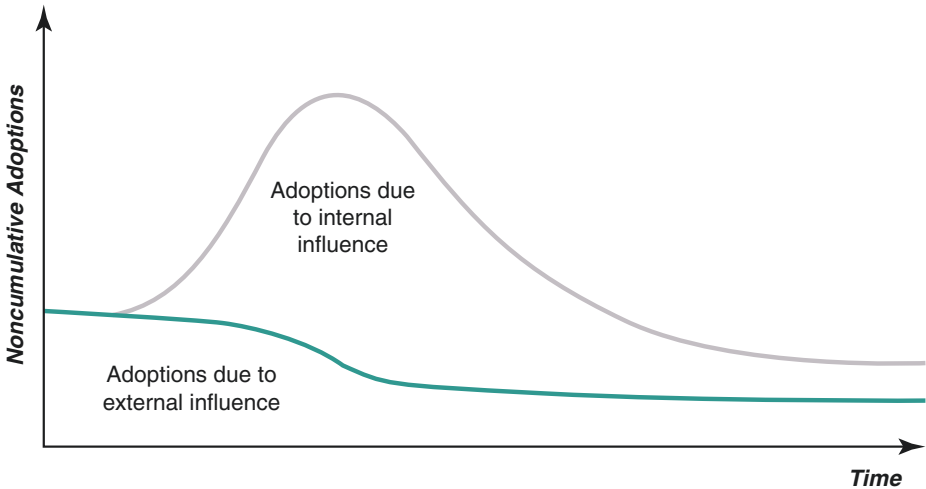


Fig. 4.5 A new product diffusion model (Source: Mahajan, V., Muller, E., & Bass, F. M. (1990). *Journal of Marketing*, 54, 1–4. Reprinted by permission of the American Marketing Association)

It should also be noted that research finds that the rates of innovation and diffusion vary not only between customers but also between countries. A comparison within the European Union determined that innovativeness tends to decrease with higher ethnocentrism. Consumers in more individualistic countries tended to be more innovative. Innovativeness was found to be lower in national cultures that emphasize uncertainty avoidance [30]. In an analogy to the diffusion proposition that consumers who innovate go beyond their social system boundaries, cosmopolitanism has also been shown to be positively related to the population's propensity to innovate [31]. Marketers with innovative products that require the enthusiasm of early adopters should therefore pay close attention to the propensity to innovate in the countries that they are considering for entry.

4.3.9 Psychological Factors

A number of psychological factors also influence buyer behavior, ranging from the teachings of Freud to Herzberg's discussion of **dissatisfiers** (characteristics that prevent a product's purchase by a given customer) and **satisfiers** (characteristics that positively persuade the customer to choose that brand) [32]. In the context of marketing, perhaps the most widely quoted psychological approach is that of Abraham Maslow [33]. He developed a **hierarchy of needs**, shaped like a pyramid, which ranges from the most essential immediate physical needs such as hunger, thirst, and shelter to the most luxurious nonessentials. It was Maslow's contention that the individual addresses the most urgent needs first, starting with the physiological. But as each need is satisfied, and the lower-level physical needs are satiated, attention switches to the next highest level, resulting ultimately in the level of self-actualization or fulfillment. It has been argued that marketers in industrialized

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nations should increasingly focus their attention on the two highest levels for the citizens of their countries. However, it appears that even in relatively rich countries, the elementary needs of many remain unfulfilled. An interesting phenomenon—the **foreign concern**—emerges as an additional post-Maslowian level. Many who themselves have achieved high levels of needs fulfillment begin to focus on individuals in other countries. Seeing that they are comparatively worse off, these poorer individuals and countries are encouraged to seek and offer self-actualization, without addressing their own often unfulfilled basic needs such as nourishment and housing. Such approaches can lead to disagreement and even conflict, particularly in international trade and policy areas, without necessarily improving the quality of life.

Dissatisfiers—Characteristics that prevent a product’s purchase by a given customer.

Satisfiers—Characteristics that will positively persuade the customer to choose that brand.

Hierarchy of needs—Maslow’s pyramid-shaped diagram that defines immediate physical needs to luxurious nonessentials.

Foreign concern—The phenomenon in which those who have achieved high levels of needs fulfillment begin to focus on individuals in other countries.

Manager’s Corner 4.3

Technology and Marketing Opportunities

Technology promises to make us more efficient, entertain us, and put us in touch with one another. At the same time, we also accuse technology of disruptively wasting our time as well as isolating us from other people. A technological advance is likely to bring multiple changes, and the key to making a success of new technology is to understand how the buyers feel about it.

Consider the example of a new product that has been hailed as the next generation VCR: TiVo (► www.tivo.com). This device, called a “personal video recorder,” works with television programming as well as cable and satellite and captures programming on computer-style hard drives instead of videotapes. It lets users create “virtual channels” reflecting personal tastes. Like a VCR, TiVo is a box that attaches to the TV and is used to record shows. But TiVo is much more than a sophisticated VCR. In addition to recording the shows that have been programmed, TiVo has a feature that allows the customer to enter the names of favorite actors, directors, or any subject matter of interest. TiVo will then search through the TV listings recording everything that fits into these categories.

As a result, TiVo can check whether a show has any of the ingredients or participants that have pleased its owner in the past. If so, TiVo can select such a show and recommend it to the owner—therefore taking a proactive approach to program structuring. Marketers, in turn, can target a particular viewer segment—fully aware

that the addition of certain content components will draw in desirable audiences for particular products. Producers, marketers, and TiVo technicians may some day be perhaps totally in charge. The viewer then really just has to sit back and relax—and does not even have to think about the program anymore!

Source: TiVo ► www.tivo.com. Accessed 27 August 2019.

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4.3.10 Globalization

The World Wide Web, internet-enhanced digital marketplace, social media, and widespread information flow across the world have transformed the way we see life since the end of the twentieth century. Until mass consumers started using the internet so freely as early as the mid-1990s of the last millennium, it was quite difficult for a teenager in East Asia to know how a teenager grows up in North Europe. Similarly, it was challenging for a young mother in Central Africa to know how a young mother in North America takes sufficient care of her children to ensure that their mental and physical growth is sufficient. Today, because of the enormous flow of information across the globe, consumers are better informed than ever before about the best available solution (product) to fulfill their consumption need. Furthermore, the contemporary superstores in the digital marketplace (i.e., Amazon, Alibaba, and their competitors) have been working to deliver your desired product to you from the farthest corner of the world. As a result, a distinct global consumer culture is evidenced today [34] across the world that forms a global consumer behavior pattern to influence the buying decisions of today's consumers. For example, when someone starts searching information along with buying a personal computer, tablet, or smartphone, or even clothes or shoes, along with the products that are available in the marketplace of her/his own city, she/he collects and compares information from that worldwide marketplace to know which company could offer the optimum value at a lower price. Consequently, this globalized flow of supply chain influences the buying decisions of today's global citizen. Similarly, the contemporary marketing “research has shown vivid interest in consumers' positive dispositions toward foreign countries and globalization” [35], in order to remain well informed about the global citizens' consumption pattern, buying behavior, and expectation to optimize the value and consumption experience of today's global consumers.

4.4 Coordinating Consumer Dimensions

To most effectively use the dimensions discussed so far, the marketer must design the right approach for each type of consumer and ensure that the approach reaches the consumer. Therefore, the marketer must coordinate all activities, whether in service, pricing, or communications; otherwise, the consumer receives confusing and sometimes even conflicting messages. Information technology can be very

useful in assigning consumers to their appropriate groups and then ensuring that the marketing effort extended toward them fits appropriately.

Web Exercise 4.1

Although industrial buying typically centers around manufactured products, it also includes services that are generally considered consumer-oriented. Resorts are an example of this, with many sites often competing for a company's annual sales meeting or other large event. Marriott Hotel's web page even has a meeting planning page to help locate the optimal Marriott facility for corporate events. Check out the site at ► <https://www.marriott.com/meeting-event-hotels/meetings.mi> and ► <https://www.marriott.co.uk/meeting-event-hotels/meeting-planning.mi>.

4.5 Organizational Purchasing

So far our discussion has focused mainly on consumer products. However, different categorizations are often applied to *industrial products*, which are sold to businesses and institutional or government buyers to be incorporated into their own products, resold, or used within their organizations. These products tend to be purchased in larger quantities and are often of higher value than consumer products. Industrial products are also much more amenable to marketing with the use of new technology because the business partners tend to be well informed about the market and typically have the use of market-specific, state-of-the-art technology (see ► Web Exercise 4.1). Therefore, new approaches to doing business can gain rapid acceptance. For example, when measured in sales volume, industrial marketing has made much more use of internet technology than consumer marketing. Consequently, organizational purchasing has dimensions that are distinct from consumer behavior. Industrial buying processes are often grouped at the most basic level by broad product type:

- *Basic raw materials*, such as steel for a car manufacturer. These materials are usually sold on a contractual basis with tight specifications. Sales are often achieved by competitive pricing, credit terms, and delivery reliability.
- *Components*, such as radiators. These materials differ from basic materials because of their wider variation. Product quality and reliability become extremely important.
- *Capital goods*, such as lathes. These materials are normally dominated by high technical capability.
- *Supplies*, such as detergents for floor cleaning. These materials are consumable items, usually of low unit value, and often sold through distributors.

Marketers of industrial goods must pay particular attention to what makes industrial market activities different from consumer goods markets. Examples are *reciprocity*, in which firms engage in interrelated business transactions; relationship marketing, in which long-term interaction rather than short-term transactions governs the relationship between firms; and **reverse marketing** structures, in which

firms need to collaborate to accommodate the flow of products from the end user back to the manufacturer, for reasons such as safety or environmental responsibility. We will address these dimensions specifically throughout the book in the context of marketing strategy development. At this stage, the most important differences to keep in mind are demand structures and decision processes.

Reverse marketing—The firms collaborate to accommodate the flow of products from the end user back to the manufacturer, for reasons such as environmental responsibility.

4.5.1 Demand Patterns

The demand for industrial goods or services often depends on some other product or process; this is known as **derived demand**. The industrial marketer selling steel, for example, also needs to be concerned about the demand for the ultimate consumer product, such as the automobile. In recent years this has led to a more partnership-style relationship between some industrial sellers and their customers.

Derived demand—Demand that depends on some other product or process.

Joint demand—Demand for two or more products that are interrelated.

Joint demand occurs when the demands for two or more products are interdependent, normally because they are used together. The demand for razor blades depends on the number of razors in use, which is why razors have sometimes been sold as loss leaders to increase demand for the associated blades.

4.5.2 Decision-Makers and Influencers

In industrial marketing, organizational factors tend to dominate the decision process. There is much theory about the interaction between the various decision-makers and **influencers** (those who can only influence but not decide). Decisions are frequently made by groups rather than individuals, and the official buyer often does not have authority to make the decision.

A more complex view of industrial buying decisions suggests three levels of decision-making:

1. *Economic buying influence* exerted by the decision-maker who can authorize the necessary funds for the purchase
2. *User buying influences* exerted by the people in the buying company who will use the product and will specify what they want to purchase
3. *Technical buying influence* exerted by the experts (including, typically, the buying department) who can veto the purchase on technical grounds [36]

An even finer differentiation identifies six roles within the buying center:

1. *Users* who will actually use the product or service
2. *Influencers*, particularly technical personnel
3. *Deciders*, or the actual decision-makers
4. *Approvers* who formally authorize the decision
5. *Buyers*, or the department with formal purchasing authority
6. *Gatekeepers* who have the power to stop sellers from reaching other members of the buying center [37]

One important aspect of organizational purchasing is its interactive nature, which the International Marketing and Purchasing Group, a pan-European group of researchers, has investigated in some detail. Both the buyer and seller contribute to the purchasing process, so the discussions and meetings—which may extend over a considerable period—are designed to achieve a negotiated outcome that is satisfactory to both sides. Both sides must win for the successful emergence of a customer partnership and the maintenance of a relationship.

4.5.3 Ethics and Buying

Enron Corporation was an American energy, commoleadces company based in Houston, Texas, whose operations ceased in 2007. The issue of et has been especially pressing for marketers since the Enron scandal in 2001. Not only did the creation of false partnerships to hide enormous debt lead Enron's former executives to be charged with fraud and money laundering, but the scandal also caused far-reaching social and financial implications. The jobs of former Enron's 21,000 employees in more than 40 countries were in question as the company filed for bankruptcy, and its auditor Arthur Andersen collapsed after being found guilty of destroying evidence of involvement. Enron's unethical behavior ultimately undermined its own viability, as both legal and market forces brought the firm to justice.

Although ethics is important both for consumers and for marketers, differences in ethical perspectives can loom particularly large in the industrial buying process. For example, in some markets, the relationship itself, not the performance, is the overriding determinant of who gets the contract. Sometimes such relationships are developed through the paying of *bribes* to influence the decision. In some markets the practice may be so widespread that firms that do not pay bribes will never win a contract. Such situations are particularly onerous for firms that are prohibited by their governments from participating in such business practices. For example, the US government, by snacting the *Foreign Corrupt Act*, made it a crime for US executives of publicly traded firms to bribe a foreign official to obtain business, even if they are competing with other foreign executives who offer bribes. More recently, the Organisation for Economic Co-operation and Development (OECD) has agreed to antibribery rules on a much broader level that makes it more difficult for anyone to bribe and thus levels the international playing field.

The problem is one of ethics versus practical needs and, to some extent, of the amounts involved. For example, it may be hard to draw the line between providing a generous tip and paying a bribe to speed up a business transaction. Many business executives believe that the United States should not apply its moral principles to other societies and cultures in which bribery and corruption are endemic. To compete internationally, executives argue, they must be free to use the most common methods of competition in the host country. On the other hand, it is difficult to apply different standards to executives and firms based on whether they do business abroad or domestically. Furthermore, bribes may open the way to shoddy performance and loose moral standards among executives and employees and may result in the spread of general unethical business practices. Unrestricted bribery could cause firms to concentrate on the best way to bribe rather than on the best way to produce and market their products. Even though the extreme case of business by bribery is easy to dismiss, real business situations are usually much less clear-cut and often present the protagonists with difficult decisions. ► Manager's Corner 4.4 describes one such dilemma.

Manager's Corner 4.4

Ethics in a Shrinking World

As organizations expand their relationships with other cultures, employees abroad are faced with some interesting dilemmas. One central question is whether ethics policies grounded in unique American values are exportable or whether the attempt to apply these policies in foreign countries basically amounts to cultural imperialism.

An actual case study will help make our point. An American company executive in Tokyo has just selected a Japanese company to distribute his product in the Far East. The day before the executive leaves, the Japanese CEO presents him with a set of golf clubs and a leather bag that sells for at least \$2000 in the United States and probably \$4000 in Japan. This act is in keeping with the Japanese custom of giving gifts. The American executive feigns ignorance of the custom, allowing himself to avoid giving a gift in return, but the decision remains as to what he should do with the golf clubs. Refusing the gift would cause the Japanese CEO to lose face in front of his employees and probably sour the relationship—not a wise idea. The only option seems to be to accept the gift and then present the clubs to the home company. One unfortunate consequence of this situation, however, is that each time the Japanese CEO visits the United States, the executive who made the deal has to pretend to be either sick or out of town on the day set aside to play golf.

In the rush to create ethics policies, all players should be aware that their way of doing things isn't the only way and that customs of other cultures have value and validity. If rules of behavior are going to be written in the global economy, they must be framed in the context of world citizenry so that employees have the ability to adapt to local customs yet comply with the values that define their corporate character.

Source: Fagiano, D. (1994). Ethics in a shrinking world. *Business Credit*, 96, 48.

4.6 Usage and Loyalty

For both business and consumer marketers, usage status, usage rate, and loyalty are the most important outcomes of all purchasing processes. *Usage status* refers to the customer's experience with the product or brand. Customers can be grouped into a number of categories, such as nonusers, former users, potential users, first-time users, or regular users. *Usage rate* is the frequency with which customers use (and purchase) a product. Often the Pareto 80/20 rule applies here; that is, 20% of users account for 80% of usage. *Loyalty* determines whether the customer is committed to the brand. Four typical patterns of loyalty behavior have been proposed:

- *Hard-core loyals* who buy one brand all the time
- *Split loyals* who are loyal to two or three brands
- *Shifting loyals* who shift from one brand to another
- *Switchers* who show no loyalty to any brand [38]

In industrial markets, organizations regard the *heavy users* as major accounts to be handled by senior sales personnel, whereas the *light users* will be handled by the general salesforce or by a dealer. In consumer markets, such differentiations, although quite sensible, are more difficult to find. However, some service providers, such as hotels, rental car agencies, or airlines, have developed registration or loyalty programs that not only encourage customers to come back but also allow the provider to quickly identify (and respond to) heavy users.

For the marketer, the achievement of repeat purchases is crucial. It is very rare that a single purchase by each customer is sufficient for the attainment of long-term profitability. The marketer therefore looks at the series of transactions that such repeat purchasing implies. The consumer's growing experience over a number of such transactions is often the determining factor in future purchases. All the succeeding transactions are interdependent, and the overall decision-making process may thus be as complex as that in any industrial buying process.

In the case of *capital goods* (such as washing machines for households or machine tools for companies) or rarely purchased goods (such as silverware, which the typical household buys only twice in a lifetime), achieving repeat buying may be possible only over very extended periods. However, the experience of one purchase, such as a washing machine, may be extended to a similar purchase, such as a clothes dryer. Without such prior experience, though, the typical consumer will seek reassurance from other sources, such as reports in consumer magazines and/or online consumer forums; resort to the reputation of the vendor; or else be influenced by word-of-mouth experiences of friends and acquaintances. However, marketers can try to make such acquisitions easier by offering warranties or by providing ample return privileges. For example, some automobile manufacturers have to offer 1-month return privileges for their cars, in effect providing the customer with a no-risk trial period.

4.7 The Customer Franchise and Brand Equity

One of the best ways for any firm to maintain its focus on the buyer is to regard its relationship with its buyers as a prime asset of the business—one that has been built up by a series of marketing investments over the years. This asset is often referred to as the **customer franchise**. As with any other asset, this investment can be expected to bring returns over subsequent years as long as it is protected and nurtured.

Customer franchise—The prime asset of the relationship between a firm and its buyers.

At one extreme, the customer franchise may be derived from the individual relationships developed by the sales professionals. At the other extreme, it is the cumulative image held by the consumer, resulting from long exposure through a number of interactions with the firm. In some markets the customer franchise may be so strong as to be exclusive, in effect giving the supplier a monopoly with those customers. For example, banks used to be reasonably confident that once they recruited a consumer as a teenager, he or she would generally remain loyal to them forever. Today this is no longer the case. Consumers regularly switch brands for variety but may retain a positive image of the initial brand. Thus, the customer franchise may still have a value (upon which the advertiser can build) even if the current purchasing decision goes against the firm. A later decision may once again swing in its favor. The customer franchise is, therefore, a tangible asset in terms of its potential effect on sales, even if it is intangible in every other respect.

The customer franchise is based on an accumulation of experiences over time. Unfortunately, too many marketers fail to recognize the importance—and long-term nature—of this investment. They treat each new campaign as if it could exist in isolation, no matter how well or how badly it meshes with previous messages that have been delivered to the consumer. The evidence shows that consumers do not view the advertising and promotion in this way; instead, they incorporate it into their existing image—to good or bad effect—depending on how well the new campaign complements the old. All these efforts affect the brand value of a product or the brand equity of a firm, which can be quite major. When looking at the high prices paid for firms acquired through mergers or for stocks offered in an initial public offering (IPO), the buyer almost always makes such payments in recognition of the value of brand equity. Just as the number of signed-up customers for a cable television company conveys a particular consumer franchise value, so does the number of “hits” on a website indicate the attractiveness of the site to internet users.

Brand equity—Consumers’ image of the firm as a whole, which is valued most apparently at the initial public offering of the firm’s stocks.

Summary

Focus on the buyer is the key dimension of marketing and is what sets the discipline apart from all other business fields. The marketer must therefore understand how buyers come to the decision to purchase a product. This decision-making process is a complex one, both for consumers who are end users and for industrial buyers. For consumers, the process includes the effects of experience, lifestyle, promotion, and price. More general factors influencing consumers may be culture, geography, social class, occupation, psychological factors, peer pressure, and the effect of globalization. Marketers have conducted a great deal of research to understand the consumer decision process better and, as a result, have developed the tools of lifestyle analysis and segmentation to be able to serve consumers more efficiently and more profitably.

On the industrial side, organizational purchasing is subject to a different set of influences, both because it is usually based on derived demand and because the decision is often split between decision-makers and influences. Other factors that affect buyers' product acceptance are the diffusion of innovation, usage, and loyalty and the existence of a customer franchise.

Key Terms

Cognitive dissonance
Conjunctive decision rule
Consumption system
Customer franchise
Customer–consumer orientation
Derived demand
Diffusion
Dissatisfiers
Foreign concern
Generation X
Globalization
Hierarchy of needs
Innovators joint demand
Lexicographic decision strategy
Life cycle
Lifestyle classification
Need recognition
Postpurchase evaluation
Reference groups
Reverse marketing
Satisfiers
Segmentation
Sovereignty

? Review Questions

1. What specific factors, at the time of purchase, may affect the buying decision?
2. What general factors may affect consumer buying behavior? How does social class compare with age as a predictor of behavior? How may residential neighborhoods be used? Are there dangers in following categorizations too closely?
3. What are the two main models of lifestyle? How do they compare with the various psychological approaches?
4. What is diffusion of innovation? How does the customer franchise relate to customer usage and loyalty?

? Discussion Questions

1. Review ► Manager's Corner 4.1 on graduating consumers. Has the Gap family of stores been successful in its attempts among people you know? Would the concept of graduating consumers work better in some industries over others? Why or why not? Examine some of your (possible) future lifestyle changes and analyze how they are likely to affect your product choices in clothing and other areas.
2. In 2002, Jostens Inc. sold \$756 million in school and athletic rings to high school and college students. Marketing memories are a large part of the company's marketing pitch, and hut class jewelry can be considered a once-in-a-lifetime purchase. If a product is not inherently conducive to repeat purchase, what incentive does the marketer have to provide good service? In addition to the Jostens example, consider Batesville Casket Company, a leading manufacturer of caskets in the United States.
3. As more people are pressed for time, shopping has taken on a new look focusing on convenience and speed. In this respect, several internet retailers pose serious threats to their more traditional counterparts. One such company is eToys. The company attempts to reduce the number of steps needed to buy a toy and provide hassle- and kid-free shopping for busy parents [39]. Given that some groups have less time to devote to shopping, can you expect their purchase behavior to change from an optimizing to a satisfying strategy? Analyze the role of the internet retailer in this dynamic.
4. Soda rivals Coke and Pepsi target their US marketing efforts at youth, whereas large coffee roasters tend to use more mature spokespeople. Major coffee roasters such as Maxwell House and Folger's fear that they have missed an entire generation of would-be coffee drinkers with their marketing message. Now they are faced with trying to convince longtime soda drinkers not only that coffee isn't just a breakfast drink but that their supermarket varieties can stand up against popular gourmet varieties such as Starbucks [40]. If it were possible to identify "switchers," should the marketer treat them differently from "loyal users"? If so, what should some of these differences be? Identify ways the major coffee roasters could market to each of these groups.

? Practice Quiz

1. The most influential promotion and recommendation usually comes from all the following EXCEPT
 - (a) Friends
 - (b) Opinion leaders
 - (c) Family
 - (d) Innovators
2. In which strategy of evaluating a product does the consumer set minimum standards for all attributes?
 - (a) Lexicographic decision
 - (b) Conjunctive decision
 - (c) Cooperative decision
 - (d) Attribution decision
3. New opinion leadership now initiates from
 - (a) The upper class
 - (b) Peers in the same class
 - (c) Innovators
 - (d) Achievers
4. According to the Values and Lifestyles System (VALS), which of the following does NOT belong to the VAL group with greater resources?
 - (a) Actualizers
 - (b) Fulfilleds
 - (c) Achievers
 - (d) Believers
5. Which of the following is NOT true about the marketing of industrial products?
 - (a) They are purchased by governments.
 - (b) They are purchased in large quantities.
 - (c) They have lesser value than consumer products.
 - (d) They gain rapid acceptance.
6. Which of the following is NOT an industrial product type?
 - (a) Raw materials
 - (b) Capital goods
 - (c) Complements
 - (d) Supplies
7. In which level of the industrial buying decision are funds allocated for the purchase?
 - (a) Economic buying influence
 - (b) User buying influence
 - (c) Technical buying influence
 - (d) Approver buying influence

8. Which of the following typical patterns of loyalty behavior is the weakest?
 - (a) Hard-core
 - (b) Split
 - (c) Shifting
 - (d) Switchers
9. Customer franchise is
 - (a) A firm's operations in multiple locations
 - (b) A firm's relationship with its buyers
 - (c) A firm's fixed assets
 - (d) A firm's investment in its sales professionals

(You can find the correct answers to these questions by taking the quiz and then comparing your answers with the answers that are provided at the end of the book, under the “Practice Quiz Answers” part of the book.)

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Marketing Research and Information

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■ The Pros and Cons of Cell Phone Survey



■ (Source: ► pexels.com/royalty-free-images/)

Imagine that you are in an amusement park and your smartphone beeps. You've received a text message. The company who owns the park would like to know how you'd rate the cleanliness of the park today. So you send back your answer, which is immediately processed by a database that receives responses from other park-goers. The results of this quick survey show that the park's cleanliness is below acceptable standards for that day, so the park decides to dispatch additional workers to solve the problem.

Companies can reach their target audience via smartphone to conduct *short* surveys using readily available wireless and database technologies. Such short smartphone surveys can be text-based or voice-based or a combination of the two. If the core need of such short surveys to improve customer experience in relation to the customers' need(s) can be explained concisely, customers would possibly spend a couple of minutes of their valuable time to respond to such short smartphone surveys. Also, offering some incentives (e.g., additional points for loyalty schemes) would be instrumental in receiving a higher response from customers to such short smartphone surveys.

For decades, pencil and paper were a researcher's main tools for conducting surveys in the field. Although this method of administering surveys is relatively cheap, the data coding and entry are notoriously time-consuming and error-prone.

This new technology-enhanced data collection method has many benefits over traditional methods of data collection.

- It's simultaneous. Researchers can use wireless surveys to record consumers' real experiences right at the moment of purchase or consumption. To ensure this response, researchers could require respondents to complete the survey at a particular moment of consumption or decision-making.
- It's mobile. Like a watch, a wireless phone is always with the consumer, thus offering convenience for the respondents participating in the survey and, for the researchers, access to the consumers when they're not at home or at a computer.
- It's nonintrusive. The researchers would not just ring random cell phones; respondents would agree to participate in a survey beforehand.
- It's dynamic. Using a wireless network makes it possible to send answers to the back-end database during the survey. So, the survey could be designed to ask branch questions automatically based on previous answers.
- It's longitudinal. A cell phone can be easily associated with a specific person, making it easier for researchers to keep track of each respondent over a period of time.
- It offers higher customization scope, considering that a particular customer's needs, changes in expectation, spending behavior, and so forth could easily be tracked over time based on the wireless technology, in order to synchronize with the customer's changing need(s) to regularly offer customized service.
- And lastly, it's geography-sensitive. Because the location of a wireless phone can be identified and tracked in real time, researchers have the ability to track location-sensitive issues, such as a survey conducted in a certain shopping mall.

One of the major limitations of this technology is that it is not conducive to long questions and answers. There is also the issue of population representativeness. Although the wireless consumer market has been growing exponentially in the United States and in other regions across the world, it still does not represent the entire population accurately, with biases toward higher-income individuals and young people, who would be relatively more tech-savvy in comparison to other population groups.



■ (Source: ► [pexels.com/royalty-free-images/](https://www.pexels.com/royalty-free-images/))

The first companies to implement cell phone surveying in the United States have been in the entertainment industry. AT&T Wireless (► <https://www.att.com/wireless/>) became the first wireless carrier to support wireless phone voting for TV shows when the company partnered with FOX and mobile marketer Mobliss to enable text-message voting for the second season of *American Idol* in early 2003. Later that year, seven wireless operators partnered together with the USA Network and Mobliss to offer text-message voting to the viewers of *Nashville Star*.

Through its partnership with Virgin Mobile, MTV plans to launch a new show called *Video Clash* where viewers vote for the videos they want to see in real time through their Virgin Mobile cell phones. “We want to be everywhere our audience is,” said Van Toffler, President of MTV/MTV2, “so this is the perfect opportunity to team with Virgin Mobile to provide new content on yet another screen our audience is utilizing.”

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5

5.1 Introduction

The tool for listening to customers is marketing research. Before firms can offer new or improved products, they must understand what customers need, how they think, and what their questions are. Much of the marketing research process therefore aims to get closer to the customer and to permit the organization to understand the customer’s perspectives and needs. This chapter’s opening vignette shows how firms attempt to get to know their customers’ thinking based on embryonic technologies.

Marketing research also assists marketers in decision-making. Marketers are often faced with a lack of information and therefore with uncertainty; information can lead to better decisions under these conditions. Uncertainty is normally greater in those markets that are changing and greatest in those that are changing rapidly. Many markets have experienced major shifts in recent years because of global competition and changing market dynamics. Even industries thought to be stable or mature enough to be unaffected by change, such as car production, shipbuilding, the tourism and hospitality sector, training and education services, and the media sector, have experienced dramatic changes in market structure and customer expectations.

Marketing research is also useful for analyzing organizational performance. Leading-edge firms constantly strive to improve their service delivery, their customer responsiveness, and their product assortments. To do so, they need information on their activities and performance. Marketing research therefore requires a constant flow of information, which typically covers markets, customers and consumers, competitive activities, the impact of environmental factors such as governments or sociocultural changes, and the organization’s own marketing activities.

Since marketing research attempts to develop a market-wide intelligence system including customers and all other key stakeholders, it also helps marketers to closely understand the cause and consequence of relationships and interactions between different stakeholders [1], with an aim to avoid future marketing myopia. More about marketing myopia is discussed in ► Chap. 1.

5.2 Evaluating the Benefits of Research

Marketing research requires both time and money—two typically scarce commodities. To make a justifiable case for allocating resources to research, management must understand what the value of the research will be. It should clearly aid

management in improving the decision-making process and thus should aim at managerial rather than statistical significance. At the same time, market research should be recognized as a tool and not a substitute for judgment. Enough of the “right” information is never obtained within the time constraints to dictate the action or course to follow. However, research can be assessed from two perspectives. One approach analyzes the benefits the firm receives from research; the other identifies the downside risk the firm incurs if it does not carry out research.

The context of the decision under consideration must be evaluated when determining the extent and expense of research. The value of a decision with the benefit of research should be greater than the value of the same decision without research by an amount exceeding the cost of the research. In addition, the firm needs to have adequate resources to act on the insights gained by the research. Otherwise, the findings will not contribute to the decision-making process, and the research will be a waste of resources.

Often, however, researchers neglect to assess this **cost–benefit relationship**, particularly when the individual risks and benefits are difficult to quantify (which frequently happens). If insufficient attention is paid to the outcome of research and its cost, the firm risks conducting either too much or insufficient research. Using a cost–benefit justification for research, however, may place the researcher at risk, because after the research is carried out, the actual benefits are measurable and can be compared with the anticipated ones. If the benefits do not materialize, the researcher may be charged with having inappropriately inflated the benefit expectations.

Cost–benefit relationship—The notion that the value of a decision with the benefit of research should be greater than the value of the same decision without research by an amount exceeding the cost of the research.

5.2.1 The Risks of Inadequate Research

As an alternative to the benefit strategy, the researcher can conduct “what if” scenarios that outline the risks the company may incur by operating without sufficient information. Such risks might include a loss of market penetration effectiveness or creation of ill will that precludes any further expansion. In the long run, this justification is easier for the researcher to use than the benefit approach because he or she can point out that some of the worst-case scenarios have not materialized.

5.3 The Market Information System

As a result of the wide availability of databases, the process of collecting and distributing marketing information has become systematized. The system that handles these processes in a controlled and coordinated fashion has come to be

called the **Market Information System (MIS)**. Such a system collects and organizes data that are relevant to the marketer in terms of planning, implementation, and control.

Market Information Systems (MIS)—Computerized databases that collect and organize data that are relevant to the marketer in terms of planning, implementation, and control.

Data—Collection of facts.

Information—Data that have been selected and ordered with some specific purpose in mind.

Intelligence—The interpretation of the analysis of information.

5

It is important to understand that the MIS does not simply take in facts and pass them on. Rather, the system adds value by transforming data and facts into a finely honed tool that will help answer the marketer's specific questions, such as why customer complaints have increased in the last 2 months, why sales have been declining, and so on.

Data are collections of facts—for example, the demographic figures of certain neighborhoods making up the area in which a superstore chain is considering opening a branch. **Information** consists of data that have been selected and ordered with some specific purpose in mind—for example, the overall profile of those neighborhoods. **Intelligence** is the interpretation of the analysis of information—for example, the resulting profile of the superstore's likely customers and its optimal location.

The power of facts increases as they go from the process of raw data to selected prime information to analyzed intelligence, but so does the potential bias applied to the data. At the first stage, the researcher can make errors of omission, as relevant data are left out. Later, errors may consist of attributing meaning to the information that is not really there, but that the researcher wants to be there. Much research information is like the psychologist's Rorschach inkblot test, in which the viewer might "see" anything that he or she can imagine.

5.3.1 System Structure

Many data sources can be entered into an MIS, but they need to be oriented and categorized to the particular information needs of management. The value of marketing information results from having the right information available at the right time targeting the right stakeholder in a market. Many elements of information available to the marketer are based on data held within the organization or data that can be explored further from inside the organization, particularly from performance analyses, sales reports, and employees' ongoing experience of the overall

market dynamics (e.g., based on front-desk employees' customer-facing interaction and experience).

Performance Analyses In most organizations the data on performance, typically derived from order processing and invoicing, are available on computer databases, which should provide accurate sales data by product and by region. If the computer systems have been designed to cope with the level of detail needed, performance figures should be available down to individual customers or clients. On the other hand, this poses the potential problem of information overload: There will be so much information, most of it redundant, that it will effectively be useless as a management tool. There are two possible solutions to this avalanche of data:

- *ABC analysis*—Typically, the reports are sorted in terms of volume (or value) of sales, so the customers are ranked in order of their sales. The highest-volume, or “A-level,” customers are at the top of the list, and the many low-volume, or “C-level,” customers are at the bottom because it matters less if they are not taken into account in decisions. As we have seen, Pareto’s 80/20 rule says that the top 20% of customers on such a list are likely to account for 80% of total sales, so this approach can be used to reduce the data that need to be examined by a factor of five.
- *Variance analysis*—In this approach, management sets performance criteria such as budgets or targets, against which each of the products or customers is subsequently monitored. Only performance that falls outside the expected range is highlighted, so only those items that constitute variances need to be reviewed. However, the variances are only as good as the criteria set. Setting criteria is a major task and is particularly problematic when parameters change over time.

Sales Reports The performance data described in the preceding paragraph have the great advantage of being numerical; this makes abstraction and manipulation easy. Many of the data within an organization are available only as memos or reports, which provide verbal, rather than numerical, information. From the marketing viewpoint, sales reports are perhaps the most useful of these verbal reports. In some respects the reliance on words rather than figures may seem to make the manager’s job simpler because many managers are more at ease with words than with numbers. But this is something of an illusion, and problems can occur in the analysis stage. Because **verbal data** are apparently so approachable, there is a tendency to accept them at face value, particularly if their message reinforces the reader’s own prejudices. Even if a critical approach is retained, the data are often difficult to analyze; the writers of such reports tend to use the same words to mean different things, and the importance they attach to events often reflects their own enthusiasm. In addition, collating a number of such reports and distilling them into an overall impression becomes a matter of judgment rather than of a simple analysis and all too often results in “evidence” used to bolster the manager’s own preconceived ideas. To a certain extent, some of these problems may be corrected by a well-designed reporting system or by the use of electronic mail, which can be structured to help standardize the reporting format and even the language of replies.

Verbal data—The most prevalent type of data within an organization that are available only as memos or reports and do not provide numerical information.

5

All too often, access to key data is limited to a few people; a memo, especially from sales personnel in the field, rarely circulates to more than half a dozen people. The traditional system then requires the recipient (say, the regional sales manager) to recognize important data and incorporate them into his or her own reports to upper management. The management thus travels hierarchically through the organization, being filtered and distorted at each stage. More importantly, it demands that a number of intermediaries recognize the significance of data. If just one person chooses to ignore them, the data never make it to those in the chain above.

The widespread use of electronic mail has a dramatic effect on the availability of such information because it is almost as easy to send a memo to a hundred recipients as to one. Indeed, most email systems have standard distribution lists. This has a number of important implications: The speed of distribution increases because the data become available immediately. The breadth of distribution also increases because the data are distributed to many more employees, providing them with a better perspective of what is happening throughout the organization. Employees are likely to be involved in a lateral transfer of information (between members of a department, and even across departmental boundaries) as well as—or even instead of—hierarchical communications through the normal management structure.

All these changes are a mixed blessing. The fact that memos may be distributed to ten times as many employees also means that each of them now receives many more memos than before. If the employees are not to sink under the torrent of data, new techniques of information transmission and prioritization must be developed. For example, the originators of data will have to find ways to make the content more immediately understandable. The title of the memo will need to be meaningful in itself and may have to be associated with an equally meaningful keyword. A brief summary or abstract will, in any case, be needed for the reader who is skimming the mail to see which items are relevant and should be read in more detail. The verbal data themselves will need to be clearly structured. There will be every incentive to learn these new techniques because those who send long, unstructured memos will soon find that they are not read.

Another shortcoming of verbal material is its retrieval. If not “filed” in the wastepaper basket, memos and reports are often consigned to the vagaries of the manager’s or department’s outdated filing systems. Electronic mail databases can be useful here. Better, though, are the specially developed computer applications for storing and retrieving vast quantities of verbal information. The most useful of these programs index every word in the documents so that an inquirer at a terminal can ask for only those documents that mention a given keyword or topic anywhere in their contents. In this way, repeat problems can be systematically assessed. By

organizing such verbal data on a customer-specific basis, firms can also achieve much greater levels of customer satisfaction. When a customer calls, the sales representative can immediately pull up any earlier correspondence with the customer. For example, in the tourism and hospitality sector, some service providers (e.g., Hilton Hotels, which owns Hampton Inns, Embassy Suites, and DoubleTree) guarantee not to charge visitors for their current stay if they have any complaint. By tracking all complaints on a central database, Hilton management can see where the complaints are coming from. Any hotel repeatedly experiencing the same complaint can be helped to fix the weak points. The system also allows identification of customers who might be tempted to take advantage of the generous guarantee. If a pattern develops, Hilton sends a polite letter to the customer suggesting that if the hotel chain can't meet a high enough standard of quality they could consider staying in a competitor's facility [2].

Input can also come from informal reports, which are the staple diet of management. But if abstracting useful data from written paperwork is difficult, mentioning oral data is not even considered worthwhile—yet they probably represent the most important source of data available to a manager. For example, researchers have found that “Japanese-style market research relies heavily on two kinds of information: **soft data** obtained from visits to dealers and other channel members and **hard information** about shipments, inventory levels, and retail sales. Japanese managers believe that these data better reflect the behavior and intentions of flesh-and-blood consumers” [3]. To make such informal interactions useful requires their condensation into written reports and their entry into the MIS.

Soft data—Data that are obtained from visits to dealers and other channel members.

Hard information—Quantitative data about shipments, inventory levels, and retail sales.

One additional issue to be considered here is that of data longevity. The long-term storage of information can be useful in developing a corporate memory, which may be increasingly important in an era in which people leave firms more easily and quickly. In this context, the storage medium is important to avoid data deterioration. At the same time, many firms are wary of accumulating too much data and preserving them for too long, not so much because of the cost of storage space but because of a concern about changing societal standards. Corporate decisions that may have been sound 20 years ago may come under fierce attack when measured against today's standards. A memo written long ago by a marketing manager may have major implications for a company exposed to a lawsuit. Therefore, many firms increasingly initiate data reduction programs, which eliminate information about old corporate decision processes and therefore reduce corporate exposure to the retroactive application of new standards.

Employees' Ongoing Experience The ongoing experience, knowledge, and overall awareness of an organization's employees about its market dynamics is also a source of market data and information for the organization. For example, if customer complaints have persistently increased in the last 6 weeks, undertaking an internal meeting and discussion with front-desk employees who interact with customers more often would be instrumental to develop an initial insight about the nature of and reasons for the customer complaints. Following such insights based on retrieving data and information from this internal source, further data can be collected from customers to analyze, with an aim to develop greater insights on the relevant issues and perspectives, in order to address them in a way that would be expected and accepted by both the customers and the customer-facing front-desk employees.

5.4 Secondary Data

Two types of data are available to the marketer. They are secondary data and primary data, both available from inside and outside the firm. The main source of internal secondary data is the internal database, and the source of internal primary data is collecting new data from the employees of a firm. On the other hand, the main source of external secondary data is usually published data, often referred to as external secondary data because they have been generated in response to someone else's research questions. Finding internal and external secondary data is the key to sound research, especially to develop initial insight on the problem area related to current marketing research. Some useful sources of internal and external secondary data are discussed in ► Sects. 5.4.1, 5.4.2, 5.4.3, 5.4.4, and 5.4.5. More about primary data is discussed in ► Sect. 5.8.4 (Collecting the Data) of this chapter.

5.4.1 Internal Database

An organization's extant internal database is a key source of internal secondary data. An internal database could be defined as a computer-enhanced system that stores historical data about an organization's interactions with its internal and external stakeholders including customers, in order to analyze the specific internally stored longitudinal data to develop some initial insights on a current marketing research question. Developing preliminary insights on a current marketing research question from such internal secondary data would be instrumental to design a questionnaire to collect primary data to answer the current marketing research question. For example, if sales have been declining persistently in the last 3 months, analyzing previous internal monthly sales data would be useful to understand why during some particular months in the past the sales were higher than in some other particular months. Such initial insights can feed some input in designing the questionnaire to collect primary data to answer the current marketing research question (i.e., How can sales be increased again?), based on posing questions to customers in relation to the effects of different variables that appeared as instrumental to increasing sales in the past.

5.4.2 Libraries

The widest-ranging source of published data is usually a library, possibly one within the organization itself, but more often a public library. In this context, such a secondary data source can be both internal and external to an organization. Many published data are located in journals and specialized periodicals. Libraries often also have available special publications, yearbooks, and directories, many of them accessible either online or via CD-ROM. Such information can cover industry groups, abstracts, or company-specific data. The more specialized libraries run by trade associations or government agencies, such as the Federal Trade Commission, can also be good resources.

5.4.3 Directories and Newsletters

The most important directories are available in your library (internal or external to your organization), but again, the more specialized ones may be found only in the trade association libraries (external to your organization). Directories primarily identify firms and provide very general background information, such as the name of the chief executive officer, the location, the address and telephone number, and some information on a firm's products. The quality of a directory depends, of course, on the quality of input and the frequency of updates. Many newsletters (e.g., from trade associations) would be devoted to specific marketing issues such as new product developments, industry or regulatory changes, or consumer demand patterns. Typically published by special interest groups or commercial providers, newsletters cater to narrow audiences but can supply important information to the manager interested in a specific area. The use of newsletters is particularly important if the firm intends to keep informed about events in a geographically dispersed area. National and international newsletters can provide insights into, say, the newest chemical regulation developments in the European Union, or the changing international trade policy following Brexit, thus alerting the firm to international changes and new market conditions.

5.4.4 Commercial Information Providers

In addition to organizations that provide data in published form, others specialize in providing information in response to specific requests, which are mainly an external source of secondary data for an organization. For example, certain agencies, such as Dun and Bradstreet, provide credit ratings on particular organizations and shed insights on their corporate structure and business activities. Another example is LexisNexis, which offers a wide range of sector-specific longitudinal data. A list of such external information providers is listed in the appendix to this chapter.

5.4.5 Trade Associations

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An excellent source of external secondary data, particularly informal data acquired during conversations at meetings, is trade associations. The membership fee is usually a very good value for the amount of information that can be gleaned from peers' experiences (see ► Web Exercise 5.1). Some of these associations, such as the National Association of Wholesaler-Distributors or the National Association of Manufacturers, focus on types of firms across industries. Others, such as the Air-Conditioning and Refrigeration Institute, are more specific, encompassing firms in a particular industry. Alternatively, some associations, such as the American Marketing Association, focus on certain activities of their members. In all instances, however, like-minded individuals have an opportunity to meet and exchange views. In addition, many associations publish summary industry data, which, although not informative about any specific competitor, can be very useful in terms of general benchmarking information, which allows firms to compare their performance and processes to the industry average.

Web Exercise 5.1

Trade shows allow the gathering of a large amount of competitive information very quickly. Often many direct competitors exhibit at the same show, and conventioners are able to comparison shop with little effort. This ability can be of critical importance in industries in which new products are developed very quickly and secretly. The Canadian International Autoshow is one of the largest auto shows globally. It has been showcasing the latest automobiles since 1974. Visit ► <https://autoshow.ca/> and take a look at the plans for this year's show. What competitors are exhibiting? If you were an attendee, how would you use the exhibits to make purchasing decisions?

5.5 Electronic Information Services

Obtaining marketing information rapidly is often the key to success. When information is needed, managers cannot spend a lot of time, energy, or money finding, sifting through, and categorizing it. Consider the idea of laboring through every copy of a trade publication to find out the latest news about how environmental concerns are affecting marketing decisions. With the proliferation of new technologies, such information is now more readily available than ever before. Online databases and the internet can link computer users worldwide. Databases provide information on products and markets or on companies and what they buy and sell. Market and trade statistics are available from the United Nations, the Organisation for Economic Co-operation and Development (OECD), and the European Union.



■ (Source: ► [pexels.com/royalty-free-images/](https://www.pexels.com/royalty-free-images/))

Compact Disk/Read-Only Memory (CD-ROM) technology allows for massive amounts of information (the equivalent of 300 books of 1000 pages each, or 1500 floppy disks) to be stored on a single disk. A CD-ROM service widely used traditionally in the United States is the National Trade Data Bank (NTDB), a monthly product issued by the US Department of Commerce's Office of Business Analysis. The NTDB includes more than 190,000 documents such as full-text market research reports, import and export statistics, and domestic and foreign economic data, all compiled from 20 government agencies [4]. Along the ongoing progresses of technology, the CD-ROM system has been replaced by the external hard drive as the storage system, which enables users to store a massive amount of data.

Using data services for research means that professionals do not need to leave their offices, going from library to library to locate the facts they need. Many online services have breaking information available within minutes to the user. These

research techniques are cost-effective as well. Stocking a company's library with all the books needed to have the same amount of data available as exists online would be too expensive and space consuming. A listing of selected databases useful for marketing is presented in the appendix to this chapter.

Rapidly growing communication technology allows firms to gather information through electronic bulletin boards and discussion groups. For example, some firms use search engines or software programs to comb through thousands of newsgroups for mention of a particular product. If they find frequent references to the product, they can find out what customers are saying [5]. In a further step, some firms, such as Digital Equipment Corporation, Silicon Graphics, and Sun Microsystems, systematically use the internet to get closer to their customers by developing and interacting with discussion groups about their products. Not only do these activities shed light on customer thinking, but the interaction also saves large amounts of money by reducing customer service calls [6]. The marketer should use all these contemporary technologically enhanced research tools but should also recognize some specific limitations of electronic information services. First, search engines are likely to uncover only a fraction of the information sought. Therefore, the user should not be misled into thinking that the information provided is comprehensive. Also, most internet activities and search engines work in the English language. Although this fact makes life easier for native English speakers, it also carries the risk that information in other languages is being ignored. Because the sources of innovation are global in nature, the marketer should also use other tools to ensure broad international coverage [7].

5

5.6 Evaluating Secondary Data Source and Quality

Before too many resources are spent obtaining secondary data, the researcher must evaluate the quality of the data source, the quality of the actual data, and the compatibility of the data with information requirements.

5.6.1 Source Quality

In evaluating the quality of the data source, the researcher should determine who collected the data, what the purpose of the original data collection was, and how the data were collected. Ideally, the researcher would obtain the initial research specifications that were drawn up for the data collection. If they are not readily available, the organization that collected the data is occasionally willing to supply the specifications. By reviewing the specifications, the researcher can determine the purpose and method of the original data collection and therefore evaluate the data quality and fit. Checking the quality of the source is important because there may be ulterior motives behind a specific form of data presentation. As an example,

some countries may wish to demonstrate that their economy is improving in order to attract foreign investment. As a result, some descriptions of the domestic economy may be overstated.

5.6.2 Data Quality

The relevance of data to the researcher's information requirements plays a major role in assessing the quality of the data. The first test is to determine whether the data provide responses to the firm's particular questions.

The accuracy and reliability of the data must be determined. For example, some international data are notoriously imprecise. As a result, the margin of error of some international statistics can be as high as 25% [8]. The researcher can explore the accuracy of the data, as far as possible, by investigating two dimensions. First, the researcher should determine the primary data source because this information allows an evaluation of source credibility. Further, the primary source usually provides the most detail about data collection methods. The collection methods should be examined to determine whether proper research procedures were followed and whether definitions used are acceptable. Data currency can also be important because secondary data are often outdated. In many nations, the most recent data available may be 3–5 years old. The effect of economic changes during these years on a firm's marketing operations may be quite significant. Obtaining misleading information may lead to inappropriate decisions, a result that runs counter to the intent of marketing research. For example, changes in transportation infrastructure that are not available to the cursory researcher may lead to location decisions that turn out to be inefficient.

Before data are acquired, both data sources and data quality must be carefully evaluated in terms of coverage, availability, accuracy, and timeliness [9]. This step is necessary not only to screen out data that may be expensive to obtain but also to minimize unnecessary cluttering of information. Even if data are free, working through them requires scarce corporate resources. The researcher therefore must ensure that the right data are obtained, using parsimony as the criterion. Otherwise, large data acquisitions are likely to lead to information overload within the firm, with the result that either the data are not used at all or their use becomes so time-consuming that the research is inefficient. ► Marketing in Action 5.1 describes a situation in which conflicting results may call into question the quality of the data collected.

5.6.3 Data Compatibility

The compatibility and comparability of data must also be considered. In marketing research, the researcher must often compare different sets of data from different sources.

Great care must therefore be taken to ensure that identical, or at least similar, units of measurement, definitions, and categories are used. For example, the term *middle class* is likely to have very different implications for income and consumption patterns in different countries around the world.

Marketing in Action 5.1

Can Burger King Believe Its Marketing Research?

Research conducted by North Carolina (USA)-based Hardee's Food Systems, Inc., confirmed that Hardee's (► www.hardees.com) was the favorite fast food of the surveyed consumers. So, how can it be that Burger King's (► www.burgerking.com) marketing research study of 700 consumers reported the following rankings about the favorite hamburger of this set of surveyed consumers?

- 33% picked the Whopper
- 12% liked McDonald's Big Mac
- 9% chose Wendy's single hamburger
- 9% liked the Wendy's Big Bacon Classic
- 3% favored Burger King's Big King
- 2% selected Hardee's Frisco Burger
- 2% preferred Hardee's Monster Burger

Based on these research results, Burger King worked with its ad agencies to create general market ads, ads targeted to the Hispanic market, and ads targeted to the African American market. The ads position the Whopper as the premier sandwich in the fast-food industry and claim that the Whopper is "America's Favorite Burger."

McDonald's (► www.mcdonalds.com) does not see Burger King's ad and accompanying claim as threats. The response has been that consumers vote with their choices and that McDonald's serves 62 million customers a day in the United States. Therefore, why bother as long as consumers continue to "vote across the counter"? McDonald's might have a good point. Its 2019 US sales were \$15.7 billion, whereas Burger King had US sales of \$1.8 billion.

A spokesperson from Hardee's suggests that the validity of Burger King's results depends on the survey design, including the sample composition. How would you conduct marketing research if you worked at Burger King or any of its fast-food competitors?

Sources: Burger King. ► www.burgerking.com. Accessed 11 February 2020; Cebrynski, G. (1999). Burger King Touts the Whopper as 'America's Favorite Burger'. *Nation's Restaurant News*, p. 4; McDonald's. (2020). ► www.mcdonalds.com. Accessed 11 February 2020; Hardee's Restaurant. (2020). ► www.hardees.com. Accessed 11 February 2020; McDonald's. (2020). ► <https://www.mcdonalds.com/us/en-us.html>.

5.7 Primary Marketing Research

Primary marketing data are collected from consumers or customers usually on a sample basis. The stereotypical market research interviewer, standing on the street corner accosting passersby or walking the streets, clipboard in hand, knocking on closed doors, probably collects only a very small part of the data available to any organization. However, these data are particularly important because they often provide the only true listening part of the dialogue with the consumer.

5.7.1 Suppliers of Primary Marketing Research

Many organizations offer market research services because only very large and sophisticated organizations will have the resources to handle all aspects of their own research. ■ Table 5.1 lists the worldwide top 25 market research organizations. These suppliers can offer **syndicated research** and custom research to clients.

Syndicated Research These suppliers usually offer the easiest and quickest service and, typically, have ongoing or ad hoc research programs, the results of which they sell to a number of clients. Some of this can be standard research, such as Nielsen's Retail Measurement (► <https://www.nielsen.com/us/en/solutions/measurement/retail-measurement/>) that provides information on retail purchases by consumers. Shared cost is one advantage of such an approach, but the quality of the research is even more important. Some research can be ad hoc in that a supplier (often one specializing in the industrial field) sees a topic that it believes will be of interest to a number of companies; it then conducts the research and sells the results off the shelf. Some researchers with ongoing programs (especially those conducting opinion polls) will sell space or, more accurately, interviewer time on the back of their omnibus surveys (discussed in the following paragraphs) so that one or two simple questions will be asked of a large sample at a relatively low cost.

Syndicated research—The practice of obtaining research information from new customers and applying the information to the rest of the customer population; usually carried out as retail audits, panel research, and omnibus surveys.

Apart from the ease and speed of obtaining the research information, the great advantage of all these approaches is usually cost. Because the overall cost is shared among a number of customers, the cost to any one client is that much lower. This allows research that few individual organizations could afford to carry out themselves. In most cases it is also quick and easy to organize and therefore serves as a pilot for more complex studies.

The main types of syndicated research are **retail audits**, **panel research**, and **omnibus surveys**. Retail audits are one of the most sophisticated market research operations in terms of logistics. The concept, however, is simple. An auditor regularly visits each retail outlet on the panel, which has been recruited randomly. The auditor carries out a physical stock check on the products being surveyed. The change in stock from the previous visit (combined with the other stock movements, receipt of stock, and so on, which are obtained from the store's records) gives the consumer sales. Such retail audits are generally believed to offer the most accurate results of the volume of consumer sales and, in particular, of the value of such sales. These data are the main basis for brand-share calculations, for the all-important figures of price and distribution levels, and for the level of retailers' stocks, which is often very important where supply management in response to promotions is a feature.

Table 5.1 Worldwide top 25 marketing research organizations

Global ranking – 2016	Organization	Headquarters	Website	Year of establishment	Chief executive
1	Nielsen	New York, USA	► https://www.nielsen.com/	1923	David Kenny
2	Kantar	London, UK	► https://www.kantar.com/	1992	Eric Salama
3	IQVIA (formerly QuintilesIMS)	Durham, North Carolina, USA	► https://www.iqvia.com/	1982	Ari Bousbib
4	Ipsos	Paris, France	► https://www.ipsos.com/	1975	Didier Truchot
5	GfK	Nuremberg, Germany	► https://www.gfk.com/	1934	Peter Feld
6	IRI (Information Resources, Inc.)	Chicago, USA	► https://www.iriworldwide.com	1979	Andrew Appel
7	Westat	Maryland, USA	► https://www.westat.com/	1963	Scott Royal
8	dunnhumby	London, UK	► https://www.dunnhumby.com/	1989	Guillaume Bacuvier
9	INTAGE Holdings Inc.	Tokyo, Japan	► http://www.intageholdings.co.jp/english/	1960	Noriaki Ishizuka
10	Wood MacKenzie	Edinburgh, UK	► https://www.woodmac.com/	1923	Mark Brinin
11	The NPD Group	New York, USA	► https://www.npd.com/	1966	Karyn Schoenbart
12	Macromill	Tokyo, Japan	► https://group.macromill.com/	2000	Scott Ernst
13	ICF	Fairfax, Virginia, USA	► https://www.icf.com/	1969	John Wasson

14	Video Research	Tokyo, Japan	► https://www.videor.co.jp/	1962	Mochizuki Wataru
15	DRG (Decision Resources Group)	Burlington, MA, USA	► https://decisionresourcesgroup.com/	1995	Thomas Halliday
16	BVA	Paris, France	► https://www.bva-group.com/	1991	Pascal Gaudin
17	MaritzCX	Lehi, Utah, USA	► https://www.maritzcx.com/	2015	Mike Sinoway
18	Mintel	London, UK	► https://www.mintel.com/	1972	Peter Haigh
19	Abt Associates	Massachusetts, USA	► https://www.abtassociates.com/	1965	Kathleen Flanagan
20	Lieberman Research Worldwide (LRW)	Los Angeles, USA	► https://lrwonline.com/	1973	Dave Sackman
21	YouGov	London, UK	► https://yougov.co.uk/	2000	Stephan Shakespeare
22	ORC International	Princeton, USA	► https://orcinternational.com/	1938	Oliver Rust
23	NRC Health	Lincoln, USA	► https://nrchealth.com/	1981	Michael D. Hays
24	Médiamétrie	1985	► https://www.mediametrie.fr/	1985	Yannick Carriou
25	Cello Health	London, UK	► https://cellohealth.com/	2004	Stephen Highley
Source: ► https://www.ama.org/marketing-news/the-2017-ama-gold-global-top-25-market-research-companies/ (accessed 10 April 2020)					

Retail audits—Market research in which an auditor regularly visits each retail outlet on the panel and carries out a physical stock check on the products being surveyed.

Panel research—Market research aimed to create consumer profiles; usually collected via home audit or the diary method.

Omnibus surveys—Market research that is similar to ad hoc surveys, except that space on the questionnaire is “sublet” to different researchers, which results in a mini-survey within a survey.

Panel research is another way to measure consumer behavior. At its best, this research may approach the accuracy of retail audits, with the added advantage that it offers consumer profiles. These panels adopt a variety of techniques and cover a range of subjects. The two main approaches are the home audit and the diary method. In the home audit, the panel member is required to save packaging in a special receptacle. Once a week, an auditor checks the contents of the receptacle and the stocks of products in the house and asks the householder a short list of questions. This technique is particularly successful if respondents have a low attrition rate and provide long-term feedback. With the diary method, the householder records the required information in a diary, which is collected by the interviewer (or, less successfully but more cheaply, returned by mail). Both methods have, over long periods, been shown to provide accurate share data. Most importantly, these panels can show trend data, repeat purchasing, and brand-switching information, which are almost impossible to obtain when using other methods.

Omnibus surveys are very similar to ad hoc surveys, except that space on the questionnaire is “sublet” to different researchers, providing, in effect, their own mini-survey. Omnibus surveys are often run on the back of ongoing research, such as political or opinion polls. The cost benefits can be significant because fieldwork forms the major element of most market research costs. Such surveys may also provide a faster turnaround of results, particularly if the survey is conducted by telephone. However, the questionnaire needs to be short, its questions cannot be complex, and the context may be unpredictable because the questions asked by the other researchers cannot be controlled. Such surveys can also be used to locate individuals belonging to target groups so that they can be followed up by conventional ad hoc surveys.

As computer ownership rises across the globe within the general population, it will also be more likely for respondents to participate in electronic research. Large cyber panels will make it easier to receive input from highly targeted populations, thus providing better information at relatively lower cost. Given the rapid developments in technology, it may well be that electronic surveys and cyber panels become dominant forms of data collection [10].

Custom Research Custom research is the staple diet of the market research industry. The research organization is commissioned by a client to undertake a specific research

task, and it accepts responsibility for all aspects of the research. There is usually quite a distinct split between organizations that specialize in the consumer fields—the province of the large random surveys—and those in the industrial field, in which research often revolves around extended interviews with individual organizations. Clear divisions also exist between those involved in retail audits, those conducting questionnaire surveys on individual consumers, and those conducting group discussions or in-depth psychological interviews. In addition, many research firms concentrate mainly on the measurement of marketing performance—by investigating, for example, the effectiveness of advertisements. This latter form of research is growing quite rapidly, particularly because of the expansion of interactive media. For example, Nielsen Media Research founded a joint venture with Internet Profiles to provide firms with information about individuals using the internet to visit a World Wide Web home page. With the help of a profile card filled out by browsers, firms can then structure follow-up activities [11].

Within the market research community, firms often specialize in performing research subtasks. For example, an agency that has been commissioned by a client will typically plan and design the research itself but may appoint a subcontractor to provide the sample based on a specialist database, another organization to pre-test the research, a further company to conduct the main series of interviews in the field, and yet another to analyze the results.

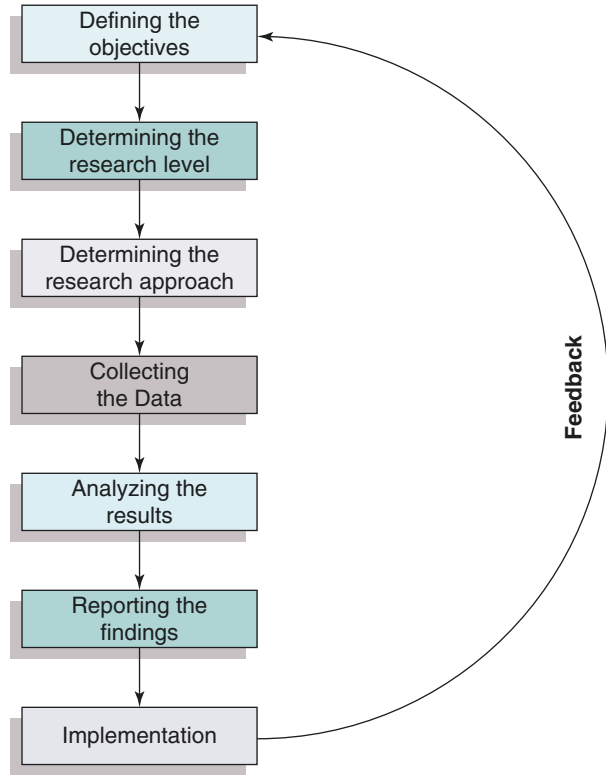
5.8 The Marketing Research Process

■ Figure 5.1 presents an overview of the key steps necessary to plan and conduct primary marketing research and also serves as an outline for the subsequent discussion in this chapter. Although taking a shortcut and skipping some of the steps may sometimes appear attractive, doing so is unwise because each step assesses the conditions particular to the research and therefore focuses the subsequent activities more tightly. By taking a shortcut, the researcher risks losing this focus and spending more rather than less effort.

5.8.1 Defining the Objectives

Defining the objectives is the most important stage of all marketing research and the one at which the research is most likely to be misdirected. Only the client can know the problem area that he or she wants the research to investigate. However, problem identification can be a great challenge. All too often, symptoms are mistaken for problems, and, as a result, the research programs developed chase shadows instead of substance. An instance of such a mistake would be research conducted by Federal Express with the intention of avoiding loss of market share to UPS, when the real problem may be the increased use of email. A marketing research expert can help to translate the client's ideas into a suitable framework. Without expertise, it is all too easy to pursue the wrong issue or to introduce bias that will skew the results.

■ Fig. 5.1 Key steps in marketing research

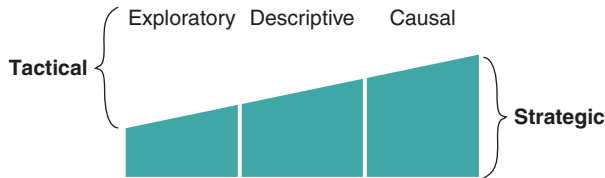


The objectives need to be clearly stated and unambiguous. On the other hand, they should not prejudice the issue. Market research will fail if it is merely asked to confirm the existing theories of the commissioning organization. This failure can be the result of **errors of commission** by slanting questions to produce the answers that the organization expects or wants. A good market research agency should detect such bias and remove it. Errors of omission—key questions never asked—are more difficult to deal with; this is a problem that few market research organizations are in a position to detect unless they are thoroughly familiar with the issues under study.

Errors of commission—A failure that results from slanting questions to produce the answers that the organization expects or desires.

5.8.2 Determining the Research Level

The three possible research levels are exploratory, descriptive, and causal. The differentiation is necessary because each level requires varying commitments of time and funding. Furthermore, the answers supplied have varying utility to the corpo-



■ **Fig. 5.2** Corporate usefulness of different types of research (Source: Czinkota, M., & Ronkamen, I. A. (1995). *International marketing* (4th ed.) Copyright © 1995. Reproduced with permission of Southwestern, a division of Thomson Learning: ► www.thomsonrights.com)

ration, ranging from mainly tactical at the exploratory level to strategic and long term at the causal level. ■ Figure 5.2 depicts the changes in corporate usefulness of the three types of research. Each objective has merit, depending on corporate needs, but the strategic insights are most useful for the long-run success of the firm.

Exploratory Research Exploratory research is most appropriate when the primary objective is to identify problems, to define problems more precisely, or to investigate the possibility of new, alternative courses of action. Exploratory research can also aid in formulating hypotheses regarding potential problems or opportunities that are present in the decision situation [12]. Frequently, exploratory research is only the first step in further research activity. To some extent, it can be compared to a fishing expedition or to a charting of the waters for the uninitiated. Exploratory research can be very useful to gain initial insights into the new environment, its customers, and its suppliers. It is often characterized by the need for great flexibility and versatility. Because the researcher is not knowledgeable about the phenomenon under investigation, there is a need to quickly adapt to newly emerging situations to make the research worthwhile. The emphasis is on qualitative rather than quantitative data collection, and on quick rather than slow answers. This, of course, means that exploratory research is less subject to the rigors of more precise research and is therefore less reliable. Exploratory research can be most useful in answering the basic question for the researcher, “What is the problem? (e.g., why customer complaints have been increasing persistently in the last six weeks)” Exploring, defining, and framing the problem are often far more essential than its solution, which may be merely a matter of mathematics or experimental skill. If the basic research objective is to define a problem or to gain a feel for a situation or to provide an overview, exploratory research may be the most appropriate activity from the standpoint of both time and money.

Exploratory research—The research level most appropriate when the primary objective is to identify problems, to define problems, or to investigate the possibility of new, alternative courses of action.

Descriptive Research Descriptive research provides information about existing market phenomena. For example, market characteristics such as the socioeconomic

position of customers or their purchasing intent may be analyzed. Such research is often used to determine the frequency of marketing events, such as the frequency of customers visiting the store or of machines needing to be replaced, and investigates the degree to which marketing variables are associated with one another. Based on this determination, predictions can then be made regarding future occurrences in the market. The researcher typically uses descriptive work to look for similarities and differences between markets and consumer groups. Similarities can then be exploited through standardization, and differences can assist in the formulation of an adaptive customized business strategy.

5

Descriptive research—The research level most appropriate when the primary objective is to provide information about existing market phenomena.

Although several interviews may be sufficient for exploratory research, descriptive studies often require larger quantities of data because the requirements for an accurate portrayal of the population under study are much more stringent. To carry out descriptive work, the researcher needs a substantial amount of information about the phenomenon under study. Hypotheses are customarily preformulated and subsequently tested with the accumulated data. The research design needs to be carefully planned and structured. The intent of descriptive research is to maximize accuracy and to minimize systematic error. The researcher aims to increase reliability by keeping the measurement process as free from random error as possible. Descriptive research does not provide any information about causal interrelationships, but this does not necessarily detract from its value. Quite often, firms have little interest in the underlying causes for interaction and are satisfied if linkages can be described. As an example, a firm may benefit from knowing that in January, soft drink sales will drop by 30% from December's levels. Whether this development results from lower temperatures or from decreased humidity may be much less useful information.

Causal Research Causal research identifies precise cause-and-effect relationships present in the market. The level of precision is higher than that for other types of research because reasonably unambiguous conclusions regarding causality must be presented. Therefore, causal research is often the most demanding type in terms of time and financial resources. It intends to present answers for why things happen and to highlight details of the relationships among variables. To extract the causality from a variety of unrelated factors, investigators often need to resort to longitudinal and experimental measures. **Longitudinal measures**, which are measurements repeated over time, are required because after-the-fact measurement alone cannot fully explain the effect of causality. Similarly, experimentation is often necessary to introduce systematic variation of factors and then measure the effect of these variations. Consider the example of soft drink sales. If the researcher were to measure only the sales of a particular brand at one time, detect-

ing usage patterns over time would be difficult. Repeat measurements can assist in tentatively identifying the effects of temperature and time of year. However, to understand the relationship precisely, the researcher also must control for factors such as competitive prices, promotion, and store shelf location. Therefore, experimentation is required to cleanly filter out other causal effects. Obviously, causal research is useful only if the research objective is to identify interrelationships and if this knowledge makes a sufficient contribution to the corporate decision process to justify the investment.

Causal research—The research level most appropriate when the primary objective is to identify precise cause-and-effect relationships present in the market.

Longitudinal measures—Measurements repeated over time because after-the-fact measurements alone cannot fully explain the effect of causality.

Descriptive studies constitute the vast majority of marketing research. Exploratory research is often seen as an insufficient basis for major corporate decisions, and causal research is seen as too time-consuming, too expensive, and insufficiently beneficial to be justified. Corporations are mostly satisfied when management believes that a thorough understanding of a market situation has been obtained and that reasonable predictability is possible. Because corporate research is usually measured by its bottom-line effect, descriptive studies often appear to be most desirable.

5.8.3 Determining the Research Approach

Although many different types of research approaches are used, one principal differentiation is their type of data yield, which can be either qualitative or quantitative. The qualitative approach intends to gain informed insight and a better understanding of a phenomenon—without too many pretenses about generalizability. The quantitative approach is the numerical one, in which researchers intend to manipulate numbers to extract information such as correlations. In the latter case, conditions of representativeness of data must be met (often through random sampling) together with minimum numbers of data points. Only if these conditions are fulfilled can statistical procedures be applied.

Qualitative Research Among the types of qualitative data-gathering techniques, observation, in-depth interviews, and focus groups are the most frequently used.

Observation involves watching participants as they undertake some activity, simply to see what happens. The pattern of customer flow in a supermarket is best determined by simply watching it (albeit using sophisticated video recording and computer analysis to make the data more meaningful). Observation can also help

in understanding phenomena that would have been difficult to assess with other techniques. For example, Toyota sent a group of its engineers and designers to southern California to nonchalantly observe how drivers get into and operate their cars. They found that women with long fingernails have trouble opening the door and operating various knobs on the dashboard. Based on their observations, Toyota's researchers redesigned some of the automobile's exterior and interior features [13].

5

In-depth interviews can last an hour or more. One format is the nondirective approach, in which the interviewer allows the respondent to answer the semistructured interview questions in any form. When the answers are kept totally open-ended, the freedom of expression often leads to a less constrained view of true attitudes, but the responses must be analyzed by skilled personnel. For example, requesting the field sales team members to describe their views on which factors/variables related to the core and additional value of our product would have the most implications to successfully close a sales lead. Based on their experience, our field sales team members could identify the key factors/variables and could describe how such factors influence our buyers' decision-making. Following the analyzed data from such open-ended questions where participants describe their views and experience, the product itself could be modified, and additional value-added features could be integrated in relation to those factors/variables that have implications for successfully closing a sales lead.

In *focus groups*, a selected, relatively homogeneous group of six to ten participants is encouraged to discuss the topics that the researchers are investigating. The moderator, who is often a trained psychologist, carefully leads the discussion, ensuring that all the group members express their views. The interviewer's role is essentially a passive one, mainly to foster group interaction and to control any individual who is dominating the group. The goal of a focus group is for the participants to develop their own ideas in an unstructured fashion, interacting with and stimulating others. The whole session is usually captured on tape or video for later in-depth analysis. This type of research often allows insights that are hidden by the preconceived questions posed in conventional surveys.

The concept of focus groups is based on the assumption that individuals are more willing to talk about a problem amid the security of others sharing the same problem [14]. Focus groups are a superb mechanism for generating hypotheses when little is known and thus constitute a particularly productive approach to developing the first stage of larger research projects. Focus groups are often used as a cheaper and faster alternative for those organizations that cannot afford full-scale research. However, the researcher should beware of attributing too much generalizable significance to the results—in particular to any purported statistical outcome—because nonrandom samples do not allow for any statistical conclusions. In addition, the conclusions depend on the researcher's interpretations. With the advances that have occurred in the communication field, focus groups can now be conducted electronically, thus saving time and money, as ► Manager's Corner 5.1 shows.

Quantitative Research Quantitative research provides a sufficient number of scientifically collected data points to permit the application of statistical techniques in the analysis. The importance of such techniques varies by individual manager and culture. In some countries, for example, primary emphasis is on understanding a phenomenon through creative—and sometimes daring—interpretation of limited data. In others, such as the United States, the accumulation of large quantities of data, their subsequent manipulation through sophisticated analytical procedures, and the discovery of statistically significant results are seen as important components of research. Regardless of the approach taken, the key is the managerial significance of data, which refers to the resulting knowledge that permits the manager to make better decisions. Typical quantitative research approaches are experimentation and surveys.

Experimental research exposes selected participants to different treatments. It may range from testing new products to viewing commercials and measuring responses to them. In theory this approach may be used to establish causal relationships. In practice it is more frequently used to select the best alternative from a range of products or advertising concepts or even more pragmatically to check that the one already chosen is acceptable.

The basis of much experimental research is a comparison between groups. In a before-and-after setting, which is the most customary approach, the subject is tested prior to and after exposure to a stimulus, typically a product or commercial. The performance of the product or commercial is judged by the change in the measurements taken of the subject, normally in terms of attitudes. An example of such an approach may be a taste test of different colas administered to consumers. In a split-run approach, the different stimuli are applied to separate but statistically equivalent groups, and the results are compared. For example, cable TV systems and different online social media platforms permit the broadcasting of different direct response advertisements in the same test market city. In this way, the effectiveness of the various advertisements can be measured.

The most widely used marketing research is the survey or questionnaire-based research. Typically, it may be designed to discover the participants' habits, attitudes, wants, and so on, simply by asking the respondents a number of questions. The question structure must be developed carefully and skillfully. First, the questions must be comprehensive, because a question not asked will not be answered. Second, they need to be in a language that the respondents understand so that the answers will be clear and unambiguous. Many words used by researchers and their clients, even those from their everyday language, may be unfamiliar to the respondents they are testing, particularly if their respondents are less well educated. Even a word such as *incentive* is likely to be fully understood by only about half the population. The key is to keep questions clear by using simple words, by avoiding ambiguous words and questions, by omitting leading questions, and by asking questions in specific terms, thus avoiding generalizations and estimates [15].

Manager's Corner 5.1***Online
Focus
Groups***

Conducting focus groups over the internet has its advantages and disadvantages. Marketing researchers state that the groups are cheaper to conduct online; results can be tallied quickly, since transcripts are available immediately; and developing technologies, such as simultaneous language translation, make the presentation of those results more attractive. Reviewing websites is a natural subject for online focus groups, and, not surprisingly, this is the service for which these groups are used most. One market researcher used virtual focus groups to find out whether the reason his firm's website wasn't getting as many hits as expected was that the graphics-heavy site took too long to download.



Another advantage of online groups is their effectiveness in bringing together people from different parts of the world, especially those in higher-income brackets who cannot spare the time to travel to the site of a traditional focus group. The most significant drawback is that unlike the traditional focus groups, body language and nuances of speech cannot be observed. Also, a moderator has to make sure that it isn't always the fastest typist who wins.

Another form of online research uses specially designed software instead of a moderator to conduct focus groups. To use the software, group members assemble in a room wired with networked computers. They then type their ideas about the topic they are discussing onto their screens. All group ideas are printed on a large screen in the middle of the room. Research indicates that the process can be better controlled because each group member has an equal voice and it is difficult for any one person to dominate the discussion. When using the specially designed software, members tend to remain more focused on the task at hand, brainstorm more effectively, and make decisions faster. The hitch is that the computer lab atmosphere tends to be a negative experience for the members. So, although more useful information can be obtained in the short term, the participants may be alienated. In the future this problem could be solved by having people use the software on electronic mail from their homes.



(Source: ► [pexels.com/royalty-free-images/](https://www.pexels.com/royalty-free-images/))

Despite certain limitations of online focus groups, researchers consider them as an effective data collection method in the contemporary world, where business and social interactions between different stakeholders are increasingly taking place in different online platforms. In this context, recent research (i.e., Thompson, 2019, p. 281) highlights the three core advantages of online focus groups as a data collection method. “First, the (online) environment consciously engages participants in spontaneous interaction with other participants by using communication tools familiar to them. Second, elaborated discussion can be stimulated by introducing ideas and trends through visual mediums and artefacts. Third, the virtual setting provides remote access by the researcher which shifts power relationships so discussions flow more naturally between participants.” Furthermore, because of the ongoing progress of information technology and the potential transition from two-dimensional (2D) virtual space to three-dimensional (3D) virtual space, researchers have also started considering the potential of Avatar-based focus groups (AFGs). Avatar-based focus groups are conducted in three-dimensional (3D) virtual worlds (VWs) as compared to face-to-face and online focus groups (OFGs), motivated by the ability of VWs to stimulate the realism of physical places (Gadalla et al., 2016, p. 101).

Similar to OFGs, AFGs enable participants to contribute from any geographical location which is convenient to them. Moreover, AFGs not only reduce the cost of organizing a focus group but also reduce the cost and time of data transcription (Gadalla et al., 2016). In addition, because of the 3D virtual environments, AFGs would be more enjoyable and interesting to participants in comparison to OFGs, as AFGs offer further opportunity to ensure equitable and analogous self-presentation for researchers and participants. The scope of nurturing the participants' sense of anonymity, social cues, and emotions through AFGs enables participants to contribute honest opinion on the topic of discussion while promoting interactions and equality. Also, AFGs are less stressful for both researchers and participants in comparison to OFGs. Besides discussing these advantages of OFGs, Gadalla et al. (2016) also discuss the challenges of OFGs, which are establishing an effective cross-cultural equivalence, limited only to the online users and participants who have the relevant skills and experience, loss of facial expression and face-to-face communication, additional attention to reduce off-topic discussion, and technical challenges such as loss of internet access.

Sources: Thompson, R. (2019). Online conferencing for focus group discussions with teenage girls. *Qualitative Research Journal*, 19(3), 281–293; Gadalla, E., Abosag, I., & Kelling, K. (2016). Second life as a research environment: Avatar-based focus groups (AFG). *Qualitative Research Journal*, 19(1), 101–114; Kiely, T. (2004). *Online vs. face to face U.S. telephone groups*. ► www.mnau.com. Accessed 16 August 2004; Wired focus groups. *Harvard Business Review* (1998, January/February), pp. 12–16; Weissman, R. (1998, November). Online or off target. *American Demographics*, pp. 20–21; George Silverman.

The researcher must also pay close attention to question content. Questions must reflect the ability and willingness of respondents to supply the answers. The knowledge and information available to respondents may vary substantially because of different educational levels, and that may affect their ability to answer questions. Further, societal demands and cultural restrictions may influence the willingness of respondents to answer certain questions. For example, in countries where the tax collection system is consistently eluded by taxpayers, questions regarding level of income may be deliberately answered inaccurately. For some respondents, the focus of a particular question may be sensitive, so the researcher may want to address a topic indirectly. For example, rather than ask, “How old are you?” the interviewer could ask, “In what year were you born?”

To ensure that the questions asked are valid and meaningful, it is sound practice to pretest the questionnaire on a number of respondents so that potential problems can be debugged before the cost of a full survey is incurred. Researchers too easily forget the communications elements of questionnaire design—and confusion is as much a problem in research work as bias. It is worth remembering at all times that marketing is about a dialogue—a two-way communication. Clarity in the questionnaire and in the ideas behind it is rewarded by clarity in the results.

Questions can be unstructured or structured. Unstructured questions allow respondents to answer in their own words. Although each question is fixed, there is no preconceived set of expected answers. This means, however, that to be statistically useful, the resulting answers later have to be categorized into groups that make sense. This step imposes extra costs and requires that the person coding the results understand what the cryptic comments from the respondent really mean.

These open questions may take simple forms such as “Why did you buy Brand A?” With structured questions, the respondent is asked to choose from among several alternatives, or the interviewer is asked to listen to and then code the respondent’s answer to an apparently open question against a number of preconceived answers. The advantage of structured questions is that the answers are easy to analyze and are unambiguous. The obvious disadvantage is that this precludes the respondent from giving an answer outside these limits, although often one choice is “Other,” allowing for a free-form explanation.

In structured questionnaires, respondents are often asked questions such as “How frequently do you purchase Brand A ?” or “How much did you pay?” Responding to such questions may require almost impossible feats of memory for many respondents unless the process being investigated is a very regular one. Mitigating this problem is the development of categories, which can be handled more easily. For example, the basic question can be expanded to cover a number of alternatives from which the respondent is asked to select one or more. Also useful are semantic differentials, in which the respondent is asked to choose a position on a scale between two bipolar words or numbers (e.g., Excellent, Good, Adequate, Poor, Inadequate; or from 5, powerful, to 1, weak). As originally developed by Osgood, there were 20 specific rating scales [16]. One widely used form of scaling, developed by Likert, asks the respondent to rate opinion statements presented one at a time in terms of Strongly Agree, Agree, Neither Agree nor Disagree, Disagree, and Strongly Disagree [17].

5.8.4 Collecting the Data

Among the possible methods of contacting respondents for collecting primary data are postal mail, email, online applications, telephone, and personal interviewing.

Mail (postal mail and email) Postal mail is one of the least expensive solutions to data collection. Furthermore, collecting data through email would be free of cost. Large overall samples can be used, allowing investigation of small market groups—especially in industrial markets—while still remaining within acceptable statistical levels. But in many respects, a mail questionnaire is the least satisfactory solution because the questions have to be simple and the questionnaire short. The mail questionnaire must be particularly well designed to keep the respondent interested and motivated to reply. Still, the response rates are sometimes so low that the statistical validity of the results may be questioned because it is arguable that the nonresponding majority might behave differently from those who have responded. This problem may be addressed in several ways. Researchers can attempt to increase the response rate by prenotifying individuals that they will receive a survey, by offering participants some form of reward in return for the completed questionnaire, or by conducting follow-up mailings that ask nonrespondents again for their participation. Researchers can also attempt to reduce the nonresponse bias of sampling by following up, typically by telephone, on a subsample of those not complet-

ing the questionnaire, to see whether their views are different from those replying. If they are not different, the assumption is made that those responding are representative of the sample as a whole.

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Online Applications The advances of information technology offer additional options to collect primary data based on different online applications, such as SurveyLegend, Spark Chart, SurveyMonkey, VibeCatch, FastField, SightMill, Multirater Surveys, Survey Anyplace, RotatorSurvey, MySurveyLab, and so forth. Similar to email questionnaire, such online applications enable researchers to invite a large number of prospective participants to respond to a survey questionnaire. One advantage of such online applications to collect primary data is it enables researchers to collect, analyze, and store data in a single online platform. It also offers the advantage of sending autnotification to the participants to complete the questionnaire. Another merit of such online applications is that the built-in analytical tools of such applications would be instrumental to further enriching the quality of data analysis in order to develop additional insights from the collected data. Some of such online data collection applications could be completely free to use, and some others could charge an amount to use them; however, researchers should be cautious in selecting the right application among the many available online data collection applications, in relation to the need and focus of their research.

Telephone Using the telephone to contact respondents is a very fast survey technique; results can be available in a matter of hours. Therefore, this approach is often used for opinion polls in which time is of the essence. It is also relatively inexpensive and thus affordable. Telephone interviews can last only a short time, and the types of questions are limited, particularly because the interviewer cannot check visually to see that the question is understood. However, the interviewer can follow up on questions, clarify issues, and adapt the entire questionnaire to the respondent's specific situation during the questioning.

Personal Interviews The personal interview is the traditional face-to-face approach to marketing research, and it is still the most versatile. Personal interviews can be undertaken in person and via an online platform such as Skype. The interviewer has much control of the interview and can observe the respondent's body language especially during traditional in-person interviews, as well as the words of the interviewees. It is, however, one of the most expensive approaches to collect primary data considering that it lasts around an hour or more, and because of people's busy lives, a good incentive would be required to receive positive feedback from the prospective interviewees. Also, it is heavily dependent on the reliability and skill of the interviewer. This means that the quality of the supervision provided by the field research agency is critical. To avoid interviewers making up interviews, reputable agencies exert necessary control over their personnel, usually by having a field manager conduct follow-ups of a subsample.

Samples With both qualitative and quantitative approaches (especially quantitative), it is important to obtain a representative sample in advance, although local

conditions may make such a task difficult. In some regions, reliable mailing addresses may not be available; for example, in some countries especially in remote regions, many houses may not be numbered, which makes it difficult to reach the prospective participants through postal mail. Mailing lists may not exist in some countries, and only limited records may be available about the number of occupants in a dwelling. Telephone ownership may be unevenly distributed among the population under study, or some subgroups may have more unlisted numbers than others. When privacy laws prohibit random dialing, important groups may not be represented in the research findings.

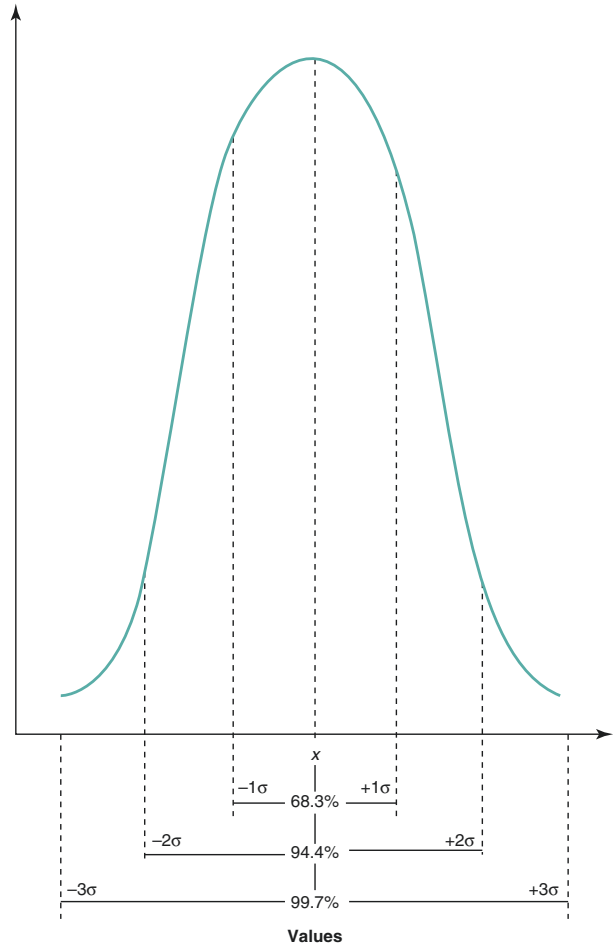
The basic principle of sampling is that researchers can obtain a representative picture of a whole population—the total group of people being investigated—by looking at only a small subset. This is a very cost-effective way of obtaining information. Samples are important in terms of understanding the accuracy that may be placed on the results. They also offer a good indication of the quality of the work being carried out. To guarantee accuracy, the respondents to any respectable market research should be chosen to offer a statistically valid sample, which permits valid statistical analyses. The typical ways in which a sample is chosen are the random approach and the quota approach.

Random samples are the classically correct method. A list of the total population to be sampled is used as the basis of selecting the sample, most rigorously by using tables of random numbers, but most simply by selecting every “*n*th” name. A reasonable degree of accuracy may be achieved with samples as small as a few hundred. Occasionally, much larger overall samples are used to also observe smaller subsamples. An alternative and cheaper approach is cluster sampling, which may lose little accuracy if correctly employed. This approach consists of selecting the districts for interviewing on a random basis. Within these districts respondents can also be specified randomly or can be obtained quasirandomly, by “random walk” (i.e., by querying every tenth house on a given street). In the case of a stratified sample, the original population is categorized by some parameter—age, for example—and random samples are then drawn from each of these strata. This method ensures that there are adequate numbers in each of these subsamples to allow for valid statistical analyses.

The advantage of random samples is that they are statistically predictable. Apart from any questions on how comprehensive the original lists are, they are unlikely to be skewed or biased. Even then, results from poorly controlled research may be biased by poor sampling. This may be due to inadequate coverage, attributable to incomplete lists of the overall population. However, it is more likely due to a high proportion of nonrespondents. It has to be assumed that their responses would have been different from those who did respond, with the result that particular groups of respondents are overrepresented. Whatever the circumstances, the statistics, particularly those related to the degree of confidence that can be placed on the results, are easily applied.

Statistical theory assumes that the results will follow a normal distribution, with *normal* being used in a particular statistical sense to describe a symmetrical bell-shaped curve (see  Fig. 5.3). Under these circumstances, the statistical chance of deviation from the central part of the curve, the mean, is given by the

■ Fig. 5.3 A normal distribution curve



standard error. Statistically, this means that 68% of any results would lie within one standard error of the mean, and 95% within two standard errors.

The formula for the standard error (SE) is

$$SE = \sqrt{\frac{P(100 - p)}{n}}$$

where p is the percentage of the population having the attribute being measured and n is the sample size. Thus, if 10,000 households are included in the sample and we find that 10% of them record the behavior we are measuring, we can calculate that

$$SE = \sqrt{\frac{10(100 - 10)}{10,000}} = 0.3\%$$

This calculation would enable us to say that we are 68% confident that the result lies between 9.7 and 10.3%, and 95% confident that it is between 9.4 and 10.6%. If, on the other hand, the sample was just 400, the range within which we could be 95% confident would need to be much wider (between 7 and 13%—as the standard error would then be 1.5%). It is clear, therefore, why sample sizes often approach 1000 respondents.

Quota samples aim to achieve an effect similar to stratified random samples by asking interviewers to recruit respondents to match an agreed quota of subsamples. This is supposed to guarantee that the overall sample is an approximately representative cross section of the population as a whole. For example, the interviewer may be required to select certain numbers of respondents to match specified ages and social categories. This technique clearly may be subject to bias because interviewers select only the more accessible respondents and exclude the more elusive elements of the population. In the strict theoretical sense, applying statistical tests to these data is inappropriate. However, quota sampling is significantly cheaper than using random samples, so it is an approach frequently used for commercial research. Despite its apparent theoretical shortcomings, it often works well. As the quality of quota sampling depends directly on the quality of the interviewer, it is the approach most likely to suffer from sacrificing quality to achieve cost savings. If poorly controlled, it may all too easily degenerate into “convenience sampling” or interviewing whoever is easiest—not a genuine form of sampling by any standard [18].

The drawing of large samples is relatively easy in consumer market research because large numbers of consumers usually are available. The application of sampling is less easy in an industrial market setting. At one extreme, the industry itself may be so small that a survey will cover all the customers—therefore becoming a census. Because of this small population, there may be problems in individual willingness to respond, as even aggregate data may be too revealing of a specific firm’s data. In larger industries, with a few industry leaders, there may also be the problem of information request overload. For example, the firms on the Fortune 500 list often receive hundreds of questionnaires a week and are therefore no longer able and willing to participate in survey research. Furthermore, it is increasingly difficult to ensure that a mail questionnaire, for example, actually reaches the intended recipient. Often such research instruments are either screened out by a gatekeeper or are responded to by individuals who are not well informed about the phenomenon under study. Unless a particular line of inquiry is of special importance to the industrial recipient of a questionnaire, response willingness tends to be low. Low response rates, in turn, prompt doubts about the validity of the results. However, technology again comes to the rescue—at least momentarily. Email permits surveys to be administered quickly, at a low cost, and to the precise respondent intended.

5.8.5 Analyzing the Results

Collected data can be analyzed in a variety of ways. Increasingly, analysts use the massive computing power now available to cut through the superficial results. The mathematics of these various techniques is beyond the scope of this book; the practical skill needed is that of finding the best expert to implement them and

knowing how much reliance to place on his or her judgment. Researchers should, of course, use the best tools available and appropriate for analysis. On the other hand, researchers should be cautioned against using overly sophisticated tools for unsophisticated data. Even the best of tools will not improve data quality. Therefore, the quality of data must be matched with the quality of analytical tools.

Some examples of the more popular analytical tools used by practitioners include multiple regression analysis, factor analysis, cluster analysis, and conjoint analysis. All of them can serve to identify common elements or connections within the data. By grouping data into related variables, these techniques reduce the scope of the data set and achieve stronger differentiations between groups, which in turn allows the marketer to focus better on each one of them. In terms of data analysis software, NVIVO is popular for qualitative data analysis, and SPSS and PLS SEM are widely used for quantitative data analysis.

5.8.6 Reporting the Findings

The final research stage is to disseminate the results. This process may require more effort, and be more important, than the simple clerical task that it superficially seems to be. For one thing, the researchers need to identify those to whom the results are useful. Equally important, the language of the report may need to be “translated” for different audiences; very few managers may care about the detailed terminology of market research. This poses some problems. The process of simplification may result in the loss or alteration of some meaning. One favorite approach in presentation to top management is to augment the dry statistics that have already been considerably simplified with verbatim quotes from individual respondents. Instead of mysterious symbols and dull tables, there are direct quotations in which believable people give their views at length and in their own words. For many clients this is the texture of the world [19]. The particular danger here is that senior management unversed in market research skills will merely remember the most striking comments (particularly the ones that reinforce their existing prejudices) rather than the boring statistics.



Many managers find themselves on the receiving end of research reports yet are poorly trained in the skills needed to make sense of such reports. As a result, they tend to read the related conclusions uncritically, accepting or sometimes rejecting them at face value, usually based on what they think of the researcher presenting them or on whether these results confirm their own prejudices. In evaluating a report, a number of initial guidelines should be kept in mind:

- *Relevance*—Before you even look at the first page of the report, you should ask yourself whether the subject is relevant to your specific needs. Fortunately, the relevance can usually be deduced from a quick scan through the summary, coupled with an understanding of where the report has come from and why it was produced.
- *Reliability*—Perhaps the most important question, but the one least often asked, is how reliable the reported results are. What weight can be put on them and on the judgment of the researchers and experts who are recommending some form of action to be taken on the basis of the findings? Here you can examine the methodology, such as the questionnaire and sample design, because it is likely to give the best indication of the quality of the work, or consider the past performance and reputation of the researcher.
- *Accuracy*—After establishing that the material is both relevant and reliable, the next step is to determine its accuracy. All too often accuracy is a technicality that is buried deep in dense appendices that never reach the general reader. Accuracy is not the same as reliability. As long as it is allowed for, low accuracy may be quite reliable and useful in decision-making. The problem is to establish what accuracy can be tolerated. In marketing research the answer can normally be deduced from the sample size. If the sample size is greater than 500, the results are likely to be accurate to within 2 to 3%. If the sample is greater than 1000, it may be accurate within 1%. Below 100, though, as many of the more dubious pieces of so-called quantitative research are, any statistical accuracy may be almost nonexistent. Nevertheless, some of the qualitative aspects of such research may still be quite meaningful.
- *Bias*—Most research reports contain bias, whether conscious or unconscious. It is very difficult for even the most professional researcher to remove all of his or her research biases. You would be wise to assume that the material still contains some elements of distortion. This bias may not be without value: The best research starts with a strong thesis as to what is likely to be found. Although this thesis will inevitably color the results, it also ensures that the research is focused and provides meaningful insights, as long as you recognize what the focus or bias is.

5.9 Knowledge Is the Business

There is a danger that market research may become an end in itself and that the marketer is drowned by the vast quantities of information unleashed. The marketer should never, therefore, lose sight of why research is conducted. Ford Motor Company learned this lesson in the 1950s, when it designed and launched the first

car to be based on market research. The company researched every feature of the Edsel to make sure that it was the choice of the majority of consumers. The result was a disastrous failure for a number of reasons, not the least of which was uncritical use of the market research information. For instance, the majority that liked one feature was not necessarily the same majority that liked another. Thus, it has been suggested that all people looking at the car were able to find at least one feature that they hated so much that they would not buy the car. ► Marketing in Action 5.2 describes a similar example of this situation.

5

Peter Drucker stated, “Knowledge is the business fully as much as the customer is the business. Physical goods or services are only the vehicle for the exchange of customer purchasing power against business knowledge.... For business success, knowledge must first be meaningful to the customer in terms of satisfaction and value” [20]. His words offer a useful focus for any market research, although he was talking of wider knowledge, particularly knowledge of what the organization does well and the great depth of specialist, technical expertise that usually lies behind it.

To be able to do something as well as others is not enough: It does not provide the leadership position without which a business is doomed. Only consistent excellence earns a profit, and the only genuine profit is that of the innovator. Economic results are the results of differentiation. The source of this specific differentiation, and with it of business survival and growth, is a specific, distinct knowledge possessed by a group of people in the business. To be most useful, market research also has to address what the organization itself does well, to explore those elements of the market and the customers in it.

One final thought on marketing research concerns major discontinuities in the overall environment, which can change all the factors to such an extent that the market research may be largely useless. One shortcoming of most marketing research is that it essentially measures the historical position, unearthing data on what has gone before, even though the future will be different. Consumer research will be largely valueless in periods of major transition because consumers will (incorrectly) base their answers on their existing perspective without knowing what they would want or do if new, currently unknown alternatives were available. Some of the most successful new products have not emerged from incremental, researched changes, but have been genuine innovations. For example, the emergence of the Walkman was not the result of gradually growing customer desire, but rather the determination of Sony’s CEO Akio Morita that this is the way things “ought” to be.

Innovations themselves are of major benefit to marketing. If we didn’t keep finding new ideas, growth would be limited. It is the whole process of discovery that causes growth [21]. Even if such innovations devalue the importance of past research, obtaining the best possible information about the outside world is still the key to successful marketing. The more you understand about the environment in general, and customers in particular, the more effective your marketing is likely to be.

Marketing in Action 5.2

Google Keeps Its Focus

Google is the world's most popular internet search engine. Initiated in 1998, it handled about 40% of the world's internet searches by 2003 and delivered the results to its users in as little as 0.3 seconds! During the early years of this current century, Google's user base of around 65 million people conducts 150 million searches a day on three billion web pages that reside on its 10,000 servers. By 2019, Google occupied a remarkable 81.5 % market share worldwide, in comparison to Bing's second place (5.29 %) in terms of market share. By 2019, "more than one billion people use Google's primary products and services," with a 10–15% year-to-year growth of search volume through Google. By end of 2019, Google processed more than 75,000 queries every second. In the US home market, Google's market penetration rate in 2018 increased from 7% to 23%.

The story of the company is truly phenomenal in light of so many recent internet debacles.

Google's success is based on sound marketing principles and provides lessons for us all. The company's advertising budget is miniscule, but by the end of 2018, Google's brand value was estimated at \$167.7 million, and "its parent company, Alphabet, has a market cap of \$932 billion."

So what are Google's marketing secrets?

Keep Things Simple

Visit Yahoo!'s home page. Now visit Google's home page. What differences do you see? To begin with, Google's site format is remarkably simple and orderly. Yahoo! contains more than 600 text items, whereas Google has just 32. It is clear that Google is committed to providing a highly efficient and focused search facility that minimizes distractions and confusion for its customers. The lesson to be learned is that just because it is easy to provide additional functionality does not mean it should be added. People visit search engines primarily to search, not to read the headlines or subscribe to online "singles" sites. Because of this simplicity, in 2019, it appeared that "users are 4 times more likely to click on a paid search ad on Google compared to any of its competitors."

Innovate

Frequently, successful companies, to protect against the threat of rivals, will expand their product/service portfolio, thus diversifying risk over a wider range of products. Often this strategy is accompanied by diffusion of marketing focus as resources and marketing capital are spread over a diversified range of products. So far Google has avoided this mistake. Although Google has launched many new services in its short life—such as Froogle, a service to find information about products for sale online—each of these services is an extension of the company's original product repackaged to satisfy a specific user need. Google is able to add these services without detracting from its original and primary product.

Keep the Customer Satisfied

At Google, the customers are the value optimizer. In order to ensure the accuracy of Google's services and to offer the highest possible value to its customers, Google evaluates more than 200 relevant factors related to a search query before delivering the search results to its customers. As a result, its service has equal appeal to the novice and the most experienced web user. The Google Toolbar is a good example of how the company is constantly striving to meet the needs of its customers. When the Google Toolbar is installed, it automatically appears along with the Internet Explorer toolbar. This means you can quickly and easily use Google to search from any website location, without returning to the Google home page to begin another search. Google's success is the result of clarity of vision about the needs and priorities of the customer, and Google is dedicated to constantly innovating its services to meet the customers' requirements. As a result, "a business spending \$1 on ads through Google Search makes \$8 on average in profit."

Sources: Chris, A. (2019). Top 10 search engines in the world. *Reliablesoft*. ► <https://www.reliablesoft.net/top-10-search-engines-in-the-world/>. Accessed 26 February 2020; Google Search Statistics. (2019). ► <https://99firms.com/blog/google-search-statistics/#gref>. Accessed 26 February 2020; Khan, Y. (2019). These are the top 10 brands in the world in 2019. Facebook isn't one of them. *Markets Insider*. ► <https://markets.businessinsider.com/news/stocks/interbrand-top-10-brands-in-the-world-2019-10-1028610273#7-toyota-brand-value-56-2-million4>. Accessed 26 February 2020; ► www.wnim.com/issue8/pages/google.htm. Accessed 11 June 2003; Stroud, D. (2003). There's something about Google. *CIM*, U.K., p. 3; Google. ► www.google.com. Accessed 11 June 2003.

Summary

This chapter explored the search for information about the customer and the market. This constitutes the listening part of the marketing dialogue. Marketing research is also needed to assist managers in the decision-making process and to analyze organizational performance. To be viable, however, the benefits derived from marketing research need to exceed the cost of conducting such research.

A systematic research approach will lead to the development of a Market Information System (MIS) that contains information both internal and external to the firm. Important internal data sources are performance analyses, sales reports, and employees' ongoing experience. The more data the intelligence system receives and the more precisely the system can process the available data, the better it can serve the manager. It is therefore important to develop ways of entering nonnumerical reports, such as accounts from a sales conversation or information about customer interests. New technology can enable an MIS to alter communication and decision structures within a firm but also requires careful planning of information distribution and retention.

External information can be derived from either secondary or primary data. Secondary data, collected in response to someone else's questions, are obtained

through desk research and are available quickly and at low cost. The main sources of secondary data are internal databases, libraries, directories, newsletters, commercial information providers, trade associations, and electronic information services. To ensure their usefulness, the researcher must determine the quality of the data source, the quality of the actual data, and the compatibility of the data with information requirements. Primary data are collected directly on behalf of a specific research project. Typical ways of obtaining such data are through syndicated research—such as retail audits, panel research, or omnibus surveys—and custom research.

The first step of primary marketing research is to clearly define the objectives to ensure the usefulness of the research. Next, the research level needs to be decided. Exploratory research helps mainly in identifying problems, descriptive research provides information about existing market phenomena, and causal research sheds light on the relationships between market factors. The research approach then determines whether qualitative or quantitative data will be collected. Observation, in-depth interviews, and focus groups are primary techniques to yield qualitative data, which may be very insightful but are not fully generalizable and cannot be analyzed statistically. Quantitative data overcome these problems but require the systematic collection of large numbers of data. Experimentation and survey research are the primary research tools. Good survey research must concentrate on question design and structure to elicit useful responses. Data can then be collected by mail (postal mail or email); by using online applications, e.g., SurveyMonkey; by telephone; or in person after an appropriate sample frame is constructed. The data need to be analyzed with appropriate techniques to make the data set comprehensible, insightful, and useful for management. This usefulness is at the heart of the research report, which in essence is a communication process persuading recipients to use the information.

Key Terms

Causal research

Cost–benefit relationship

Data

Descriptive research

Errors of commission

Exploratory research

Hard information

Information

Information revolution

Intelligence

Longitudinal measures

Market Information Systems (MIS)

Marketing intelligence

Omnibus surveys

Panel research

*Primary data**Retail audits**Secondary data**Soft data**Syndicated research**Verbal data*

5

? Review Questions

1. What is the difference between data, information, and intelligence?
2. What are the main internal sources of information? What analyses can be applied to the numerical data? What problems may be encountered with verbal reports?
3. What are the main sources of external data?
4. What are the differences among retail audits, panel research, and omnibus surveys?
5. What are the main stages of the marketing research process?
6. What is the difference between quantitative and qualitative research? What are the main tools of qualitative research?
7. What are the most important aspects of questionnaire design? What techniques may be used on questionnaires to categorize answers?
8. How may primary research data be collected? What are the advantages of each method? What are the differences between random and quota samples?
9. What should you look for when you use marketing research reports?

? Discussion Questions

1. Gaylord Entertainment, owner and operator of Nashville's renowned Opryland hotel complex, has added two new Opryland hotels, one in Dallas in 2002 and one in Orlando in 2004. Some analysts are concerned that there will be consumer disappointment once guests and conventioners realize that the new hotels will not follow the country music theme. But market research conducted among a much smaller group of Opryland's core customers—meeting planners—indicates that the Opryland name is not inextricably linked to country music, but to value and quality service. As a result, Opryland Orlando has a 4.5-acre Everglades swamp and a manufactured beach enclosed under its signature atriums [22]. From this example, it would appear that information gathered from a few knowledgeable people is more valuable than data collected from many uninformed persons. Why is it, then, that so many marketing researchers prefer to collect quantitative rather than qualitative data?
2. Walmart's success can be linked to its extensive data collection efforts. By recording information about every sales transaction, Walmart has built a data-

base that is the envy of many of its suppliers. This treasure trove of data is instrumental to managers making decisions about store layout because it provides instant information about sales, inventory, and profitability of each individual item the store carries [23]. What kind of information would you like to see as part of a sales report? Why? How can this information be formatted to be part of an MIS?

3. In his book titled *The Control Revolution*, Andrew Shapiro discusses how the internet and technology in general have shifted the balance of power between consumers and organizations, corporations, and the media. With consumers now better able to take control of information and resources, one possible end is the elimination of traditional middlemen. Examples cited include day traders greatly reducing or even eliminating brokerage fees, musicians broadcasting their songs through the internet rather than through a record label, and readers filtering information through search functions to obtain only exactly what they want. Clearly, the internet has expanded the scope of how marketing information is disseminated [24]. How can the wider dissemination of marketing information change the managerial structure of a firm? Can these changes also affect the firm's marketing appeal and performance? How?
4. Early in the twentieth century, tobacco usage was considered chic and even salubrious (asthmatics were prescribed medicated cigarettes as a remedy against attacks). The marketing efforts of industry leaders reflected the societal perception of the time. Late in the twentieth century, however, the same companies were held accountable by US courts for these aggressive marketing strategies according to latter-day standards. Is it appropriate to measure the actions that firms may have taken decades ago by the standards of today? Should firms adjust their information banks to reflect such a trend?
5. The impact the internet has had on the dissemination of information is profound. Hoards of secondary databases are published on the internet and are accessible to all. Savvy corporations have built or are building very detailed internal secondary databases to maintain information culled from various sources. But the internet has also increased the ease of conducting primary research, mainly through internet surveys. One such example is the increased surveying of teenage girls by market research firms such as SmartGirl and Girl Games, as well as by consumer goods manufacturers such as Bonne Bell, *YM* magazine, Frito-Lay, and ArtCarved. What will the increasing availability and accessibility of secondary data mean to the importance of primary research? How does the technology of the internet affect the quality and validity of primary data collected there? Will traditional primary research maintain a primacy over electronically conducted primary research? Will primary research in either form carry more weight than the widely available secondary data emerging today? Why or why not?

? Practice Quiz

1. Data that have been selected and ordered with some specific purpose in mind is/are
 - (a) Data
 - (b) Information
 - (c) Intelligence
 - (d) Statistics
2. How are reports sorted in ABC analysis?
 - (a) Alphabetical order
 - (b) Level of sales volume
 - (c) Effectiveness of marketing campaigns
 - (d) Level of meeting performance criteria such as budgets
3. All the following are sources of secondary data EXCEPT
 - (a) Libraries
 - (b) Directories
 - (c) Trade associations
 - (d) Consumers
4. Before too many resources are spent obtaining secondary data, all the following should be taken into account EXCEPT
 - (a) Quality of data source
 - (b) Quality of actual data
 - (c) Quantity of actual data
 - (d) Compatibility of data with information requirements
5. Before data are acquired, both data sources and data quality must be carefully checked in terms of all the following EXCEPT
 - (a) Coverage
 - (b) Availability
 - (c) Accuracy
 - (d) Historical grounding
6. Which of the following is NOT a possible level of research?
 - (a) Exploratory
 - (b) Analytical
 - (c) Descriptive
 - (d) Causal
7. Which level of research should be used if the primary objective is to define problems?
 - (a) Exploratory
 - (b) Analytical
 - (c) Descriptive
 - (d) Causal

8. Which level of research should be used if the primary objective is to provide information about market phenomena?
 - (a) Exploratory
 - (b) Analytical
 - (c) Descriptive
 - (d) Causal
9. All the following are types of qualitative data-gathering techniques EXCEPT
 - (a) Observation
 - (b) In-depth interviews
 - (c) Focus groups
 - (d) Experiments
10. Which method of contacting respondents is most effective if time is of the essence?
 - (a) Mail
 - (b) Telephone
 - (c) Personal interviews
 - (d) Samples
11. Which type of sampling is most subject to bias?
 - (a) Random
 - (b) Cluster
 - (c) Strata
 - (d) Quota

(You can find the correct answers to these questions by taking the quiz and then comparing your answers with the answers that are provided at the end of the book, under the “Practice Quiz Answers” part of the book.)

Appendix

Selected Information Sources for Marketing Issues

American Bankers Association
1120 Connecticut Avenue NW
Washington, DC 20036
► www.aba.com

American Management Association
440 First Street NW
Washington, DC 20001
► www.amanet.org

American Petroleum Institute
1220 L Street NW
Washington, DC 20005
► www.api.org

Asian Development Bank
2330 Roxas Boulevard
Pasay City, Philippines
► www.adb.org

Canadian Market Data
► www.strategis.ic.gc.ca

Chamber of Commerce of the United States
1615 H Street NW
Washington, DC 20062
► www.uschamber.org

Commission of the European Communities to the United States
2100 M Street NW
Suite 707
Washington, DC 20037
► www.eurunion.org/

Conference Board
845 Third Avenue
New York, NY 10022
and
1755 Massachusetts Avenue
NW Suite 312
Washington, DC 20036
► www.conference-board.org

Electronic Industries Association
2001 Pennsylvania Avenue NW
Washington, DC 20004
► www.eia.org

Export-Import Bank of the United States
811 Vermont Avenue NW
Washington, DC 20571
► www.exim.gov

Federal Reserve Bank of New York
33 Liberty Street
New York, NY 10045
► www.ny.frb.org

Federation of International Trade Associations
11800 Sunrise Valley Drive, #210
Reston, VA 20191-4345
► www.fita.org

Inter-American Development Bank
1300 New York Avenue NW
Washington, DC 20577
► www.iadb.org

International Bank for Reconstruction and Development (World Bank)

1818 H Street NW
Washington, DC 20433

► www.worldbank.org

International Monetary Fund

700 19th Street NW
Washington, DC 20431

► www.imf.org

International Telecommunication Union

Place des Nations
Ch-1211 Geneva 20
Switzerland

► www.itu.int

Michigan State University Center for International Business Education and Research

► www.globaledge.msu.edu

Marketing Research Society

111 E. Wacker Drive
Suite 600
Chicago, IL 60601

National Association of Manufacturers

1331 Pennsylvania Avenue NW
Suite 1500

Washington, DC 20004

► www.nam.org

Organisation for Economic Co-operation and Development

2 Rue Andre Pascal
75775 Paris Cedex Ko, France
and

2001 L Street NW
Suite 700

Washington, DC 20036

► www.oecd.org

Organization of American States

17th and Constitution Avenue NW
Washington, DC 20006

► www.oas.org

Transparency International

Otto-Suhr-Allee 97-99
D-105 85 Berlin

Germany

► www.transparency.de

World Trade Centers Association

60 East 42nd Street
Suite 1901

New York, NY 10165

► www.wtca.org

CORDIS

Information on EU research programs

► www.cordis.lu

Delegation of the European Commission to the US Press releases, EURECOM: Economic and Financial News, EU-US relations, information on EU policies and Delegation programs

2300 M Street NW

Washington, DC 20037

► www.eurunion.org

Source: © Michael R. Czinkota

European Central Bank

Kaiserstrasse 29

D-60311 Frankfurt am Main

Germany

Postal: Postfach 160319

D-60066 Frankfurt Am Main

Germany

► www.ecb.int

European Investment Bank

Press releases and information on borrowing and loan operations, staff, and publications

► www.eib.org

Court of Justice

Overview, press releases, publications, and full-text proceedings of the court

► www.curia.eu.int/en/index.htm

European Community Information Service

200 Rue de la Loi

1049 Brussels, Belgium

and

2100 M Street NW

7th Floor

Washington, DC 20037

European Bank for Reconstruction and Development

One Exchange Square

London EC2A 2JN

United Kingdom

► www.ebrd.com

European Union

200 Rue de la Loi

1049 Brussels, Belgium

and

2100 M Street NW

7th Floor

Washington, DC 20037

► www.eurunion.org/

United Nations

► www.un.org

Conference of Trade and Development
Palais des Nations
1211 Geneva 10
Switzerland
► <http://unctad.org>

Industrial Development Organization
1660 L Street NW
Washington, DC 20036
and
Post Office Box 300
Vienna International Center
A-1400 (Vienna, Austria)
► www.unido.org

International Trade Centre
UNCTAD/WTO
54–56 Rue de Montbrillant
CH-1202 Geneva
Switzerland
► www.intracen.org

UN Publications
Room 1194
1 United Nations Plaza
New York, NY 10017
► www.un.org/pubs

Statistical Yearbook
1 United Nations Plaza
New York, NY 10017
► www.un.org/pubs/

Yearbook of International Trade Statistics
United Nations
United Nations Publishing
Division
1 United Nations Plaza
Room DC2-0853
New York, NY 10017
► www.un.org/pubs/

U.S. Government

Department of Agriculture
12th Street and Jefferson Drive SW
Washington, DC 20250
► www.usda.gov/

Department of Commerce
Herbert C. Hoover Building
14th Street and Constitution
Avenue NW
Washington, DC 20230
► www.commerce.gov

Department of State
2201 C Street NW
Washington, DC 20520
▶ www.state.gov/

Department of the Treasury
15th Street and Pennsylvania
Avenue NW
Washington, DC 20220
▶ www.ustreas.gov/

Federal Trade Commission
6th Street and Pennsylvania
Avenue NW Washington, DC 20580
▶ www.ftc.gov/

International Trade Commission
500 E Street NW
Washington, DC 20436
▶ www.usitc.gov

Council of Economic Advisers
▶ www.whitehouse.gov/cea

Department of Energy
▶ www.osti.gov

Department of Interior
▶ www.doi.gov

Department of Labor
▶ www.dol.gov

Department of Transportation
▶ www.dot.gov

Environmental Protection Agency
▶ www.epa.gov

National Economic Council
▶ www.whitehouse.gov/nec

Office of the U.S. Trade Representatives
▶ www.ustr.gov

Office of Management and Budget
▶ www.whitehouse.gov/omb
Overseas Private Investment Corporation
▶ www.opic.gov

Indexes to Literature

Business Periodical Index
H. W. Wilson Co.
950 University Avenue
Bronx, NY 10452

New York Times Index
University Microfilms International
300 N. Zeeb Road
Ann Arbor, MI 48106
► www.nytimes.com

Wall Street Journal Index
University Microfilms International
300 N. Zeeb Road
Ann Arbor, MI 48106
► www.wsj.com

Directories

American Register of Exporters and Importers
38 Park Row
New York, NY 10038

Arabian Yearbook
Dar Al-Seuassam Est. Box 42480
Shuwaikh, Kuwait

Directories of American Firms Operating in Foreign Countries
World Trade Academy Press
Uniworld Business Publications Inc.
50 E. 42nd Street
New York, NY 10017

Directory of International Sources of Business Information

Pitman
128 Long Acre
London, WC2E 9AN, England

Encyclopedia of Associations
Gale Research Co.
Book Tower
Detroit, MI 48226

Polk's World Bank Directory
R. C. Polk & CO.
2001 Elm Hill Pike
P.O. Box 1340
Nashville, TN 37202

Verified Directory of Manufacturer's Representatives
MacRae's Blue Book Inc.
817 Broadway
New York, NY 10003

World Guide to Trade Associations
K. G. Saur & Co.
175 Fifth Avenue
New York, NY 10010

Encyclopedias, Handbooks, and Miscellaneous

A Basic Guide to Exporting
U.S. Government Printing Office
Superintendent of Documents
Washington, DC 20402

Doing business in ... Series
Price Waterhouse
1251 Avenue of the Americas
New York, NY 10020

Economic Survey of Europe
The United Nations
United Nations Publishing Division
1 United Nations Plaza
Room DC2-0853
New York, NY 10017

Economic Survey of Latin America
The United Nations
United Nations Publishing Division
1 United Nations Plaza
Room DC2-0853
New York, NY 10017

Encyclopedia Americana, International Edition
Grolier Inc.
Danbury, CT 06816

Encyclopedia of Business Information Sources
Gale Research Co.
Book Tower
Detroit, MI 48226

Europa Year Book
Europa Publications Ltd.
18 Bedford Square
London WC1B 3JN, England

Export Administration Regulations
U.S. Government Printing Office
Superintendent of Documents
Washington, DC 20402

Exporters' Encyclopedia—World Marketing Guide
Dun's Marketing Services
49 Old Bloomfield Rd.
Mountain Lake, NJ 07046

Export-Import Bank of the United States Annual Report
U.S. Government Printing Office
Superintendent of Documents
Washington, DC 20402

Exporting for the Small Business
U.S. Government Printing Office
Superintendent of Documents
Washington, DC 20402

Exporting to the United States
U.S. Government Printing Office
Superintendent of Documents
Washington, DC 20402

Export Shipping Manual
U.S. Government Printing Office
Superintendent of Documents
Washington, DC 20402

Foreign Business Practices: Materials on Practical Aspects of Exporting, International Licensing,
and Investing
U.S. Government Printing Office
Superintendent of Documents
Washington, DC 20402

A Guide to Financing Exports
U.S. Government Printing Office
Superintendent of Documents
Washington, DC 20402

Handbook of Marketing Research
McGraw-Hill Book Co.
1221 Avenue of the Americas
New York, NY 10020

Periodic Reports, Newspapers, Magazines

Advertising Age
Crain Communications Inc.
740 N. Rush Street
Chicago, IL 60611
► www.adage.com

Advertising World
Directories International Inc.
150 Fifth Avenue, Suite 610
New York, NY 10011
► <http://advertising.utexas.edu/world/>

Arab Report and Record
84 Chancery Lane
London WC2A 1DL, England

Barron's
University Microfilms International
300 N. Zeeb Road
Ann Arbor, MI 48106
► www.barrons.com

Business America
U.S. Department of Commerce
14th Street and Constitution Avenue NW
Washington, DC 20230
► www.doc.gov

Business International
Business International Corp.
One Dag Hammarskjöld Plaza
New York, NY 10017

Business Week
McGraw-Hill Publications Co.
1221 Avenue of the Americas
New York, NY 10020
► www.businessweek.com

Commodity Trade Statistics
United Nations Publications
1 United Nations Plaza
Room DC2-8053
New York, NY 10017

Conference Board Record
Conference Board Inc.
845 Third Avenue
New York, NY 10022
► www.conference-board.org

Customs Bulletin
U.S. Customs Service
1301 Constitution Avenue NW
Washington, DC 20229

The Economist
Economist Newspaper Ltd.
25 St. James Street
London SW1A 1HG, England
► www.economist.com

Europe Magazine
2100 M Street NW
Suite 707
Washington, DC 20037
► www.eurunion.org/magazine/home.htm

The Financial Times
Bracken House
10 Cannon Street
London EC4P 4BY, England
► www.ft.com

Forbes
Forbes, Inc.
60 Fifth Avenue
New York, NY 10011
► www.forbes.com

Fortune
Time, Inc.
Time & Life Building
1271 Avenue of the Americas
New York, NY 10020
► www.fortune.com

Industrial Marketing
Crain Communications, Inc.
740 N. Rush Street
Chicago, IL 60611

International Financial Statistics
International Monetary Fund
Publications Unit
700 19th Street NW
Washington, DC 20431
► www.imf.com

Investor's Business Daily
Box 25970
Los Angeles, CA 90025
► www.investors.com

Journal of Commerce
100 Wall Street New
York, NY 10005
► www.joc.com

Sales and Marketing Management
Bill Communications Inc.
633 Third Avenue
New York, NY 10017

Wall Street Journal
Dow Jones & Company
200 Liberty Street
New York, NY 10281
► www.wsj.com

Pergamon Press Inc.
Journals Division
Maxwell House
Fairview Park
Elmsford, NY 10523

World Trade Center Association
(WTCA) Directory
World Trade Centers Association
60 East 42nd Street
Suite 1901
New York, NY 10165
► www.wtca.com

International Encyclopedia of the Social Sciences
Macmillan and the Free Press
866 Third Avenue
New York, NY 10022

Marketing and Communications
Media Dictionary
Media Horizons Inc.
50 W. 25th Street
New York, NY 10010
► www.horizons-media.com/

Trade Finance
U.S. Department of Commerce
International Trade Administration
Washington, DC 20230
► www.doc.gov/

World Economic Conditions in Relation to Agricultural Trade
U.S. Government Printing Office
Superintendent of Documents
Washington, DC 20402
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Estimating the Market Demand

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■ Forecasting Marketing Opportunities in the E-Commerce Market with Certainty Is Its Uncertainty



■ (Source: ► pexels.com/royalty-free-images/)

If you flip open almost any magazine in the information technology (IT) field, you will find a graph or bar chart forecasting the growth of the e-commerce market. Most of the predictions will prove as hopelessly wrong in 5 years as they have in the past. Have you ever heard of videotext? In 1983, a leading research firm confidently forecast that consumer sales of a product called videotext would reach \$7 billion by 1987. The actual figure was less than 10% of the forecast, and where is videotext today? Nowhere.

Repercussions of the September 11, 2001, terrorist attacks in the United States were felt greatly by travel companies all over the world. The online travel company Expedia, however, emerged from the downturn only mildly scathed, posting much-better-than-expected income for the fourth quarter of 2001. The company continued its improved performance even in the following year.

In 2020, Expedia had international websites for 41 countries other than the United States, making it an international company with operations across the globe. Its exhaustive website offers an entire range of travel-related services and travel-planning tools, from booking tickets online for domestic and world travel to renting cars and from making hotel reservations to providing online maps, destination guides, and news.

It's worth pondering why online travel companies are on their way to increasing revenues while most online businesses are trying hard to merely hang in there. In some cases, certain online travel companies such as Expedia are performing even

better than traditional offline travel companies. Being an exclusively e-commerce company, Expedia affixes “dot-com” to its name in its television commercials and print advertisements as a way to emphasize its method of conducting business.

Industry experts have a variety of explanations for the travel company’s success despite all economic and industry odds. Market forecasters have come out with extremely different predictions for the same thing. Some suggest that the better-than-expected profits have to do with the tremendous amount of information that is available to a potential customer, more information than a voice at the end of a phone line or in person can provide. Others conclude that the process of searching for and booking tickets online provides unparalleled convenience, ease of use, and simplicity that traditional travel agents cannot compete with. Still others assert that online travel companies need not maintain tangible inventory and can employ as few people as possible, thus reducing operating costs. This, according to researchers, leads to lower break-even points and thereby higher profitability.

These predictions and analyses show how difficult it is to define the domain and size of the e-commerce market. The real challenge to you, the marketer, is how to plan for things you cannot predict. To do so, don’t ask what the future will be. Instead, ask how different the future needs to be from what it is today before it disrupts your business model and requires you to move aggressively. For example, what percentage of your industry’s or company’s customer base or operating market can you afford to lose before your business becomes unprofitable? In retailing, if a mall permanently loses 10% of its customers, it will have to close. A rule of thumb is that a permanent margin cut of about 15% would turn the standard business version into a liquidation sales candidate.



■ (Source: ► [pexels.com/royalty-free-images/](https://www.pexels.com/royalty-free-images/))

Of course, in many areas, IT has to place bets on specific technologies and vendors. Time has shown countless forecasts in this volatile area to be wrong. These forecasts fail because they work under the fallacy that the future is a linear extension of the present and the past. Therefore, marketers should estimate alternative

options (e.g., plan B, plan C, etc.) to survive and prosper during the unpredictable future. The example of the outbreak of the COVID-19 global pandemic in December 2019 demonstrates how unpredictable the future can be. All types of companies from small- and medium-sized businesses to giant global corporations have been severely impacted by this outbreak. “In fact, 94% of the Fortune 1000 are already seeing Covid-19 disruptions” by April 2020. It requires careful considerations to estimate possible alternative survival options to sustain business operations in a time of crisis. As a result, marketers should consider the unpredictable future, with a focus on underpinning their business operations both in a time of socioeconomic crisis and in a time of noncrisis in the future.

Sources: Keen, P.G.W. (1999, May 10). Stop the Forecasts! *Computer World*, 48; Grant, E.X. (29 January 2002). Expedia Profits Surpass Expectations. *E-Commerce Times*; Expedia Inc. (2020). ► <https://www.expedia.co.uk/>. Accessed 14 April 2020; KPMG (2020). Embedding resilience. ► <https://home.kpmg/xx/en/home/insights/2020/03/the-business-implications-of-coronavirus.html>. Accessed 17 April 2020.

6.1 Introduction

A key marketing activity is planning, and the key precursor to planning is forecasting market demand conditions. With many business environments changing rapidly, simply repeating the actions that have worked in the past is no longer possible. You need to estimate and predict to the best of your ability and resources what will happen during the planning period in question.

For most organizations the future is clouded by a degree of uncertainty. The more uncertainty there is, the greater the risk to the organization. The primary task of market forecasting is to reduce uncertainty to the lowest level possible. The changes that are taking place in the organization’s operational environment will result in both opportunities and threats. Another task of market forecasting, therefore, is to identify and quantify these changes.

As we all have observed in the past few decades, e-commerce has mushroomed beyond anyone’s expectations. As shown in the opening vignette, “Forecasting Marketing Opportunities in the E-Commerce Market with Certainty Is Its Uncertainty,” forecasting what business opportunities will emerge in the information technology field—particularly, in e-commerce—has proved to be extremely difficult.

Forecasting’s complexion and its complexity vary depending on whether it is short term or long term; how the resulting decision will affect the firm’s sustainability; and whether it is a true forecast or, as more often is the case, a budget. The approach may also be macro or micro. This chapter explores the main techniques in some detail. The methods are divided into qualitative techniques (including scenarios), usually linked to the longer term, and quantitative (numerical) techniques, directed at the shorter term. Alternative approaches to reducing the risk of future developments are also discussed (see ► Web Exercise 6.1).

6.2 Forecasts Versus Budgets

Confusion often exists regarding forecasting and budgeting, which are two closely related activities. As a result, the names of the two are sometimes interchanged. These terms can be defined as follows:

- **Forecasting**—In its simplest sense, forecasting is predicting what will happen in the future, all other things being equal (usually in terms of statistics—and especially in terms of the organization’s own variables of interest).
- **Budgeting**—In its simplest sense, the budget (including the all-important *sales budget*, which is easily confused with a *sales forecast*) states what the organization believes is achievable and intends to achieve. Budgeting, therefore, is essentially planning the allocation of tasks and resources to accomplish the goal set by the organization.

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More complex definitions exist, but it is obvious from the preceding definitions that many of the so-called forecasts prepared by organizations are really *budgets*. The forecast is the basis for planning and has to be as accurate and unbiased as possible. The budget is directly linked to implementation and has to be practically achievable. The requirements of the two are, therefore, very different; and to confuse them weakens both processes.

Forecasts—Predictions of what will happen in the future.

We will first examine the various techniques in terms of their forecasting elements.

Web Exercise 6.1

The online retailer ► Amazon.com (► www.amazon.com) has been a force for change in online retailing. Although the hype about the store grew at the same rate as its number of users, Amazon has had a hard time making a profit. The new customer rate has grown incredibly fast—up more than 171% in a single year alone—but losses keep the company from achieving a break-even point. Is ► Amazon.com experiencing the linear fallacy of forecasting—where the present is an extension of the past? How should ► Amazon.com approach its forecasting? How should ► Amazon.com be prepared to survive in a time of socioeconomic crisis? Amazon used to sell goods on a customized marketing basis, costing them huge logistics costs. That is why they were not making money. But this has changed since Amazon introduced marketplace links, which is essentially a pure service to let others sell on ► Amazon.com. Pure service doesn’t cost Amazon any logistics cost. That is why they started making money...

6.3 Short-Term, Medium-Term, and Long-Term Forecasts

Different types of forecasts may be used to meet different needs. One of the main differences is the time span that the forecast covers:

- *Short term (tactical)*—Monthly and quarterly; for example, as input to the normal business planning and control processes
- *Medium term*—Annually, as the main input to the budget planning processes
- *Long term (strategic)*—Typically for 5 years, as the basis for the organization's strategies

6.3.1 Short-Term Forecasts

Most organizations need to predict the events on a monthly or quarterly basis for a number of reasons. Particularly, the continuing growth of the internet permits short-term predictions with increased accuracy. These reasons include:

- *Production scheduling*—The classical use of short-term forecasting is that of scheduling production capacity. The input may come from the salesforce, and its forecasts for the near future should represent a very confident measure of what will happen. On the other hand, the input may come from the marketing department, which may provide short-term forecasts based on recognized seasonal trends or short-term promotional activities. The internet can be useful in accurate sales forecasting. With its headquarters in Europe, Heineken had traditionally been forced to work with a long lead time in receiving forecasts and distributing product throughout the United States. To process sales forecasts and orders efficiently, Heineken uses an “extranet,” a private network connecting Heineken to customers and suppliers using internet technology based on the integrated-value-chain planning software developed by Logility (► <https://www.logility.com/>), an Atlanta-based software developer [1] (see ► Web Exercise 6.2).
- *Information transmission*—As you can see from the preceding example, one element of short-term forecasts has little to do with predicting unknown quantities; instead, it is simply the formal process of transferring known information from one part of the organization to another. Thus, the order processing department produces forecasts, which are actually the totals for the orders already received and being processed, for the production scheduling system. Heineken's system, known as the Heineken Operational Planning System (HOPS), allows for real-time forecasting and ordering interaction with distributors. Heineken can deliver customized forecasting data to distributors through individual web pages. Distributors just need the appropriate online navigator to access the Heineken program, eliminating the high cost of a direct line from the distributor to Heineken's offices.
- *Control*—Forecasts, especially short-term ones, are frequently used as a key element of control. Thus, what the salesforce is predicting will happen in the near future gives advance warning of problems that will need to be rectified. It is

likely, in practice, that most of these short-term *forecasts* will actually be *sales budgets*. Heineken's distributors have the option of approving or modifying the forecast online for better control of inventory needs. This approved or modified forecast is immediately forwarded to Logility's Replenishment Planning module, which calculates the distributor's inventory needs by comparing actual inventory to the newly forecasted levels. The replenishment plan is then transmitted to the distributor, who is still logged on to the website. After the distributor approves the replenishment plan, the system creates an electronic purchase order, and the order cycle begins.

Web Exercise 6.2

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Logility helps its clients in forecasting, demand planning, inventory assessment, and replenishment scheduling. Logility serves clients across different industries including consumer goods, furniture and other durable goods, electronics, food and beverage, the life science industry, retail, the service sector, and apparel and wholesale. The core offerings of Logility are product life-cycle management, demand optimization, supply chain management including supply optimization, cloud services, retail optimization, quality and compliance management, sourcing optimization, inventory optimization, and integrated business planning. Browsing different web pages of ► <https://www.logility.com/> would be instrumental in developing an insight on how Logility helps their client companies to forecast and plan in different operational areas across different industries.

6.3.2 Medium-Term Forecasts

The classical image of forecasting revolves around those hectic few weeks in the year when planning processes, usually driven by budgets, demand the preparation of annual forecasts—medium-term forecasts. Much of ► Sect. 6.5.2 will address this type of forecast.

6.3.3 Long-Term Forecasts

The long-term, or strategic, forecast (the subject of much of ► Sect. 6.5.1) is less common than short- or medium-term forecasting. Because it typically covers a period of 5 years or longer, it is often seen as a luxury that only the larger organizations and those in more stable environments can afford. In reality, it is probably the most important forecast of all—certainly in terms of setting the direction for the overall marketing plan and increasing the chances of long-term sustainability. Three types of decisions are associated with long-term forecasts:

- **Strategic direction**—The long-term forecast usually consolidates the long-term strategy related to organizational vision and mission. Having to quantify this strategy as a forecast, or a series of forecasts, helps to concentrate attention on practical and meaningful ideas.

- *Resource planning*—The long-term planning period should be chosen to cover the period over which the long-term investments—in plant or research, for example—will be completed.
- *Communication*—A long-term forecast tells everyone in the organization—workers and management—where the organization intends to go. As a result, it is also one of the key bases for the organizational culture that is an essential, if still largely unrecognized, aspect of most organizations.

Longer-term forecasts are the least likely to be confused with *budgets* and are perhaps less biased by the organization's view of its own activities. On the other hand, they are just as likely to be constrained by an organization's parochial view of the future. This *market myopia* may well preclude its forecasters from taking into account all the factors involved.

6.4 The Dynamics of Forecasting

It is often assumed that forecasts are immutable and static: The annual forecast will be renewed in 12 months' time, and not a moment earlier; the 5-year plan will only be replaced in 5 years' time. It is somehow an admission of failure if such forecasts have to be changed.

In practice, forecasts should be amended as and when the business environment changes. Thus, the best-managed organizations probably have a quarterly review of their annual forecast (and associated budgets) so that forecasts for the remaining quarters can be based on the latest information and market trend. The most sophisticated indulge in **rolling forecasts**, whereby at each quarter a *full* year ahead is forecast; in other words, a new fourth quarter is added to the plan. This approach takes much of the drama out of the annual planning cycle.

Rolling forecasts—Forecasts in which a new fourth quarter is added at the end of each quarter; thus at any given time, a full year's forecast is available.

More important, and perhaps less well recognized, is the fact that even the 5-year forecasts may need to change quite dramatically each time they are reviewed annually. Over the preceding year, it is more than likely that the external environment, as well as the organization's internal environment, will have changed significantly—and in ways that were not predicted. The overall economy will have changed direction, competitors will have changed strategies, and consumers will have changed their tastes.

Why bother to create 5-year forecasts? The answer lies in the three reasons listed in ► Sect. 6.3.3—strategic direction, resource planning, and communication. These decisions have to be taken, with or without the forecasts, deliberately or by default. They still need to incorporate the best thinking, even if the organization recognizes that in a year's time new information may invalidate some of the decisions.

6.4.1 Forecasts into Budgets

If forecasts have been kept separate from the budgets (as we have already seen, this is often not the case), the first, and most important, decision is what budgets to set. Among these will be budgets that parallel the forecasts themselves. For example, a sales budget (or target) will parallel the sales forecast. As we have already explained, the budget represents what the organization has *decided* to do. These planned (budget) figures are a commitment within the overall plans and take into account the planned actions to be taken in terms of the controllable (internal) factors and to possibly synchronize with the external uncontrollable (or less-controllable) factors.

6

6.4.2 High and Low Budgets

In many organizations a series of subtly different budgets are produced for different target audiences in much the same way that in some countries there are two sets of accounts, one for the owner and one for the tax authorities. There always has to be an original *forecast*, which must be as accurate as possible. However, it should be recognized that a number of budget variants may be based on this, although, confusingly, they are often also referred to as *forecasts*. These variants are as follows:

- *Salesforce targets*—It is often reckoned that salespeople need very challenging targets, so they are set very optimistically. On the other hand, IBM sets its salesforce targets rather sensibly because it, quite deliberately, wants 80% of its staff to be “successful” and beat their target.
- *Manufacturing forecast*—Most organizations do not want to be out of stock and will accept some spare capacity, so these forecasts are usually somewhat optimistic.
- *Profit forecast*—Every organization dreads not achieving its profit targets, so these forecasts are made often deliberately more sensible than highly challenging.

6.4.3 Macro- and Microforecasts

Forecasts can also be categorized by the breadth of the factors that they encompass. Some companies have the resources, and the need, to undertake these forecasts of whole markets—indeed, sometimes of whole national and global economies. These macroforecasts attempt to predict what large-scale forces at work will result in *macro* changes in the market environment. In the automobile industry, geopolitical situations in the Persian Gulf could affect the worldwide supply of petroleum, as the United States has experienced oil crises on a few occasions in the past. Similarly in the smartphone industry, the technological rivalry between the United States and China could affect the global dynamics of this industry. Global warming may sway the government to introduce more stringent automobile emissions control, affecting car prices.

These situations have led to the emergence of very sophisticated and complex econometric models. The most important input to these models may be the various **leading indicators**, including housing starts, prime lending rates, and wholesale prices. When taken to these limits, however, this type of forecasting is both very elaborate and expensive—and, accordingly, it is seldom undertaken.

Leading indicators—Certain factors that provide advance warning of future trends.

At the other end of the spectrum, microforecasting builds on the predictions of individual (or group/segment-specific) customer behavior. It accumulates overall forecasts for, typically, sales of particular products or services. In the case of the automobile industry, increased sales of trucks and minivans in recent decades have encouraged automakers to raise their sales forecast for trucks and minivans in the near future. But, again, we need to be forewarned that immediate near-future sales forecasts are also affected by the longer-term trends and political mood. These forecasts are classically based on projections of observed historical trends. Before we examine such techniques, we need to examine a problem behind historical projections (see ■ Fig. 6.1).

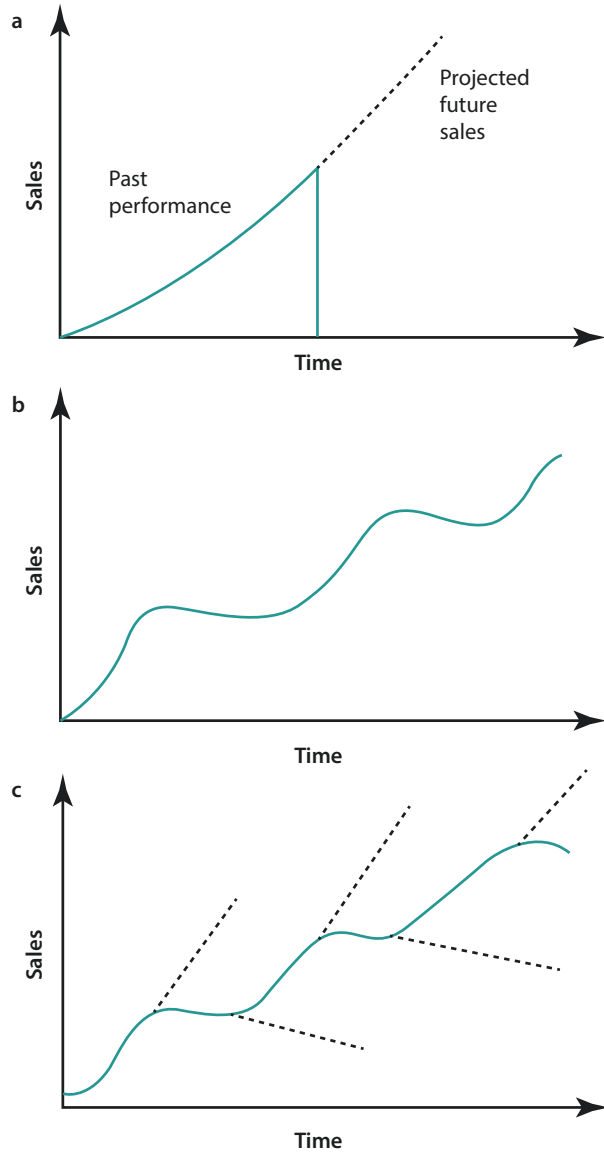
■ Figure 6.1a may be seen as a typical sales graph, covering 2 or 3 years (which is the historical period that many organizations look at when they produce forecasts), with the minor fluctuations smoothed out. Behind this 2- to 3-year curve, there may lie a 4-year *trade cycle*, as, indeed, there has been until very recently. The long-term sales chart may thus look like the rising wave presented in ■ Fig. 6.1b.

If this is the pattern, but the sales projections are made on the “traditional” basis of 2 years’ historical data, then the picture will emerge as shown in ■ Fig. 6.1c. As the shape of the picture suggests, this is known as the **fishbone effect**. It clearly can produce significant mismatches of organizational resource to opportunities—expecting a bumper crop when famine is about to set in and conserving just when a bumper crop is about to return. On the other hand, if the product life cycle is taken into account, where a downturn may not follow from a temporary hiccup in the economy but may represent the onset of the decline phase for the product, the results of such forecasting may even be counterproductive.

Fishbone effect—A sales projection in which a significant mismatch exists between organizational resources and opportunities.

Having issued this caveat, however, estimates based on past sales are very widely used and, in the absence of the more advanced forecasting tools, can justifiably be used as the main indicators in many situations. However, they must be checked as far as possible against predictions derived from other sources—and always treated as predictions of an uncertain future.

Fig. 6.1 Actual sales and sales forecast



Again, automakers have begun to realize that the internet can bring them closer to customers so that sales forecasting could be reduced to “order-to-delivery” cycle times with higher certainty. In the United States, a considerable percent of annual car purchases were made in the past decade with some use of the internet, from basic viewing of cars to setting up deals via websites such as Autobytel.com. Information technology and the internet allow networks of car dealers to collect and analyze customer data. The internet, at first viewed as a threat by both auto-



■ Fig. 6.2 Derived forecasts

makers and dealers because it made customers increasingly knowledgeable about comparative price and product data, is now seen as a possible helpmate because it helps them make better onsite sales forecasts with near certainty [2].

6.4.4 Derived Forecasts

All forecasts are based on a series of assumptions that the *environmental factors* will remain unchanged. In practice, though, specific forecasts can also be successfully derived from *global* forecasts made at aggregate levels. For example, if an automobile unit sales volume is predicted on the basis of the change in a country's GNP and prime lending rates over time, such a prediction is called a **derived forecast**. The more advanced forecasters, and especially those whose organizations have large shares of their markets, may thus choose to split their forecasting process into a number of stages, as shown in ■ Fig. 6.2.

Derived forecast—A specific forecast based on information from global forecasts.

6.4.5 World and National Economies

The Organisation for Economic Co-operation and Development (OECD) usually provides the most widely respected *environmental forecasts* for the world economy. For each country, comparable figures are provided by government departments, although other expert institutions also provide their own (sometimes conflicting) versions. The ability of governments to actually collect the correct information is increasingly questioned. The US government spends more than \$3 billion per year collecting data that are characterized by some as “a stream of statistics that are nothing but myths and misinformation” [3]. Given the US government's relatively large expenditure on data, it is easy to suspect that data from less affluent governments are even more unreliable.

Prior to the 1980s, these **national forecasts** were often predicated upon the existence of *cycles* of economic activity—moving from boom to recession and back again over a 4- or 5-year period, although larger cycles of up to 60 years have been postulated (known as the Kondratieff Cycle, named after the Russian economist Nikolai D. Kondratieff). These country-level forecasts are, however, often ignored by organization-level forecasters.

National forecasts—Four- or five-year forecasts based on a country's cycles of economic activity, moving from boom to recession and back again.

6.4.6 Market

The most important aggregate forecast, particularly for those organizations with high market shares, is that of the market (or *industry*). This forecast will, of course, be affected by external factors and will also take into account factors more specific to that market itself—whether it is relatively new, with large numbers of potential customers still to be recruited, or mature with little further growth potential.

6

Marketing in Action 6.1

***E&Y Kenneth
Leventhal Real
Estate Group
Predicts Surge of
New Immigrants***

The E&Y Kenneth Leventhal Real Estate (EYKL) Group is the provider of international real estate advisory services within the larger Ernst & Young (► www.ey.com) global network. Ernst & Young, one of the world's leading accounting, tax, and consulting firms, has more than 685 offices worldwide. The EYKL group provides professional services to real estate owners, developers, builders, lenders, and users.

In the late 1990s, EYKL completed “The 1999 National Lodging Forecast.” Some very interesting immigration trends emerged from the study. It predicted that if immigration trends were to continue as they did between 1991 and 1996, at a rate of approximately 1,000,000 annually, immigration by the year 2000 should have been the highest of any decade in US history. Many of today's immigrants come from Mexico and Asia. Approximately 68% of immigrants in 1996 resided in only six US states (California, New York, New Jersey, Texas, Florida, and Illinois). By 2002, no single ethnic group could account for more than 50% of these states' populations. If trends continue, 30 million housing units will be needed nationally by the year 2050 just to accommodate new immigrants and their offspring.

What do the immigration forecasts mean in terms of real estate marketing? How will real estate firms need to think about target marketing? What about building design issues (e.g., many cultures believe strongly in the notion of extended families)? Will service providers in the real estate market need to be educated in cultural differences, as immigrants tend to cluster in ethnic communities? What do the trends mean in terms of recreation, retail, service, and entertainment issues?

Sources: Koretz, G. (2003). Demographic Time Bomb. *Business Week*, 30; “Casa Sweet Casa,” *Business Week* (January 11, 1999); EY (2020). ► www.ey.com/realestate. Accessed 10 April 2020

Market forecasts tend to be based, as do individual product forecasts, on historical trends. However, they may also be based on modeling the numbers of different customer segments and the prediction of the customer segment-specific changes in usage patterns. This is particularly useful in new markets, although implementing this technique is not necessarily easy. Who are the potential users? How much will

they each use? Answering these questions may be very challenging for a really innovative new product or service. Marketing in Action 6.1 describes the impact of immigration forecasts on the market forecast.

6.4.7 Product

Most forecasting takes place at the product (or company) level and is based on historical data. On the other hand, if the market forecasts have already been completed, the alternative approach is to derive the product forecast from that of the market, by forecasting the changes in brand share. This process is rather different because it mainly focuses on competitive positions that may be underweighted in other forecasts.

Markov’s brand-switching model, a popular marketing tool, is illustrative. In the Markov model, the *current probabilities* of brand switching (measured from consumer intentions) by existing users of each brand are known. As these *switches* actually occur over time, this will lead to new levels of brand share (based on a cumulative historical buildup), which can, accordingly, be calculated. For example, in ■ Table 6.1, 50% of the users of Brand A will remain with it annually, and it will gain (looking down the related vertical column) 40% from B and 30% from C. If, as shown, Brand A had an existing share of 20% (with B holding 30% and C 50%), this would result in a growth in share to 37% (see ■ Table 6.2) in just 1 year.

Although apparently simple, this forecasting process is actually extremely sophisticated, but *it is of dubious practical value* because brand-switching intentions are rarely known with the degree of accuracy assumed by the model.

The wise forecaster will try to use both historical and derived forecasting methods and compare the results. In general, preparing the forecasts from many different bases results in greater confidence in the final outcome. However, the comparison will often pose difficult problems for the forecaster because various forecasts are quite likely to generate differing projections. The process of explaining the differences (assuming that this process is carried out with intellectual rigor, rather than just to reinforce existing prejudices) will often give the forecaster greater insight into the processes at work and will give a valuable indication of the likely accuracy of the final forecast.

■ Table 6.1 Probability that consumers will switch brands

	A	B	C
A	Stay 0.5	Change 0.3	Change 0.2
B	Change 0.4	Stay 0.4	Change 0.2
C	Change 0.3	Change 0.3	Stay 0.4

Table 6.2 The application of probabilities to the existing brand shares to determine the post-switch market shares

				New brand share anticipated
A	0.5 of 20% = 10%	0.4 of 30% = 12%	0.3 of 50% = 15%	37%
B	0.4 of 30% = 12%	0.3 of 20% = 6%	0.3 of 50% = 15%	33%
C	0.4 of 50% = 20%	0.2 of 20% = 4%	0.2 of 30% = 6%	30%

6

By Type of Product From the product forecast, you often need to forecast the sales of the individual types, or variants, of the product (or service). These types are frequently calculated as a simple percentage split, but the wise forecaster will also investigate any trends that may be present, such as changes in consumer preference for different features in Swatch watches.

By Time The forecasts, or budgets, will also need to be expressed in terms of the budgetary periods (usually months), to take account of seasonality and special activities such as point-of-sale (POS) in-store promotions.



(Source: [pexels.com/royalty-free-images/](https://www.pexels.com/royalty-free-images/))

6.4.8 Legal and Political Issues

In market forecasting, a forecaster needs to consider the legal issues and trends in the local, regional, and global political environment, as these issues could affect future changes in market during the forecasted period. For example, in some countries, changes in government also influence their socioeconomic policies. As a result, the issues that were considered as promising during the forecasting stage of a longer-term 5-year strategic forecasting, after 18 months (for example) of this forecasted period could be considered as disappointing issues for business because of the change in government and the subsequent policy changes. Similarly, market forecasters should remain vigilant about the business laws and relevant legal issues in the target market, so that forecasting could be synchronized with legal updates in the target market. For example, in the international education industry, the major host countries of international students such as the United States, the United Kingdom, Australia, and Canada often change/update their international student visa policy and rules. The universities of these countries as the recruiter of full-fee-paying international students need to comply with the country's immigration law. In this context, a particular university could forecast to increase the number of full-fee-paying international students to a certain number by the next 5-year period. However, changes in immigration law (e.g., new stricter student visa rules) could adversely affect the university's full-fee-paying international student recruitment over the year. As a result, such changes in immigration law could eventually affect the university's projected revenue, considering that full-fee-paying international students are one of the major revenue sources of western universities today [4, 5].

6.5 Forecasting Techniques

In the business community, the term *forecasting* is typically associated with figures—the annual sales forecast, for example. In the social sciences, however, forecasts are frequently produced in a qualitative, verbal, form. Both of these types are valid, and both offer useful insights.

In general, qualitative forecasts come into their own in the long term (in strategic forecasting and macroforecasting). In these cases the process may also sometimes be described as **technological forecasting** because this is the discipline in which many of the techniques were first developed. Short-term (tactical and micro) forecasts are usually more quantitative.

Technological forecasting—A series of techniques used to plot long-term trends with changes in technology.

► Section 6.5 a will examine the qualitative techniques, which are mainly used to describe the longer term. Most sound policymaking looks first at the longer term

(for its strategy) before examining the shorter term in more detail (for its tactics). We will extend this principle to forecasting because it helps put the processes into context.

6.5.1 Qualitative Methods

Qualitative methods describe in words what will happen and the impact that it will bring about. In some cases, this description may include a significant volume of statistics, but the context will differ from that of the more normal, numerical quantitative forecasts based on trends. Qualitative forecasts can be compiled from several sources.

6

Individual or Expert Opinion In practice, most forecasts emerge from an individual. In a small company, that person may be the owner, and in a larger organization, it may be the marketing manager or the marketing analyst. In the largest of all, it may be the head of the marketing department, or even the manager of the forecasting department. The individual forecast is inevitably a personal judgment, an opinion often based on experience and industry rules of thumb.

Salesforce forecasts are normally viewed as quantitative because they typically result from forecast sales figures, which may, in turn, be derived from customers' forecasts. They are then aggregated to give the total forecast. In reality, they fundamentally incorporate the *qualitative judgment* of each salesperson despite their apparent numerical accuracy. One problem with this technique is that it is often used in conjunction with commission systems; in such systems, the sales representative, in submitting his or her *forecast*, is very aware that this will be used as the basis for the following year's targets and hence his or her income. The process becomes not one of forecasting but one of negotiating targets. This is a poor basis for *unbiased* forecasts. A more advanced, and time-consuming, approach is to survey *all* customers to record their buying intentions for the coming year.

An important but rarely used input is the forecasts of the large customers themselves. For example, if you are selling steel to the car industry, you need to understand how that industry is forecasting its own future. The *account planning* process described in Sect. ► 14.5.2 is an ideal mechanism for this invaluable input.

Expert Panel Method The expert panel method is the first of the *formal* ways of applying *scientific method* to individual opinion. It involves bringing a panel of experts (business consultants, academic researchers, or corporate executives) together to pool their individual forecasts. Individual forecasts may be based on various insights ranging from respective experts' time-honed personal experiences in industry to econometric analyses. Then, after their individual cases are confirmed (or at least discussed), a corporate forecast "emerges" and is agreed upon.

Because the quality of the forecast depends on the quality of the participants, the panel should consist of the best possible team of relevant experts—from within the organization and from outside it. As with the jury system, such a panel does

seem to determine which really are the best forecasts, particularly when the members of the panel also have to implement these forecasts. In general, however, the uncertainty associated with future events tends to be underestimated by others who later review the forecasts. The participants in the forecasting usually recognize all too well the limitations of this method.

One type of expertise is provided by experts writing various predictions in *The Old Farmer's Almanac*. A number of these almanacs predicted huge snowfalls for the winter of 1995. As a result, pre-winter sales of salt were up 42% from the previous year, snowmobile sales increased 46%, snowblower sales rose 120%, and employment at one snowplow maker had to be tripled to keep up with demand [6]. Ironically, however, the huge snowfalls failed to materialize! On the other hand, the almanacs failed to predict huge snowfalls in early 2003.

Another type of expert panel method is the Delphi technique, originally developed at the RAND Corporation. In this case the (anonymous) experts are quite deliberately not brought together, so as to avoid any *bandwagon* effect. Instead, a general questionnaire is circulated to the team, asking only for predictions of major changes. The collected replies, including, for example, predictions of technological changes (or geopolitical changes), are then distributed to the team, together with a questionnaire that asks more pointed questions, such as predicting dates for the introduction of new technology or forecasting its impact on the organization in the case of technological changes. Successive rounds of questioning become increasingly specific, until a sufficiently detailed picture is obtained.

In 1998 Dawn Jarisch, group company purchasing manager for BICC Cables, won the highly coveted *Supply Management* magazine's Idea of the Year award in the United Kingdom for developing a new technique incorporating elements of the Delphi method—a form of structured brainstorming based on collation and analysis of expert opinion. She worked in a small central team to devise and promote an alternative technique to producing price predictions for materials budgets. Its iterative approach canvasses and distills internal opinion—supplemented where necessary by industry and macroeconomic forecasts—to produce minimum and maximum predictions and a reliable mean [7].

A variation on the use of expert opinion is *role-playing* or **simulation**, in which the experts involved attempt to deduce how they might react in the equivalent real-life situations. This expensive approach is little used.

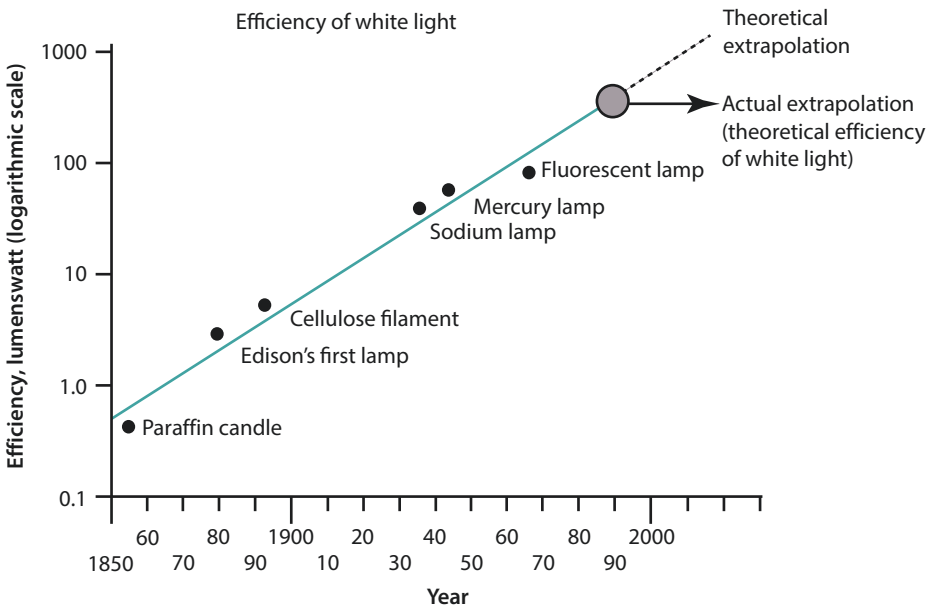
Simulation—Role-playing in which experts attempt to deduce how they might react in real-life situations.

Still another technique is to ask experts about events similar to the issue under investigation to formulate an analogy. This may, for instance, come from history, or from another industry, or from another country or market. If the analogy matches the *parameters* involved, it can offer a useful insight into the processes at work. For

example, experts examining how the Soviet regime collapsed can conjecture how China's socialistic regime might crumble in the future. Similarly, analyzing historical data on different socioeconomically unstable international markets would be instrumental in developing initial insights on a new international market that is known for similar socioeconomic conditions, which would be another perspective of simulative forecasting.

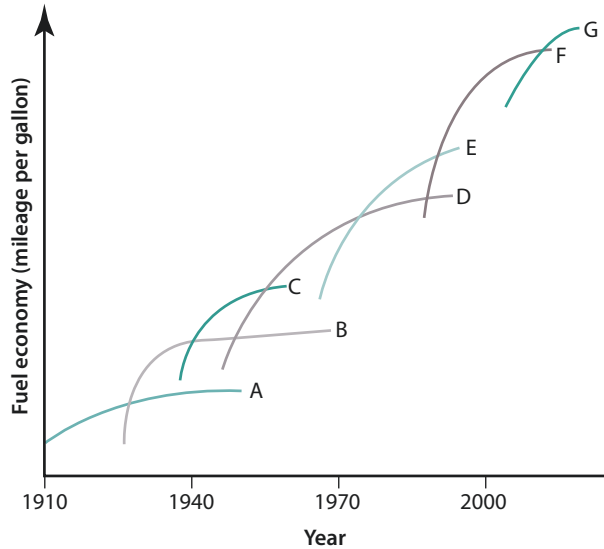
Technological Forecasting The series of techniques involved in technological forecasting is associated with the plotting of very long-term trends and, in particular, with changes in technology. The estimates are typically based on a plot of the previous changes over time (a *growth curve*), showing, for example, the increasing performance or decreasing cost. One classic example is shown in ■ Fig. 6.3. The brightness of the lamp, measured by lumens/watt per energy unit, has increased at an exponential rate as a result of significant inventions over the years. Using this historical line, you can forecast the brightness of a yet-to-be-developed lamp in the future with a reasonable level of certainty.

Another related technological forecasting method is an **envelope curve** extrapolation. An envelope curve expects technology to develop by quantum leaps with new techniques gradually being improved until they reach the ceiling of their performance, at which point they are then overtaken by the next development. The hypothetical graph in ■ Fig. 6.4 illustrates this approach in the context in which it is usually deployed.



■ **Fig. 6.3** Curve-fitting approach to forecasting artificial light. (Source: Makridakis, S., & Wheelwright, S.C. (1989). *Forecasting Methods for Management* (5th ed.). New York: John Wiley & Sons. Reprinted with permission of John Wiley & Sons, Inc)

■ **Fig. 6.4** Envelope curve extrapolation: the hypothetical development of significant automobile engine improvements



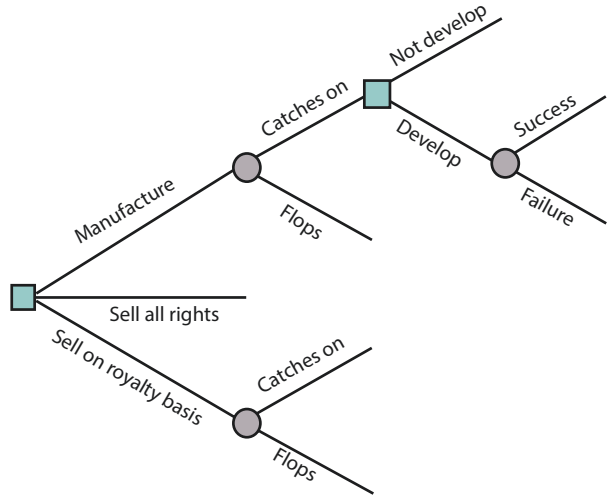
Envelope curve—A model of extrapolation that expects technology to develop by quantum leaps, with new techniques gradually being improved until they reach the ceiling of their performance, at which point they are overtaken by the next development.

■ ■ Decision Tree Method

One aid to qualitative forecasting is the use of tree structures. The main factors affecting the organization's environment, for example, are plotted, and the possible alternatives or decisions (hence the name, **decision trees**) are shown at each stage, branching at each level like a tree. An example of the decision tree method is that of the choices facing an inventor (see ■ Fig. 6.5). At the end of this process, all the various possible contributions, or at least all that the forecaster chooses to take into account, will have been documented, including some that might not otherwise have been thought of. This is the main value of the technique, although an obvious problem is dealing with the sheer number of alternatives that becomes apparent.

Decision trees—An aid to qualitative forecasting in which the main factors affecting an organization's environment, for example, are plotted, and possible alternatives or decisions are shown at each stage (or branch).

■ Fig. 6.5 Decision tree for an inventor



One application of the decision tree approach is to apply probabilities to each of the decisions. Bayes' Theorem offers a simple formula for dealing with conditional probability. The resulting probabilities of all the possible outcomes can then be calculated. This process can be taken even further by calculating the composite *payoffs* (the product of the calculated value of the outcome multiplied by the probability) for each alternative. With computing power now easily available, these quantified outputs can help give a good measure of the optimum outcomes, as long as, once more, it is recognized that all the input factors are opinions rather than hard facts. The wise forecaster also tries to understand how the various elements interact. The same *payoff* may be achieved by low risks on low-return activities or high risks on high returns—and most organizations would probably favor the former.

Scenario Method The scenario method combines the input from various forecasting techniques, especially in combination with the expert opinion and Delphi methods, to give an integrated view. Regrettably, this method is rarely used because it requires some significant effort. The fleshing out of the bare-bones forecasts, and their integration into a whole scenario, means on the one hand that it is easier to detect incompatibilities between the various forecasts and on the other hand that it allows extrapolations of these individual forecasts to cover all the activities of an organization's overall operation.

Of major importance in scenario building is the identification of crucial trend variables and the degree of their variation. Frequently, key experts are used to gain information about potential variations and the viability of certain scenarios.

A wide variety of scenarios must be built to expose corporate executives to multiple potential occurrences. Ideally, even far-fetched factors deserve some consideration to build scenarios ranging from the best to the worst. A scenario for Union Carbide Corporation (► <http://www.unioncarbide.com/>), for example, could have included the possibility of a disaster such as that occurred in Bhopal, India. Similarly, oil companies need to work with scenarios that factor in dramatic

shifts in the supply situation, precipitated by, for example, regional conflict in the Middle East, and that consider major alterations in the demand picture, due to, say, technological developments or government policies.

Scenario builders also need to recognize the unpredictability of some factors, for example, the uncertainty related to the global geopolitical environment. To simply extrapolate from currently existing situations is insufficient. Frequently, unexpected factors may enter the picture with significant impact. For example, despite some predictions about the climatic effects of La Niña and El Niño (depending on location and timing), insurance companies never expected the level of devastation wrought by hurricanes and tornadoes in the United States due to the cyclical warming and cooling of the tropical water in the Pacific. Finally, given large technological advances, the possibility of “wholesale” obsolescence of current technology must also be considered. For example, quantum leaps in computer development and internet technology may render obsolete the technological investment of a corporation or even a country.

For scenarios to be useful, management must analyze and respond to them by formulating contingency plans. Such planning will broaden horizons and may prepare management for unexpected situations. Familiarization, in turn, can result in shorter response times to actual occurrences by honing response capability. The difficulty, of course, is to devise scenarios that are unusual enough to trigger new thinking yet sufficiently realistic to be taken seriously by management.

The development of a marketing decision support system is of major importance to many firms. It aids the ongoing decision process and becomes a vital corporate tool in carrying out the strategic planning task. Only by observing global trends and changes will the firm be able to maintain and increase its competitive position. Much of the data available are quantitative in nature, but attention must also be paid to qualitative dimensions. Quantitative analysis will continue to improve, as the ability to collect, store, analyze, and retrieve data increases through the use of high-speed computers. Nevertheless, qualitative analysis will remain a major component of corporate research and development and strategic planning.

6.5.2 Quantitative Methods

In general, most quantitative techniques revolve around time-series analysis of historical statistics. They treat the systems involved as a *black box*. As such, at best they can be only as reliable as those statistics and hence are best applied to in-house statistics, such as sales figures, in which the accuracy (and likely limitation) is better understood.

On the other hand, explanatory models try to set out how these *systems* work, so that the effect of future changes can also be predicted based on the projected cause-and-effect relationship between different business environment-specific dependent variables (e.g., increased sales) and independent variables (e.g., increased buying power of the target market). They are consequently more powerful but significantly more difficult to project.

Explanatory models—Models that try to explain how systems work so that the effect of future changes can be predicted.

Sales trend forecasting is the scientific approach favored by most management teams because it is seen to project forward the historical trends that they have already observed. Thus, if sales have increased by 15% for each of the previous 3 years, the assumption is that they will also increase by around 15% in the coming year. In ► Sect. 6.4.3, we saw, though, how the *fishbone effect* may sometimes invalidate these confident assumptions. Also, as the base broadens, growth rates will be more difficult to maintain.

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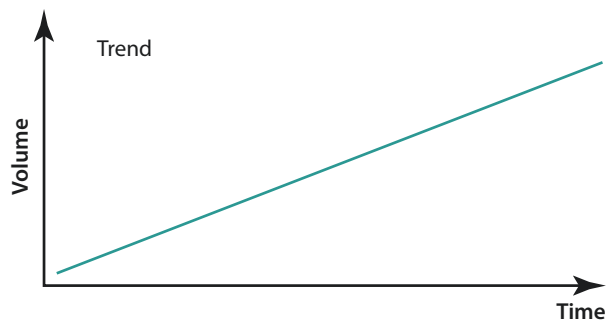
The simplest and most common form of forecasting is that handled manually or at least by using the now-omnipresent electronic pocket calculator or personal computer. The processes are still simple *mechanized* analogues of the manual processes. These forecasts project the trends shown by recent historical sales figures. Once more, this is best viewed as a variation on pure judgment.

Although these naïve manual techniques have great strengths, the element of judgment should be recognized and lead to an awareness of their limitations. The more sophisticated techniques have almost as many assumptions built into them, but, because these *value judgments* are not immediately obvious, they tend to be seen (incorrectly) as having inherently greater accuracy. Whether you use manual or more sophisticated techniques or quantitative software, you should always be aware of limitations (e.g., the error rate in statistical estimation) and assumptions before making any decision based on your forecast.

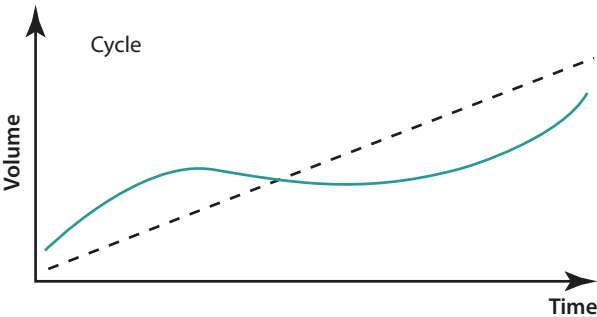
Mathematical Techniques A number of mathematical techniques (some of great complexity) apparently provide a strong scientific basis. However, in essence, most of them allow for just four components in any such forecast:

- **Trend**—The ongoing growth (or decline) of the product or service, determined by fitting a straight, or occasionally a curved, line to the historical sales data (see ■ Fig. 6.6).
- **Cyclical**—Any wave-like movement over the years reflecting, for example, general business trends (see ■ Fig. 6.7). The problem, in this cyclical case, is iden-

■ Fig. 6.6 Trend line



■ **Fig. 6.7** Cyclical fluctuations over the years



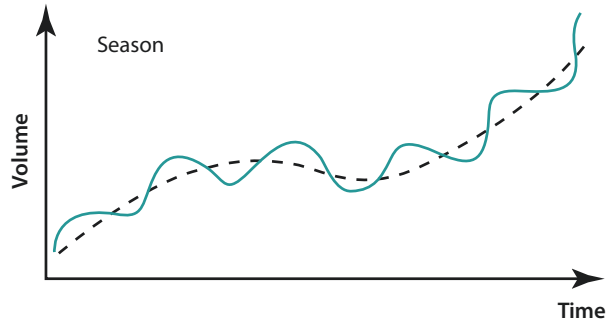
■ **Table 6.3** Long waves and technological revolutions

Era	Actor(s)	Technological revolutions	Historical landmarks
1770s–1820s	UK	Factories (mines, farms) with machines driven by energy extracted from mineral fuels in place of “natural” energy from man, animal, wind, water	Industrial Revolution; US independence; French Revolution; Wealth of Nations (1776)
1820s–1870s	Europe, USA	Railway network as transportation infrastructure integrating production units, markets, and residences of workers	American Civil War; formation of German empire; Meiji restoration; Das Kapital (1876)
1870s–1920s	Europe, USA, Japan	Electric power network as energy infrastructure	Germany and the United States catch up with the UK; First World War; Russian Revolution
1920s–1970s	Europe, USA, Japan, NICs	Automated (with conveyor belts) factories in place of factories that are simply containers of machines	Second World War; Japan catches up with Europe; independence of colonies; oil crises
1970s–2020s	Europe, USA, Japan, NICs, some LDCs	Information-communication network as information infrastructure integrating producers and users of information and services	Communications satellites; financial revolution

Source: Kogane, Y. (1988). Long Waves to Economic Growth: Past and Future. *Futures*, 20(5), 532–538. Reprinted with permission from Elsevier Science

tifying which (if any) is the true cycle, and not just an artifact. More difficult still is to determine whether the cycle will be repeated again in the future. The decades-long Kondratieff Cycles, which are often discussed in economic theory, are more difficult to observe (if they are present at all) and are consequently more controversial. However, Yoshihiro Kogane [8] offers one succinct analysis of these cycles over the past two centuries (see ■ Table 6.3).

■ **Fig. 6.8** Seasonal fluctuations: consistent from year to year



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- **Seasonal**—Many products or services are seasonal with some distinctive fluctuations over a period of, usually, a year that remain rather consistent over time, and this pattern is overlaid on the others (see ■ Fig. 6.8).
- **Random events**—Most sales graphs show unpredictable effects, such as industry disputes, although some (such as planned promotional campaigns) may be predictable to a certain extent.

Period Actuals and Percentage Changes The forecast may simply, and most frequently, continue the trends observed in previous periods. This type of forecast may be achieved either by calculating the average percentage increase or by drawing the best possible straight line through the historical figures when plotted on a graph. This method has three related approaches, using period actuals and percentage changes:

- **Moving annual total (MAT)**—This technique smoothes out short-term fluctuations (especially seasonality) by moving forward the accumulated total for the preceding 12 months. Thus, each new month's figures are added to the previous (MAT) total, and the comparable figures from the preceding year are deducted. The forecast is once more obtained by extending the trend line, this time *smoothed* by the incorporation of the whole year's data.
- **Cumulative totals**—This measure is normally used in the context of control (e.g., measuring how cumulative sales are performing against target) rather than as a forecasting tool.
- **Z charts**—As shown in ■ Fig. 6.9, all of these data (for 1 year) can be neatly combined in one graph, a Z chart. The horizontal axis of the Z is made up of the monthly actuals, while the vertical axis is the moving annual total. The diagonal eventually joining them is the cumulative figure (equal to the first month actual on the left and the moving annual total at the end of the year on the right).

Exponential Smoothing Exponential smoothing is a simple, but useful, mathematical technique that allows greater weight to be given to recent periods. For example, instead of the average trend over the whole of the past year being calculated, the sales data for each of the months is given a weighting, depending on how recent that month was.

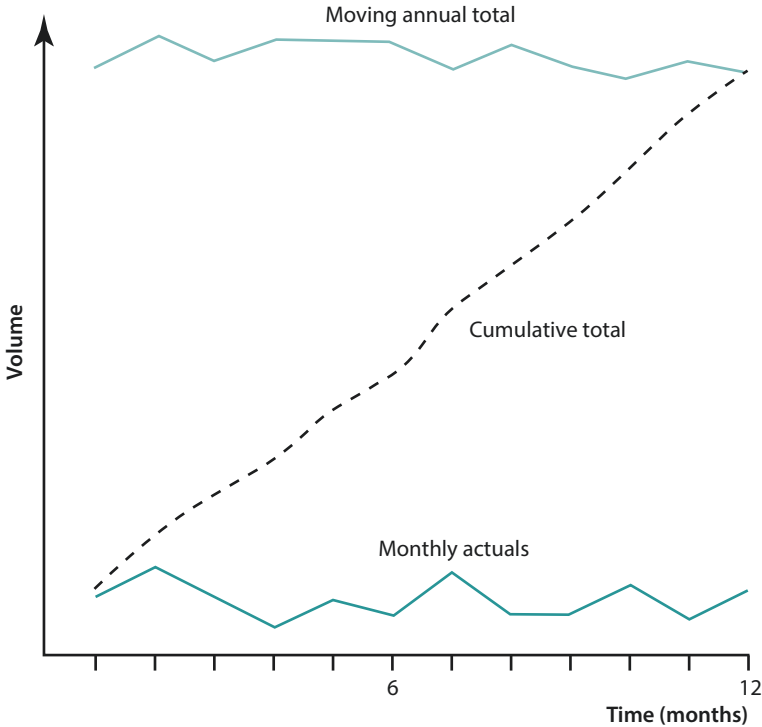


Fig. 6.9 Z chart

In a manner somewhat akin to the moving annual total, exponential smoothing takes the previous figure, in this case the moving forecast, and adds on the latest *actual* sales figure—except that it does this in a *fixed* proportion, which is chosen to reflect the weighting to be given to the latest period. The general form is

$$F_{t+1} = F_t + aE_t$$

where F_{t+1} is the new forecast, F_t is the previous one, and E_t is the deviation (or *error*) of the actual new performance recorded against the previous period forecast; a is the weighting to be given to the most recent events. In this simple form, exponential smoothing will not allow for seasonality, although more advanced (but less easily understood) versions can do this. These more advanced versions are discussed next.

Advanced Time-Series Analyses and Models In general, to account for the variations due to seasonal trends, as well as those due to long-term trends, more sophisticated calculations, such as mathematical modeling, are needed. *Models* are merely more complex equations.

General time-series models can be built by arithmetically removing a steady overall trend (the straight line showing the long-term average increase), measuring deviations from it to give the underlying, average, seasonal pattern. Models can also be built by visual inspection (as the Z chart was).

Auto-Regressive Moving Average (ARMA) techniques are the most sophisticated of the simple time-series methods. They filter out the various effects of cycle and seasonality to detect the underlying growth. The most commonly reported method is *Box–Jenkins* (see ■ Fig. 6.10); but although widely reported in the literature, these advanced techniques are relatively little used in practice.

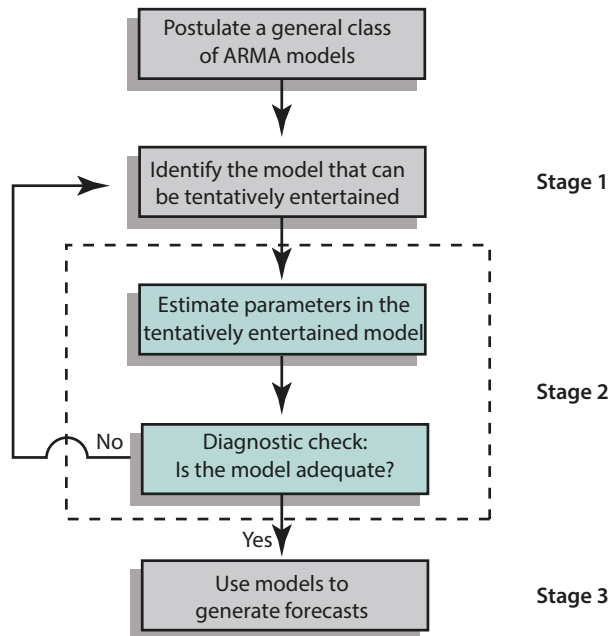
Multiple Regression Analysis At the more advanced level, computer software is extensively used to conduct *regression analyses* on the elements of the *model*. Regression analysis determines the strengths of the cause-and-effect relationship of one variable with other variables involved.

In simple regression, a linear *straight line* relationship of the form

$$y = a + bx$$

is assumed, where a and b are the constants (to be found). **Regression analysis** is designed to explain or predict a criterion variable (y), based on a predictor variable (x). This analysis does not even require the use of a computer, but such simple relationships are rare.

■ Fig. 6.10 Box–Jenkins forecasting method



Regression analysis—Models that determine the strength of the relationship of one variable with other variables involved.

Usually, a number of predictor variables are involved for prediction, so *multiple* regression analyses become necessary. Then computer programs are used to determine, statistically from the historical data and changes in the various variables, the likelihood of each of the predictor variables having an impact on the criterion variable. The parameters of the *model* and overall probabilities of each outcome can then be determined. For example, to predict annual automobile sales for first-time buyers in the United States, you can consider various factors in the regression model, as follows:

$$\begin{aligned}\text{Annual automobile sales} = & a + b_1 \times (\text{number of college graduates}) \\ & + b_2 \times (\text{interest rate}) + b_3 \times (\text{unemployment rate}) + \dots\end{aligned}$$

Econometric Models Very large econometric models, which simulate the workings of national economies, can contain hundreds of factors spread across dozens of linked equations and can require large amounts of computing power. Unfortunately, as a result, they are barely understandable even to those running them. A relatively simple econometric model is illustrated in ■ Fig. 6.11. This econometric model shows how various factors in boxes will affect and be affected by other factors. Arrows represent causal effects. Largely due to their immense complexity, however, these models are often seen as almost infallible, despite, or possibly because of, the general ignorance of many of those involved. Changes in government policy, for instance, are often run against the *models* of the national economy to see what *will* happen rather than what *might* happen.

Econometric-type models are also being used to help manage the new product introduction strategy. As illustrated in Manager's Corner 6.1, former Compaq Company (which merged with Hewlett-Packard in 2001) [9] employed complex simulation software to plan the timing of the switch from the traditional 486-based computers to Pentium-based computers. The program was designed to model the latest trends in consumer demand, pricing, and dealer inventories. Based on the model, Compaq decided to wait several months after its competitors to introduce its own Pentium machines. The decision preserved the value of Compaq's 486 inventory and led to a 61% increase in fourth quarter 1994 earnings, boosting profits by \$50 million. However, as initially developed by Dell Computer, the "build to order" model of product development and sales fulfillment started replacing the "build to forecast" model, and the traditional role of sales forecasting has begun to wane in the twenty-first century.

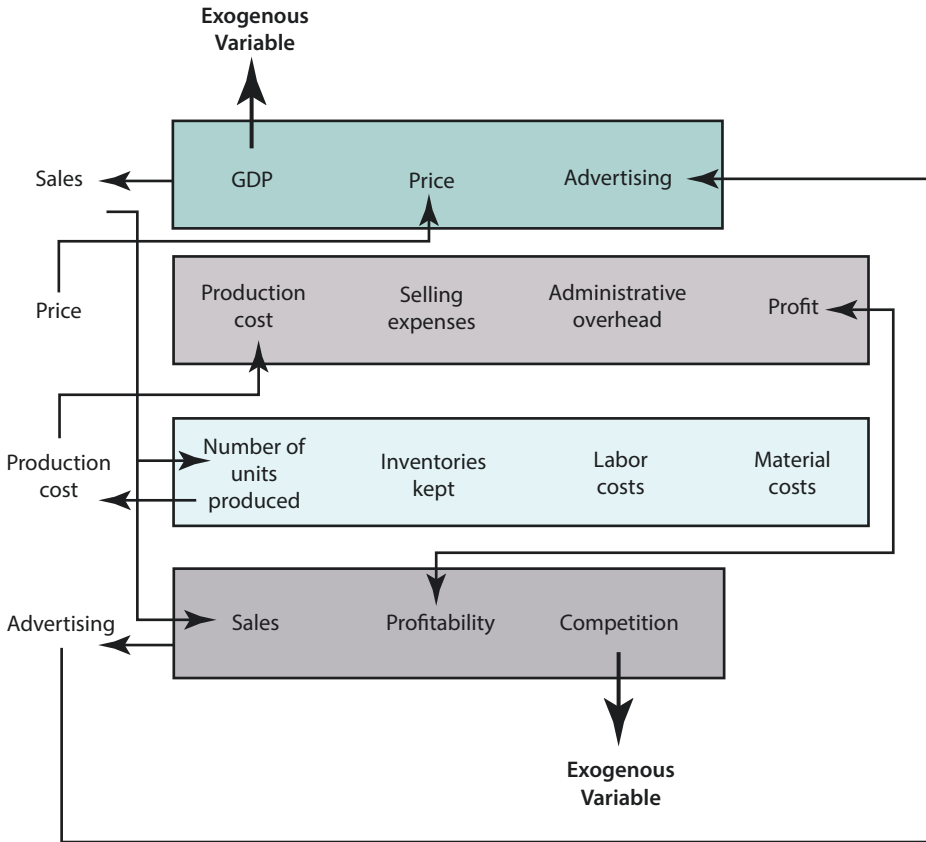


Fig. 6.11 An econometric model. (Source: Makridakis, S., & Wheelwright, S.C. (1989). *Forecasting Methods for Management* (5th ed.). New York: John Wiley & Sons. Reprinted with permission of John Wiley & Sons, Inc)

Manager's Corner 6.1

The Evolving Nature of Forecasting

The personal computer business is characterized by the breakneck speed of new product development. As soon as new technology emerges, it is immediately adopted in new products. You cannot miss the boat in this business. A PC model that comes out late, lacks the right features, or has the wrong price not only spells a missed opportunity but also turns into piles of unusable components. IBM, for example, misjudging the market, suffered a 6% plunge in PC sales and a huge loss in their annual sales. Compaq also passed up \$50 million in sales by underpredicting annual demand for PCs.



(Source: ► pexels.com/royalty-free-images/)

Can we ever forecast a future in an industry in which constant change is the only constant feature? In order not to repeat the same mistake, before merging with Hewlett-Packard, Compaq employed complex simulation software it developed to plan the switch from 486-based to Pentium-based computers. Developing the computer model took 8 months of intense effort. The program was designed to model, among other things, the latest trends in component price changes, fluctuating demand for a given feature or price, and the impact of rival models. By modeling supplier and competitor behavior, the program let managers consider the risk of certain actions before taking them.

Based on the model, Compaq elected to wait several months after their competitors to introduce their own Pentium machines—contrary to the PC industry norm. Competitors and pundits loudly criticized Compaq for its slow switch to PCs using Intel's Pentium chip. While rivals, including Dell and Gateway Inc., immediately jumped into Pentiums, Compaq was amassing a huge inventory of 486-based PCs because the simulation model suggested that corporate buyers would not turn to Pentiums until a particular period during the initial years of Pentium-based PCs. Indeed, the decision preserved the value of Compaq's 486 inventory and led to a 61% increase in fourth quarter earnings.

Not too long ago, PC vendors followed a simpler, more traditional marketing model: First forecast demand and then push finished goods into markets via multitiered channels with many players. Although that model continually suffered from inaccurate forecasts, business survival was possible just by churning out the hottest new technologies every 18 months or so. Then Michael Dell successfully introduced a new way for PC companies to compete—not by technology alone, but by emphasizing the needs of the customers with an ability to satisfy and serve them quickly and efficiently. Dell put pressure on the industry's traditional players with a simple concept: Sell personal computers directly on the internet to customers with no complicated channels. By end of the last century, major PC companies were compressing the supply chain via such concepts as “build to order” rather than “build to forecast.” Compaq's ability to accommodate those customers was at least as significant as the new products.

In a high-tech environment, the role of traditional forecasting methods is being gradually displaced by the “build to order” model of product development that does not require forecasting but requires constant monitoring of the market and quick response.

Sources: “At Compaq, A Desktop Crystal Ball: But Will Its Forecasting Software Really Make a Cutthroat Business Less Risky?” *Business Week* (March 20, 1995): 96–97; Teresko, J. (1998). The New PC Game. *Industry Week*, 50–53; O'Brien, J. (2004). White Box: The Winds of Change. *Computer Dealer News*, 20, 22–23

Leading Indicators Establishing that certain factors are *leading indicators* may be possible in that they provide *advance* warning of future trends. Perhaps suppliers of online music streaming services, for example, should study the birth rate statistics in their target market to foresee how their total teenage market may vary in future years.

In the United States, a range of useful published statistics is widely used as indicators: *US Durable Goods Orders*, movements of which may indicate the general economy some 6 months ahead; *Housing Starts*, perhaps 10 to 12 months ahead; and *Interest Rates on Three Month Certificates of Deposit*, which is supposed to give an indication for 18 months ahead. One of the most useful—and most obvious in its workings—is the leading indicator offered by the Conference Board's *Consumer Confidence Index*. Other useful leading indicators include *Stock Prices*, *Corporate Bond Yield*, *Industrial Materials Prices*, *Business Failures*, *Money Supply*, *Unemployment Rate*, *Producer Price Index*, *Consumer Price Index*, and *Business Inventories*. Marketing in Action 6.2 discusses particular indicators used by Daimler AG.

In forecasting the market conditions of foreign countries, marketers can use a country's leading indicators similar to the ones available in the United States and also the country's trade balance and exchange rates as international leading indicators. A country's continued trade deficit usually indicates either that its government will tighten its fiscal and monetary policy, thereby reducing domestic consumption, or that its currency will depreciate, thereby making imported products more expensive. Either way, a country's trade deficit portends its reduced purchasing power. To predict a foreign country's purchasing power, marketers may simply look at 180-day forward exchange rates in the Foreign Exchange Rate section of the *Wall Street Journal*. If forward exchange rates seem to be depreciating fast, this decline is generally indicative of the pending reduction in purchasing power.

Game Theory Defined as “the study of rational behavior in situations involving interdependence,” game theory has received increased notoriety on two fronts. First, in 1994 three game theorists received the Nobel Prize in economics, and second, the US Federal Communications Commission used game theory extensively to assist in auctioning off the wavelengths necessary to support mobile phones.

Before game theory, most economic models assumed that firms were basically acting in a vacuum. The actions of one firm were not assumed to impact the actions of other firms. That economic assumption is true as long as markets are *perfectly* competitive or where pure monopolies exist. Game theory allows for corporate action, competitor reaction, corporate action, and on and on. Unfortunately, game

theory is difficult to use because of its complex mathematics. However, it is now being taught in many leading MBA programs, which means that it will be increasingly used in coming years [10].

6.5.3 Spreadsheets

In the context of forecasting and planning, probably one of the most useful tools that personal computers provide is the now ubiquitous *spreadsheet*. Despite its apparent simplicity, even this tool is often misused by managers, being seen merely as a more sophisticated calculator. In the present context, however, it has a number of powerful contributions to make.

One important use of spreadsheets is the mechanization of routine budgets. The whole planning cycle is bedeviled by the grind of cranking out large numbers of routine figures. Many, if not most, of these numbers are derived from other figures and ultimately lead back to relatively few indirect variables entered into the model. After these linkages are entered onto a spreadsheet, the planning cycle becomes much easier. However, even this seemingly straightforward approach poses dangers, not least of which is that spreadsheets lock into the model all the existing assumptions about the relationships. There are two solutions to this dilemma:

- *Clear structure*—The spreadsheet should be designed in such a way that the linkages (and hence the assumptions) are obvious and are easy to change.
- *Process of challenge*—Some of the time saved by using the spreadsheet should be used routinely to challenge the assumptions to ensure that they are still valid.

Marketing in Action 6.2

Daimler AG's Eight Stop-Light Indicators of a Downturn

With corporate headquarters in both Stuttgart, Germany, and Auburn Hills, Michigan (USA), Daimler AG (► <https://www.daimler.com/>) is a company with many internationally recognized brands. These brands include Mercedes-Benz, Mercedes-AMG, Mercedes-Maybach, Mercedes me, smart, EQ, Freightliner, Western Star, BharatBenz, FUSO, Setra, Thomas Built Buses, Mercedes-Benz Bank, Mercedes-Benz Financial, Daimler Truck Financial, Athlon, Luxuricopter, and Airbus. With significant operation in 43 countries, a workforce of almost 450,000, and sales in more than 200 countries, Daimler AG's total automotive vehicle sales in 2019 was 3,344,951 which included 2,385,432 passenger cars and 488,521 trucks.



(Source: ► pexels.com/royalty-free-images/)

Like other automobile companies, Daimler AG invests considerable time, energy, and money in economic forecasting. Analysts carefully watch eight economic indicators, which are divided into two main categories. These indicators include

Consumers' ability to buy:

1. Disposable household income
2. Household debt levels
3. Interest rate yield on government bonds
4. Inflation rate

Consumers' willingness to buy:

1. Consumer confidence
2. New unemployment claims
3. Changes in manufacturing work week
4. Stock market

Daimler AG's analysts assign a red, yellow, or green status to upward or downward changes in these indicators. A composite category indicator is then developed by determining the majority color in each of the two categories. For example, a red composite indicator means that a recession is 6 to 9 months away; yellow implies that economic conditions could go either way; and a green composite implies that no recession is predicted for the near future.

How could these stoplight indicators influence decisions in the company's various functional areas (marketing, production, personnel, and so on)? Where do you think Daimler AG obtains the information for each of these stoplight indicators? Given the global scope of the company's operations, would it be feasible to use a single set of globally amalgamated indicators, or should the company generate forecasts for each national market based on the indicators in that particular country? What other types of forecasts could be valuable to automobile manufacturers?

Source: ► <https://www.daimler.com/>

Perhaps the most important use of spreadsheets is to examine these assumptions. The ease with which calculations can be repeated with different assumptions means that the marketing manager can try out *all* the different alternatives. This iterative process, called **sensitivity analysis**, can then be used to fine-tune, or optimize, the key parameters. Although widely used spreadsheet applications, such as Microsoft Excel, remain useful, spreadsheet add-ons, such as Palisade Corporation's @RISK, could provide more powerful analytical tools for decision-making.

Sensitivity analysis—A process performed in spreadsheets in which linkages are questioned and key parameters can be fine-tuned and optimized.

Modeling As indicated in the preceding paragraphs, spreadsheets can be used to build crude models. For example, a model of the seasonal, trend, and cyclic components of sales figures (as well as the impact of promotions) can be created from *eyeballing* the graphs of historical sales and *fine-tuning* the resulting model parameters until the results obtained most closely fit the historical results. This process may be time-consuming and may lack the elegance of the advanced techniques, but it may also produce results that are almost as good (and are more easily understood).

6.5.4 Alternatives to Forecasting

A number of alternatives to forecasting can also help reduce risk—including risk due to poor forecasting—if not the need for some form of formal planning:

- **Insurance**—Future movements in exchange rates, for instance, may be covered by *hedges* on the financial futures market.
- **Portfolios**—Risk can be spread by entering a number of different markets or introducing a number of different products that are unlikely to face the same economic downturns or competition.
- **Flexibility**—The Japanese in particular have developed means for coping rapidly with unexpected changes.

Flexibility Of the alternatives listed in ► Sect. 6.5.4 flexibility is emerging as the most important. This is most evident in the development, mainly by Japanese corporations, of flexible manufacturing and dramatically reduced development lead times for high-tech goods. However, similarly accelerated timescales can be even more easily applied where technological development is less demanding and the promotional activities need to be changed rapidly.

This approach, while not superseding others, simply requires that once change has been detected (probably by some form of environmental analysis, as described in Sect. ► 3.3), the reaction time should be so fast that the response may be implemented before the change reaches a significant level. More importantly, the

response time should be faster than that of competitors who might otherwise be able to take advantage of the change. However, such an approach requires a very sophisticated early detection method for environmental change.

6.5.5 Factors Limiting Forecasts

Spyros Makridakis [11] sums up the most likely errors and biases in forecasting as shown in ■ Tables 6.4 and 6.5. The most frequent mistake in practice is sometimes called the **hockey stick effect**. When actual results fail to live up to optimistic fore-

■ Table 6.4 Forecasting errors and types of future uncertainty

Causes of forecasting errors	Types of future uncertainty			
	Expected		Unexpected	Inconceivable
	Normal	Unusual		
Random fluctuations	95% of the errors around the average pattern or relationship	The remaining 5% of errors; that is, large errors that would occur, on average, one time out of 20	A not-too-serious car accident	
Changes in patterns/relationships (temporary)	Special events (such as a colder-than-average winter) and special actions (such as a promotional campaign, a new product introduced by a competitor)	An “average” recession not too different from previous ones; a fire	A serious recession of the 1974–1975 type; the energy crisis (for planning and strategies considered at the end of the 1970s)	The 1973–1979 energy crisis (for planning and strategies being considered in the 1960s)
Changes in patterns/relationships (permanent)	Gradual changes in consumer attitudes and buying trends caused by technological innovation and concerns about health and quality of life	Big changes in attitudes and buying trends caused by new technologies or governmental regulation (such as the deregulation of the airline industry at the end of the 1970s)	A collapse of the international financial system; the Industrial Revolution (for people living at the beginning of the eighteenth century)	A large meteorite hits and destroys life on Earth; a major nuclear accident or war destroying life on Earth (to someone living before 1930)

Source: Makridakis, S. (1988). Metaforecasting: Ways of Improving Forecasting Accuracy and Usefulness. *International Journal of Forecasting*, 4(3), 474. Reprinted with permission from Elsevier Science

casts, the starting point of the new forecast is changed to allow for this, but the *slope* of the forecast line remains (still optimistically) unchanged. Nobody in the forecasting process asks why the forecast was missed ... and nobody learns from experience.

Table 6.5 Common biases in judgmental forecasting and proposed ways of reducing their negative impact

Type of bias	Description of bias	Ways of reducing the negative impact of bias
Optimism, wishful thinking	People’s preferences for future outcomes affect their forecast for such outcomes	Have the forecasts made by a third, uninterested party; have more than one person make the forecasts independently
Inconsistency	Inability to apply the same decision criteria in similar situations	Formalize the decision-making process; create decision-making rules to be followed
Recency	The importance of the most recent events dominates those in the less recent past, which are downgraded or ignored	Realize that cycles exist and that not all ups or downs are permanent; consider the fundamental factors that affect the event of interest
Availability	Ease with which specific events can be recalled from memory	Present complete information; present information in a way that points out all sides of the situation to be considered
Anchoring	Predictions are unduly influenced by initial information, which is given more weight when forecasting	Start with objective forecasts; ask people to forecast in terms of changes from statistical forecasts and demand the reasons for doing so
Illusory correlations	Belief that patterns exist and/or two variables are causally related when this is not true	Verify statistical significance of patterns; model relationships, if possible, in terms of changes
Conservatism	Failure to change (or changing slowly) one’s own mind in light of new information/evidence	Monitor systematic changes and build procedures to take action when systematic changes are identified
Selective perception	Tendency to see problems in terms of one’s own background and experience	Ask people with different back-grounds and experience to prepare the forecasts independently
Regression effects	Persistent increases or decreases might be due to random reasons that, if true, would increase the chance of a change in trend	Explain that in the case of random errors the chances of a negative error increase when several positive ones have occurred

Source: Makridakis, S. (1988). Metaforecasting: Ways of Improving Forecasting Accuracy and Usefulness. *International Journal of Forecasting*, 4(3), 476. Reprinted with permission from Elsevier Science

Hockey stick effect—The mistake of changing a forecast's starting point due to failure to meet previous forecasts without changing the slope of the forecast line.

Perhaps the greatest practical limitation on forecasting, however, is its incorrect use due to managers' lack of knowledge. A survey by McHugh and Sparkes [12] came to the now classic conclusion that:

» ... despite the need and the fact that the results of past forecasting performance reveal a high level of inaccuracy it seems that not only do naive techniques dominate (representing 90% of techniques currently utilized) but also very few respondents are taking steps to improve the situation.... The main problem seemed to be that there was a total lack of specific techniques, particularly the Delphi method, cross-impact analysis and Box-Jenkins and in the case of causal model-building, regression and correlation analysis, the problem seems to be a lack of working experience of the particular techniques.

In fact, users prefer simple, intuitive, easy-to-use, easy-to-comprehend methods. It is these factors, rather than the accuracy that is ultimately desired, which determine when and how forecasting is used. The practical effect of all these limitations often results in a forecasting phenomenon, usually relating to long-range forecasting, known as the *cliff*. In essence, management uses forecasting for a period of time (albeit often without fully understanding why and how it should be carried out) until the point at which problems arise; all formal forecasting is then summarily suspended, as if dropped off a cliff.

6.5.6 Market Forecasting Software

Many companies might have their own forecasting software, developed by their in-house developers. However, many other companies also outsource/purchase external forecasting software. Forecasting software can be customized based on the firm-specific requirements. However, fast and intuitive user interface, seamless integration of firm-specific data sources, ideal fit of the business process, smooth and fast implementation process, and being easy to understand by non-IT experts can generally be considered while selecting or developing a forecasting software [13]. Also, considering the age of big data that introduces enormous flow of data from diverse sources, a market forecasting software should be compatible with 5Vs to process “high *volume* of data, (synchronizing with) intense *velocity* in the appearance of large amount of data, (while analysing) great but confusing *variety* in the perspectives and potentials of data, data *veracity* and data *value*, e.g. how particular data set could offer specific value to a firm and its stakeholders” [14]. In this context, ■ Table 6.6 lists different market forecasting software that received good customer rating in 2020.

Table 6.6 Popular market forecasting software in 2020

Demand planning software	Budgeting software	Generalized business forecasting software
JDA Demand Planning Company website: ▶ https://blueyonder.com/ Demand Solutions Company website: ▶ demandsolutions.com/ FutureMargin Company website: ▶ https://futuremargin.com/ Arkieva Demand Planner Company website: ▶ https://arkieva.com/ FuturMaster Demand Management Company website: ▶ www.futurmaster.com/	Adaptive Insights Company website: ▶ www.adaptiveinsights.com Jedox Company website: ▶ https://www.jedox.com/ idu-Concept Company website: ▶ https://www.idusoft.com/ Budgyt Company website: ▶ https://www.budgyt.com/ Prophix Company website: ▶ https://go.prophix.com/advanced-budgeting/	SAP Integrated Business Planning Company website: ▶ https://www.sap.com/ Logility Voyager Solutions Company website: ▶ https://www.logility.com/ Forecast Pro Company website: ▶ www.forecastpro.com/ MRPeasy Company website: ▶ www.mrpeasy.com/ Oracle Company website: ▶ https://www.oracle.com

Summary

Forecasts predict what may happen, all other things being equal. Budgets go beyond these forecasts to incorporate the effects of an organization’s planned actions. Both may be

- *Short term*—For capacity loading, information transmission, and control
- *Medium term*—For the traditional annual planning process
- *Long term*—For strategic planning, resource planning, and communication

Forecasts need to be dynamic. In other words, changes in the environment require modification of forecasts. From them, budgets may be derived at the sales, production, and profit levels.

Forecasting is based on, and derived from, some other data sources; and it is conducted at three different levels. *Macroforecasts* look at total markets and may be derived from national or global data available from the OECD or the US government. However, the most important aggregate forecast for business is at the market or industry level. *Microforecasts* build on the predictions of individual or group (customer) behavior. *Product forecasts* may then be split into forecasts by *product type* and over time.

There are both qualitative and quantitative forecasting methods. *Qualitative forecasting* is normally employed for long-term forecasts. Techniques include expert opinion, expert panel method, technological forecasting, Delphi technique, decision tree, and scenario.

Quantitative forecasting techniques for the short and medium term typically try to isolate the trend, cyclical, seasonal, and random fluctuations. The specific techniques used may be period actuals and percent changes, exponential smoothing, time-series analyses, multiple regression analysis, and more complex econometric modeling. Various leading indicators are also readily available from government sources to forecast the short- to medium-term conditions of the market. Although most forecasting techniques ignore the competitors' possible reaction to one company's competitive move, game theory has been gaining popularity in recent years to address the likely impact of the competitors' moves in forecasting.

With the widespread use of personal computers, spreadsheets have become a useful forecasting tool to model many hypothetical "what if" scenarios. By developing many scenarios, you can determine which factors are sensitive to changes in the conditions under investigation.

The primary role of forecasting is risk reduction. You should note that risk can also be reduced by purchasing insurance against unfavorable events, diversifying into a portfolio of different products and markets, or adopting flexible manufacturing to better cope with unexpected changes in the market. Finally, thanks to internet use, many companies, emphasizing the needs of customers with an ability to satisfy and serve them quickly and efficiently, have begun to adopt the "build to order" model of sales fulfillment with no forecasting error rather than the traditional "build to forecast" model.

Key Terms

Decision trees

Derived forecast

Envelope curve

Explanatory models

Fishbone effect

Forecasts

Hockey stick effect

Leading indicators

National forecasts

Qualitative methods

Quantitative methods

Regression analysis

Rolling forecasts

Sensitivity analysis

Simulation

Technological forecasting

? Review Questions

1. What are short-term forecasts used for? What are long-term forecasts needed for?
2. What are the differences between forecasts and budgets? What further budgets may be derived? How may product forecasts be derived from macroforecasts?
3. How may microforecasts be produced? What is the Markov brand-switching model? What may need to be derived from product forecasts?
4. What main qualitative forecasting techniques are available? What elements of judgment do they contain? How does technological forecasting work?
5. Describe the Delphi technique. What other techniques employ similar approaches?
6. Describe the use of scenarios.
7. What are the four elements that mathematical techniques try to isolate? What techniques are available for this purpose?
8. What are the differences between exponential smoothing and multiple regression analysis?

? Discussion Questions

1. Market intelligence agency Mintel's report, "2010: Marketing to Tomorrow's Consumer," portrays a nation of diverse consumers living increasingly isolated lives and becoming more self-reliant and individualistic. The report blames this behavior on evolving technological trends. Free time will be far more focused on in-home activities. Although this may seem a gloomy prediction of life for consumers in 2010, it is great news for the manufacturers of home-based items, especially leisure-based brown goods. But there will also be losers in this home-centric future. Thus, the buzzword for the new era seems to be *micro-marketing*. This means tailoring marketing programs to specific demographics, specific channels, and perhaps even specific stores, thus reducing the effectiveness of mass-market TV advertising and increasing the effectiveness of targeted niche marketing, such as direct mail, sponsorship, and the internet. This all points to life being much harder for marketing directors in the year 2010.

Do you agree with this long-term forecast of the future market? If yes, who will be the winners and losers? If no, give your own long-term forecast of the future based on current changes in technology.

2. One marketing authority had forecast there could be 3.8 billion smart cards in use by the year 2000. An all-in-one smart card can serve as a frequent-buyer record, charge card, phone card, stored-value card, ticketless card, parking card, and so on. The Takashimaya Visa Card (TVC) is one such smart card, with both a chip and a magnetic stripe that stores customer behavior information. Takashimaya systems executives know how many shoppers use the card, how often, and for what kinds of purchases. They now know the ages and buying habits of shoppers in each of their nine departments.

Do you think that the accuracy of market forecasting will drastically improve with the prevalence of innovations such as smart cards? Why or why not? Is it ethically correct to obtain such market information about particular consumers' behavior?

3. The climate in 100 years' time will be one of greater extremes: Every other year summers will be as hot and dry as 1997, and winters will have three times more days with an inch of rain. There will be higher tides, more coastal erosion, and more flooding. Sea levels will probably rise by 4 cm a decade, increasing the risk of flooding. A rise in temperature of 3 °C can have an enormous effect, considering that at the last Ice Age, the temperature fell by only 5 °C. The predictions by scientists who no longer believe that past weather patterns are an adequate guide to the future pinpoint that these changes will happen as a result of the rising burden of greenhouse gases in the atmosphere.

According to this weather forecast, the number of unusually hot days with temperatures above 77 °F is expected to cause a huge surge in demand for air conditioning in offices. How will the energy industry forecast its market demand amid such desperate demand as well as growing public resentment for being an alleged source of the greenhouse effect?

4. Seasonal or holiday sales forecasts do not often match actual sales figures. For example, the 2002 final tally showed that Christmas 2002 sales were robust, slightly beating the forecast for a 5% increase in holiday sales that some analysts considered a long shot. Also within the same industry, different firms experience varying sales performance. For example, in 2002 Christmas sales for Walmart and Gap were above the forecast, whereas midline retailers such as Sears and Kmart continued to lose market share to discounters and high-end retailers.

As a Sears marketing executive, how would you forecast your next Christmas sales? On what factors will you base your figures? How should Walmart plan for its inventory for next year?

5. Long-term forecasts with their opportunities and threats are incorporated into a company's annual budget depending significantly on the company's risk-taking capability. In turn, risk-taking depends on the financial perspective of firms. Some firms emphasize short-term accounting profits, whereas others treat profit as a by-product of strategy, and not the first order of business. Profit is an accounting abstraction, a snapshot of revenue over expenses at an artificial point in time. That is critical information for old-fashioned firms, some critics argue. Recently, as share prices surged for money-losing internet companies, the public awakened to the fundamental truth that short-term profits mean nothing in the quest for long-term value.

How would this forecasted shift in perspective affect annual budgeting by a firm in a rapidly changing high-tech industry?

Practice Quiz

1. Which of the following is input to the normal business planning and control processes?
 - (a) Tactical
 - (b) Strategic
 - (c) Medium term
 - (d) Long term

2. All the following are types of decisions associated with long-term forecasts EXCEPT
 - (a) Strategic direction
 - (b) Resource planning
 - (c) Communication
 - (d) Control
3. Budget variants include all the following EXCEPT
 - (a) Resource forecasts
 - (b) Manufacturing forecasts
 - (c) Salesforce forecasts
 - (d) Profit forecasts
4. Microforecasting builds on the predictions of
 - (a) The market
 - (b) National economies
 - (c) Customer behavior
 - (d) Profitability
5. Which of the following forecasts is most important for an organization with high market shares?
 - (a) Global
 - (b) National
 - (c) Industry
 - (d) Product
6. Qualitative forecasts can be compiled from all the following sources EXCEPT
 - (a) Individual opinion
 - (b) Panel opinion
 - (c) Decision tree
 - (d) Time-series models
7. Members of a Delphi study are not brought together primarily because it reduces
 - (a) Costs
 - (b) Interaction
 - (c) Bandwagon effects
 - (d) Specificity
8. Mathematical techniques allow for all the following components for forecasting EXCEPT
 - (a) Trend
 - (b) Cyclical
 - (c) Seasonal
 - (d) Planned effects

(You can find the correct answers to these questions by taking the quiz and then comparing your answers with the answers that are provided at the end of the book, under the “Practice Quiz Answers” part of the book.)

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Market Segmentation, Positioning, and Branding

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■ *Baby Boomers Versus Generation Y Versus Generation Z*



■ Different customers, different needs (Source: ► [pexels.com/royalty-free-images/](https://www.pexels.com/royalty-free-images/))

Today's teens and those in their early 20s—the biggest bulge since the baby boomers—may force marketers to toss their older strategies. A host of product labels that have prospered by predicting and shaping popular tastes since the baby boomers were young no longer excite today's middle-aged adults—known as Generation Y—born between 1979 and 1994, and today's teens and young adults—known as Generation Z—born after 1997. On the one hand, Generation Y is 60 million strong, more than three times the size of Generation X. On the other hand, Generation Z is a generation who are also currently influencing the marketers' strategies significantly and will continue to influence for many more years in future.

More than a third (34%) of Generation Y are minorities compared to 27% of the total population. As a result, Generation Y has a growing tolerance for diversity in both private and public areas of life. Generation Y's exposure to a variety of global viewpoints has created a “global mix and match” culture, in which people in this generation look for certain cultural styles. They lead relatively quiet lives listening to music, hanging out with friends, going to movies, dining out, and watching TV. They rarely participate in high-action activities such as tennis and motorcycling. They have more money to spend than any teens in many other generations, 51% more than teenagers in 1995, and they are notoriously fickle consumers.

Marketers have not been dealt an opportunity like the market segment of Generation Y since the baby boom hit after the Second World War. Yet for many entrenched brands, Generation Y poses formidable risks. Baby boomer brands failed in their attempts to reach Generation X, but with a mere 17 million in its ranks, that miss was tolerable. The baby boomer brands appear to be a thing of the past with Generation Y. This generation is radically different from the baby boom generation. Generation Y is more racially and socioeconomically diverse. One in three is not white. One in four lives in a single-parent household. Three in four have working mothers. A large majority of Gen Yers is already proficient at computers and tapping into the internet as easily as reading the newspaper. And they are casually “chatting” and sharing information over the internet across national boundaries.

In comparison to Generation Y, Generation Z, born between 1995 and 2015, looks for more freedom in their personal and professional life. Generation Z has been brought up by well-educated parents in comparison to the previous generations. Around 45% of this generation’s children have had at least one parent who has completed a bachelor degree at minimum. This background highly contributes to the comparative affluence and comforts of the households in which Generation Z has been brought up. Eventually, in comparison to any previous generations, literacy rate is much higher in Generation Z, who are also tech-savvy, as they received a tablet or similar other smart devices as one of their first toys. Internet is part of their DNA, as their education, sports, and leisure are mostly influenced by internet-enhanced platforms.

Since Generation Z is born after 1995, they are gradually taking the lead in decision-making. Generation Y, born between 1979 and 1994, is yet at the central stage of different contemporary socioeconomic settings and one of the core segments for marketers to serve in terms of the “age group” of different market segments. However, Generation Z has been gradually attracting much attention of marketers as they are the future leaders and decision-makers.

There is a fundamental shift in values from the consumers in preceding generations to Generation Y consumers to Generation Z consumers. Some of the biggest, most successfully marketed brands of the past decades are facing a nod of indifference from Generation Y and Z consumers. Having grown up in a more media-saturated, brand-conscious, and computer-connected world than their parents, Generation Y and Z respond to advertisements differently, and they prefer to encounter those ads in different places. The marketers that capture Generation Y’s and Z’s attention do so by bringing their messages to the places Generation Yers and Zers congregate, whether it is the internet, a snowboarding tournament, or any other virtual platform.

The following is a list of “cool stuff” indicated by baby boomers, Generation Yers, and Generation Zers:



■ (Source: ► pexels.com/royalty-free-images/)

Baby boomers (around 55–75 years old)	Generation Y (around 25–45 years old)	Generation Z (the oldest person in this generation is around 23 years old)
Lexus LS 400 What to drive when you have your own parking spot. It says you've arrived without the ostentation of a BMW.	Jeep Wrangler Who cares about gas mileage? It looks great in the high school parking lot.	Technologically enhanced cars relying on technology more for parking than rearview mirror.
Major League Baseball The idea of the Cubs and the White Sox—not to mention the Yankees—has made the game hot again.	Skateboard Triple Crown Stars compete for glory instead of multiyear contracts.	Animal Crossing: New Horizons The desert-island alternate-life game that's spawned a thousand memes.
GAP clothes Those chinos and jeans still look cool. Really.	H&M Cute, trendy, and cheap says it all.	Sustainability concerns Garments that are responsibly made (e.g., the production process does not harm environment and ensure worker well-being, etc.).
Harrison Ford Tough and sixty something. Plus, his action figure is a hot collectible.	Orlando Bloom The hottest elf or pirate around.	No single megastar.
Estée Lauder For the way we ought to look.	Hard Candy For the way we really look.	ELLE Eco-friendly and sustainable beauty.
L.L. Bean A favorite for decades, but does anyone actually go duck-hunting in those boots?	The North Face Does anyone actually go mountain-climbing in that stuff?	Brands that care about sustainability issues.
Palm Pilot A Rolodex for your pocket, with a high-tech edge.	Walkman Listen to music everywhere you go!	iPods cloud music.
Political activism Make yourself heard.	Volunteerism Make yourself useful.	Centralism Establish your control.
The Beatles Rock 'n' roll as the single artistic achievement of a generation.	Britney Spears Rock 'n' roll packaged and marketed to this generation.	No single megastar.
Coca-Cola Water + sugar + caffeine	Anything Coffee Blame it on the Starbucks culture.	Energy drinks high caffeine.
David Letterman Late-night TV, slightly mellowed with age.	The Queer Eye Guys Tolerance is important to Generation Yers.	Netflix "See what's next," as the box office is just away of a click.
Nikes From Michael to Tiger, there's no shortage of sports celebs saying "Just Do It."	Reefs The coolest flip-flops to wear, all year long.	Brands that care about sustainability issues.

Baby boomers (around 55–75 years old)	Generation Y (around 25–45 years old)	Generation Z (the oldest person in this generation is around 23 years old)
Communication Pen-friends as sharing thoughts with like-minded people by postal mail.	Communication Email as a medium of sharing thoughts with like-minded people by postal mail.	Communication Internet-enhanced cloud space as a medium of sharing thoughts with the like-minded people by postal mail.
Transportation arrived in Sydney from London in 30+ hours.	Transportation arrived in Sydney from London in less than 20 hours.	Transportation scientists are working to develop aircraft aiming to arrive in Sydney from London in 4 hours.
Reaching beyond the earth Humans reached the Moon physically.	Reaching beyond the earth Humans sent robots to Mars.	Reaching beyond the earth Humans will arrive in Mars physically, and space tourism will be affordable by a segment of the general public.
Soccer hero Edson Arantes do Nascimento (Pele).	Soccer hero Diego Armando Maradona.	Soccer hero Lionel Messi and Cristiano Ronaldo.
Sources: “Generation Y,” <i>Business Week</i> (February 15, 1999): 81–88; and Morton, L. R. (2002). Targeting Generation Y. <i>Public Relations Quarterly</i>, 47, 46–48; personal interviews conducted by Ida Shea, July 29, 2004; Horovitz, B. H. (2012). <i>After gen X, Millennials, what should next generation be?</i> <i>USA Today</i>. ► http://usatoday30.usatoday.com/money/advertising/story/2012-05-03/naming-the-next-generation/54737518/1. Accessed 29 April 2020; Bresman, H., & Rao, V. D. (2017). A survey of 19 countries shows how generations X, Y, and Z are – and aren’t – different. <i>Harvard Business Review</i>. ► https://hbr.org/2017/08/a-survey-of-19-countries-shows-how-generations-x-y-and-z-are-and-arent-different. Accessed 29 April 2020; Fry, R., & Parker, K. (2018). <i>Early benchmarking show ‘post-millennials’ on track to be most diverse, best-educated generation yet.</i> ► https://www.pewsocialtrends.org/2018/11/15/early-benchmarks-show-post-millennials-on-track-to-be-most-diverse-best-educated-generation-yet/. Accessed 29 April 2020; CNN Library (2019). American generation fast facts. ► https://edition.cnn.com/2013/11/06/us/baby-boomer-generation-fast-facts/index.html. Accessed 29 April 2020; Hennessy, J. (2019). <i>You could be flying from Sydney to London in 4 hours if this hypersonic ‘space plane’ gets off the ground.</i> ► https://www.businessinsider.com.au/you-could-be-flying-from-sydney-to-london-in-4-hours-if-this-hypersonic-space-plane-gets-off-the-ground-2019-9. Accessed 29 April 2020; Iberdrola. (2020). <i>Characteristics of Generation X, Y and Z.</i> ► https://www.iberdrola.com/talent/generation-x-y-z. Accessed 29 April 2020; Warren, L. (2020). <i>Gap enters the teen Denim market with new sustainable collection.</i> ► https://sourcingjournal.com/denim/denim-brands/gap-teen-sustainable-denim-girls-gen-z-208649/. Accessed 29 April 2020.		

7.1 Introduction

Market is defined differently across different social science disciplines. For example, in economics, market is a physical place (or space, e.g., e-shop) where buyers and sellers meet together to exchange value. In marketing, the interface between the consumer and the supplier is the **market**. The position the supplier chooses in that market for the product or service—relative to consumer needs—defines all the

marketing actions thereafter. Whether determined analytically or by default, this positioning is at the heart of marketing.

Market—The group of all current and potential customers who share particular needs and wants and may be willing to engage in exchange to satisfy their needs and wants in future.

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The first stage of market positioning is to segment the market itself by dividing the entire target market into smaller parts based on key variables chosen by the firm, so that segment-specific market (customer) needs could be met more meaningfully. Such variables are generally determined by psychological (e.g., behavioral pattern), demographic (e.g., age, income, gender), and similar other factors that would be common in a particular group (segment) in the entire target market, so that marketers could focus on the needs of this particular group of customers more closely, in order to serve the segment more competitively. The firm can then concentrate the organization's resources on a smaller part to gain control over the competitive position. However, the segment has to be viable, and sophisticated marketing research is needed to optimize the segmentation.

Positioning, or targeting, then places the product or service in the optimal position relative to competitors on features most critical to that particular segment (group of customers). The focus for this activity is often a brand, and alternative **branding** policies are discussed in this chapter. Branding, combined with positioning, usually offers the most sophisticated and powerful application of marketing principles. As shown in the vignette at the beginning of this chapter, the market is constantly changing. As a result, segmentation and positioning strategies require constant vigil over various forces shaping the market.

Branding—The epitome of product differentiation; a process in which a product is given a character or an image that is almost like a personality.

7.2 What Is a Market?

To a producer or service provider, the most practical feature of a market is that it is *where* the product or service is sold or delivered and the profits generated. On the other hand, it can also be defined in terms of the product or service (where the *market* describes all the buyers and sellers for that product or service—the automobile market, the money market, and so on), and this is the framework favored by many economists. It can also be defined geographically or demographically. The key for a marketer, however, should be that the market is always defined in terms of the customer. Thus, a *market* consists of all the current and potential customers sharing particular needs and wants who might be willing to engage in exchange to

satisfy their needs or wants in future. Once the potential customers' needs and wants are backed by their purchasing power, an *actual* market is formed.

The market concept applies equally to services. However, in this context, the term *market* can even represent a powerful concept in the *nonprofit* sectors. Although the word *market* itself might sound strange emerging from the mouths of civil servants, the idea of defining the *set of customers* who are the focus of their activities is a powerful one. It helps to concentrate their attention, externally, on the needs that they are meant to address.

Although nonprofit organizations do not refer to the target population they serve as a market, every nonprofit organization has clients or customers. Some, such as the International Monetary Fund, may have just a few very powerful clients, whereas others, such as a government department, may deal with millions of individuals. Defining exactly who these clients are, in relation to the activities of the organization itself, is just as important an exercise as for a commercial organization. This *market*, albeit not usually complicated by the same competitive overtones as its commercial equivalents, is ultimately just as powerful a force on a nonprofit organization.

7.3 Who Is the Market?

The market is a group of current and potential customers. Here, the word “current” refers to customers who are purchasing from an organization at the moment. In contrast, the word “potential” refers to customers who would possibly purchase from the organization in future. However, in many practical respects, it is still defined in the short term by suppliers who decide what is to be supplied to whom and hence where the initial boundaries are to be set. After all, the consumer cannot make his or her wishes known if there is no suitable product on offer. This lack of short-term feedback became a major long-term problem for the planned (command) economies of Eastern Europe, hence one of the reasons for the enthusiasm for *perestroika*.

In the long run, it is the customers—with their purchasing power—who will decide what the market really is. They set the boundaries and, by their purchases, decide what products or services will remain in the market. Thus, to understand the market, the company must understand the customer. Our concentration on market research in ► Chap. 5, “Marketing Research and Information,” provides the cornerstone for effective marketing. Remember that the basis of sound marketing practice is the ability to identify with the customer or client and to adopt the consumer's viewpoint.

7.3.1 Channels

The producer may not sell directly to the end user but may be forced to sell through distribution channels, which act as intermediaries. This is true of some services as of products. For example, Commercial Union and the Prudential need their brokers to act as intermediaries.

The *producer* thus has consumers who are unseen as well as customers in the distribution chain who are met face to face. As we will see in ► Sect. 7.5, “Market Segments,” these customers have different needs from the consumers. Although they are conventionally seen as part of the same market, major differences have to be allowed for.

7.4 Market Boundaries

Consumers of both products and services can be grouped on the basis of a number of factors. Their position against these factors, which may be different for each market, *maps* the true boundaries of that market. The market is defined by the consumers’ view of it and in the language (terminology) that is most meaningful to the consumer, in relation to those factors.

On the other hand, producers, especially those without marketing expertise, tend to have many more *physical* ideas of where markets lie. They want to be able to *touch* them. Despite all the very sound marketing theories, the practical definitions of markets tend to revolve around the following major factors:

- **Product or service category**—This category describes what is bought, as defined in the physical terms of the producer. For example, the 2 mm drill is a product category, not the 2 mm hole that the end user wants to make.
- **Geography**—Where the product or service is sold or delivered is another factor that defines markets. For example, the location of a shopping mall and the customers who live around that location are determined largely by the geographical area from which customers can be drawn. Also, consumer tastes can vary from region to region. The former General Foods company found that people living to the west of the Mississippi River tend to like dark roasted coffee more than those to the east of the Mississippi.
- **“Physical” customer groupings**—Producers recognize obvious groupings of customers. In industrial markets, for example, suppliers of medical diagnostics recognize that hospitals have different needs from those of corporate health centers.
- **Intangibles**—Although many marketers treat price as a tangible idea, it is more widely recognized as an intangible idea that differentiates commercial markets. Thus, a *low-end* market refers to a market segment characterized by relatively inexpensive product lines, whereas a *high-end* market is synonymous with a *luxury* market. For example, Toyota launched the Lexus brand to compete with other luxury car brands targeting the high-end market.

7.4.1 Customers, Consumers (Users), and Prospects

Marketing myopia is still highly prevalent. Even committed marketers talk about the market for replacement drills—a much easier concept to handle than that of selling the potential for holes. Even so, you need to recognize that it is ultimately the customer who decides where your market will be. Taking this myopia one stage

further, producers or service providers mainly see markets in terms of where they themselves are in these markets. This means that they often look at these markets specifically in terms of their existing customers and potential customers.

- *Customers*—In commercial markets, it might seem an easy task to define who your customers are. They are simply the buyers of your brand. The dividing line is often not quite so clear. Where do those lie who have now switched to another brand? Where do you put very loyal users who have most recently bought another brand just for a temporary change? How do you categorize a customer of a particular product, when that customer's last purchase from your organization might have been half a decade or more ago? In the public sector, the boundaries may be even more blurred. Unemployment benefits are paid to those out of work but are intended just as much to support their dependents. Netflix, the online video streaming service provider, however, operates in more than 190 countries worldwide; they have stopped segmenting their customers geographically across the world. The customer base of Netflix and its segmentation approach to understand their customers better are detailed in Marketing in Action 7.1.
- *Consumers (Users)*—Sometimes users are not the same as purchasers. The children in the family may actually consume cornflakes, and they will usually make their brand preferences very well-known, even if they do so only because they want to collect the free gifts offered in the cereal boxes. The difference is most noticeable in the case of newspapers and magazines, where readership figures (the number of those who read a given issue, as determined by market research surveys) can be much higher than those for circulation (the number of copies actually sold).

Marketing in Action 7.1

Netflix Moves to Taste-Based Segmentation

Netflix is launched by Marc Randolph and Reed Hastings in 1997 in California. As an online on-demand video (cinema and TV series) streaming service provider, Netflix currently serves more than 83 million customers worldwide across 190 countries. As an entertainment provider, Netflix seeks to fulfill its customers' basic desire to have fun. Strategically, Netflix viewed the need to have fun as a chance for repeat business. Thus, the goal is to get potential customers to keep returning to Netflix online site to satisfy their desire for entertainment.

The key customer base of Netflix comprises younger people with predominantly an age range from 15 to 40 years old, who are tech-savvy and prefer to stream cinemas and TV shows online, instead of watching them on TV. Historically, Netflix used to follow a very basic approach to market segmentation. Especially, considering that Netflix operates in all continents across the world, the geographical segmentation in different international locations seemed to be very relevant for Netflix to understand their global customer base.

Unfortunately, in the age of direct marketing, the traditional geographical segmentation approach did not work that well for Netflix in closely understanding their enormous customer base worldwide. As a result, Netflix management started to think about how considering their different international markets as a single market would be useful to better understand their customers' preferences. Especially, the tech-savvy generation across the world as a cohesive target market gives an idea that customers across the national boundaries would have similar needs, wants, and expectations on the services of Netflix. This view propels Netflix to analyze their international markets as a single market, in order to identify different customer segments that share similar tastes in terms of streaming cinemas and TV shows online.

To closely understand the cohesive target market, analyzing the subscription and browsing history of customers from all global regions appeared as instrumental for Netflix, in order to classify the global customers into different segments based on the customers' individual taste and preference across the national boundaries. Therefore, Netflix had started to segment their single global market of more than 93 million customers since 2016 into different "taste communities" as different customer segments based on customer groups' similarities and dissimilarities of taste in selecting particular types of cinemas and TV shows.

Netflix has found around 1300 "taste communities" across the world, who have similar taste in selecting and streaming movies and TV shows across the national boundaries. This single market focused taste-based segmentation strategy helps Netflix to understand the consumption history of their global customer base better, in order to proactively anticipate, recommend, and influence the future online subscription and streaming behavior of their global customers.

Do you think that moving to the single market focused taste-based segmentation approach from the global location-based geographical approach is a better strategy for Netflix? Using your personal knowledge about the online video streaming industry, identify four or five "catchall" taste-based segments that would have been appropriate for Netflix.

Sources: Elnahla, N. (2019). Black mirror: Bandersnatch and how Netflix manipulates us, the new gods. *Consumption Markets & Culture*, published online ahead of print, ► <https://doi.org/10.1080/10253866.2019.1653288>; Bhasin, H. (2019). Marketing strategy of Netflix. *Marketing91*. ► <https://www.marketing91.com/marketing-strategy-of-netflix/#:~:text=Segmentation%2C%20targeting%2C%20positioning%20in%20the%20Marketing%20strategy%20of%20Netflix%20%E2%80%93%20movie%20and%20TV%20show%20preferences>. Accessed 25 June 2020.

- **Prospects**—The term *prospects* is most often used in face-to-face selling, and the term *potential customers* is often used in mass markets. The meaning is the same: those individuals in the market who are not the organization's customers. Again, however, the boundaries are not quite so clear. Are lapsed customers included? Is everyone in the market a prospect, or does it include only those who are likely to buy the particular brand? The concept of *prospects* may sometimes be just as applicable in the public sector. In the United States, the International Trade Administration undertook an advertising campaign to promote its

Commercial Service—export promotion services—to potential exporters because most of them are not aware of the services. The government was attempting to convert prospects into customers.

7.4.2 Penetration

Some individuals in the market buy a particular producer's brand, and some do not. The measure of the difference is known as brand penetration. Determined by market research, **penetration** is the proportion of individuals in the market who are users of the specific product or service. In the nonprofit sector, penetration is often used to measure the number of clients receiving help as a proportion of the total population who might need the service.

Penetration—The proportion of individuals in the market who are users of the specific product or service.

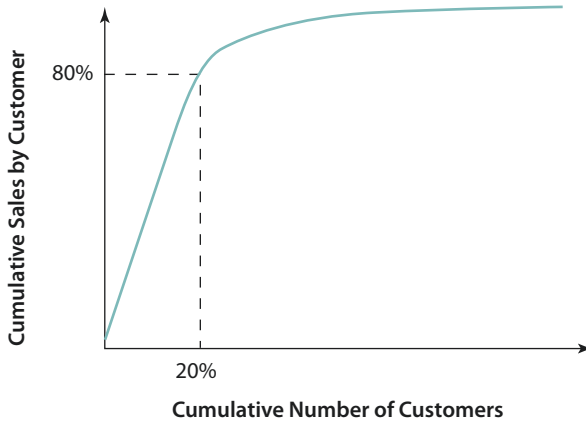
7.4.3 Market Share and Share of Wallet

The most common measure for usage rate is market share, or the share of overall market sales for each brand. In the consumer field, this is usually measured by audit research on panels of retail outlets, such as that undertaken by Nielsen Holdings. Market share represents consumer purchases and not necessarily usage, although the distinction is usually not important. In the industrial field, market share is usually an estimate based on research of a limited number of industrial customers.

However, once more there are complications. Market share can be quoted in terms of volume (the brand has a 10% share of the total number of units sold) or in terms of value (at the same time, the brand took 15% of the total money being paid out for such products because it was a higher-priced brand). This difference can sometimes be dramatic.

There is another comparatively newer concept of measuring the usage rate of a product or service, which is share of wallet. Share of wallet refers to the idea to measure that if a single customer would spend \$100 in her or his entire lifetime to buy a particular product (e.g., toothpaste), how much of that \$100 the customer would spend to purchase our toothpaste brand. It is a more relational approach of marketing to monitor each customer's spending behavior on a particular product or service, with an aim to keep the customer in a chain of ongoing relationship with the product to ensure repeat purchase.

The measure of market share, share of wallet, and the concept of prospects are important because they delineate the extra business that a producer can reasonably look for and where he or she might obtain it. On the other hand, the evidence in many markets is that most business comes from repeat purchases by existing customers.



■ Fig. 7.1 The 80/20 rule

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7.4.4 The Pareto, or 80/20, Effect

As we discussed in Sect. 2.4.1, “Analysis,” the Pareto effect, or 80/20 rule, can be applied to a wide range of situations, in mass consumer markets as well as industrial ones, and it applies to groupings of customers (see ■ Fig. 7.1). It says that the top 20% of customers account for 80% of sales and that the best-selling 20% of products account for 80% of the volume or value of overall sales. The importance of the principle is that it highlights the need for most producers to concentrate their efforts on the most important customers and products.

7.5 Market Segments

As we have seen, producers tend to define markets quite broadly, primarily in terms of the physical characteristics that are important to them. These larger markets often contain groups of customers with different needs and wants, each of which represents a different **segment**. This process is called *segmentation*. On the other hand, **target marketing** occurs when the supplier carefully targets a specific group of customers.

Segment—The first stage of market positioning in which the market itself is divided into smaller parts based on key variables chosen by customers and identified by firms.

Target marketing—Placing a product such that its most critical features to users have optimal position relative to its competitors.

If we look at the gasoline retail market, we can see how segmentation works. ExxonMobil bet that drivers would pick cappuccino over low gasoline prices at the pump. For example, at the Mobil gas stations around the United States, the com-

pany not only offers what may be the cleanest bathrooms ever but also has added cappuccino in the convenience store and a concierge to assist customers, among other things. The new amenities are part of a major overhaul in Mobil's marketing strategy, based on a conclusion drawn from its segmentation study. The company's gasoline retailing business was losing a huge sum of money year after year, while its competitors were enjoying a healthy profit. ExxonMobil badly needed a change.

Extensive market research by the company, including tapping into the thoughts of more than 2000 motorists, showed that a strategy of low gasoline prices might be essentially flawed. According to the ExxonMobil study, only 20% of motorists bought gasoline based solely on price. Quality and service dimensions seemed to be more important. Five different groups of customers have been identified, as follows:

- *Road Warriors (10% of buyers)*—Generally higher-income, middle-aged men who drive 25,000–50,000 miles a year, buy premium gas with a credit card, purchase sandwiches and drinks from the convenience store, and sometimes wash their cars at the car wash
- *True Blues (16% of buyers)*—Usually men and women with moderate-to-high incomes who are loyal to a brand and sometimes to a particular gas station and frequently buy premium gasoline and pay in cash
- *Generation F3 (27% of buyers)*—For fuel, food, and fast; upwardly mobile men and women, half under 25 years of age, who are constantly on the go, drive a lot, and snack heavily from the convenience store
- *Homebodies (21% of buyers)*—Usually housewife “transporters” who shuttle their children around during the day and use whatever gasoline station is based in town or along their route of travel
- *Price Shoppers (20% of buyers)*—Generally those who are not loyal to either a brand or a particular station and rarely buy the premium line of gasoline; frequently on tight budgets; spend no more than \$700 annually at the gas station

Less price-conscious, ExxonMobil's marketing strategy, dubbed “Friendly Serve,” has proved to be successful. Road Warriors and True Blues want classier snacks from the convenience store, human contact, quality products, top service, privileges for loyal customers, and a nationally available brand. Although they want a reasonably competitive gasoline price, most of them do not worry about a few cents difference in gasoline prices. Road Warriors, True Blues, and Generation F3 are the motorist segments that ExxonMobil targets to please. ExxonMobil has launched a state-of-the-art convenience store available to both Exxon- and Mobil-branded service stations. The refurbished convenience store with a new look, which retains Mobil's *On The Run* brand identity, combines the best practices of Exxon's Tigermarket prototype and Mobil's current *On The Run* offering. The 4000-square-foot unit is designed to meet rising consumer expectations for convenient, one-stop shops [1].

The value of discovering such different market segments, each with rather different characteristics, is that they allow producers to offer products that address the needs of just one segment, and hence are not in direct competition with the overall market leaders. Thus, segmentation also exists by price (or cost of ownership).

For example, Lexmark International has launched its new range of laser printers in both color and monochrome categories. These printers are part of the company's strategy to introduce a lower total cost of ownership printing capability for every market segment. Eleven new models were introduced: two personal mono-laser printers for small business and home use, three monochrome laser printers for workgroups, an A3 color printer for medium and large businesses, and five multi-function printers for professionals [2] (see Web Exercise 7.1).

Once again, although the concept of segmentation is classically described in terms of products, it does apply to services. In the PC market, some dealers provide support for the smaller organizations, and others specialize in supporting the large multinationals—each representing different segments of the overall market.

Segmentation can even be a powerful concept in the nonprofit sector, although it tends to be a device for focusing resources rather than dealing with competition. For example, there may be a number of possible segments of the “unemployed” (e.g., unemployed among different age groups, unemployed among the underprivileged community and the mainstream community, unemployed among rural and urban areas, and so on). Each of these *segments* has different characteristics and offers different opportunities for government action.

7

Web Exercise 7.1

Look at Lexmark's site (► www.lexmark.com) and the sites of some of its competitors, including HP (formerly known as Hewlett-Packard, ► www.hp.com) and Canon (► www.canon.com). How do the segmentation strategies of these companies compare? How are the products marketed toward different segments?

On the other hand, many industrial firms do not distinguish between industry and market segments. Indeed, the first level of industrial market segmentation is to classify a present or potential user as an Original Equipment Manufacturer (OEM, who buys the product to incorporate it as part of another one) or an aftermarket user. The OEM sale is usually a direct sale, and if an aftermarket exists for the product, it is often served through distributors [3]. Beyond that, making use of Standard Industrial Classification (SIC) codes and identifying applications or buying factors will be useful. The segmentation principle, however, is the same.

7.5.1 Segmentation

In one sense, *segmentation* is a strategy firms use to concentrate, and thus optimize, their resources within an overall market. In another sense, it is also that group of techniques vendors use for segmenting the market.

One way vendors segment the market is consumer behavior, which can be divided into consumer characteristics and consumer responses. Consumer characteristics reflect *who buys*:

- **Geographic**—International, regional, national, state-specific or divisional, local, postcode-specific segmentation (e.g., within a particular city, a home

delivery service provider could segment the entire city based on its different postcodes, in order to recognize how many current and potential customers they might have within the area of each postcode), urban or rural, and so on

- *Demographic*—Age, gender, marital status, and so on
- *Socioeconomic*—Income, social class, occupation, and so on
- *Cultural*—Lifestyles, culture, and so on

Consumer responses are generally based on *what is bought*:

- Occasions when used
- Benefits
- Usage frequency (heavy or light)
- Attitudes, including loyalty

If the emphasis is on the supplier's viewpoint, which it often is, segmentation can be expanded to include elements of the 4 Ps:

- Physical characteristics of product or service (product)
- Price
- Promotion
- Distribution channels (place)

However, the 4 Ps are probably unrelated to the customers' own perceptions. For instance, the customer, like a supplier, may genuinely believe that a disinfectant bought in a plastic bottle from a supermarket belongs to a different market segment than one in a glass bottle bought from a pharmacy. On the other hand, the consumer may actually make the choice on totally different grounds. For example, the plastic container, rather than the glass container, appears to offer especially gentle protection for the baby in the family. It behooves a supplier to know what the true reasons are because the promotional message often determines how the consumer perceives the product.

The characteristics that are important to a specific market may be much more closely defined. In general, the aim of most market research is to identify the exact characteristics that are the most important (conscious or subconscious) delineators of buying behavior. These specific characteristics become the most powerful tools for segmentation.

In practice, the whole picture may be much more complex. The truly meaningful segments may well be based on intangible benefits that only the consumer perceives, or based on natural consumer groupings that emerge from much more deep-seated social processes. A conservationist segment seems to exist in an increasing number of industries. For example, some people buy small, efficient cars irrespective of their income levels or invest their money only in environment-friendly companies such as Ben & Jerry's (the Vermont ice cream company that has switched the material it uses to package its Best Vanilla pints to a more environmentally friendly unbleached paperboard) and Weyerhaeuser (a forest product company that cuts trees only on the land it owns and reforests the land after the harvest). In some consumer markets, significant amounts of research such as *factor analysis* and **cluster analysis** techniques may be needed to identify what the key segments are.

Cluster analysis—A type of factor analysis in which a specified number of maximally different clusters, or segments, of consumers is identified and the resulting product is a set of prioritized position maps.

7

Furthermore, many times descriptors overlap from one segment to another and consequently are usually viewed as directional rather than exclusive. For example, an insurance company conducted a segmentation study to better understand the needs and wants of loyal and extremely loyal life insurance customers. An important finding of the study was that extremely loyal customers averaged much higher face amounts of insurance than the comparatively less loyal ones, preferred to deal with agents, and thought insurance was a great value and they could always use more. Less loyal customers did not rank the agents as being so important and did not think they needed more insurance. Although the demographic profiles of these segments were different—extremely loyal customers were usually older, better educated, and held professional and managerial jobs—both groups had their share of what could be termed “average” customers (i.e., people between the ages of 35 and 50, married parents earning less than \$75,000 a year). As a result, although the segments differed demographically, the fact that both had a significant number of so-called average customers made such differences fuzzy [4].

The Henley Centre for Forecasting has used cross-elasticities of demand as a measure of the separation of segments. This approach is designed to reduce this confusion and demonstrate the validity of the segments eventually chosen. If reducing the price of one group of products has no effect on the demand for another group of products, the two groups most likely lie in two independent segments. Derived from economics, this concept is simply known as the cross-elasticity of demand (ϵ):

$$\epsilon = \frac{\text{percentage change in quantity of commodity X}}{\text{percentage change in price of commodity Y}}$$

The effect will be different if Y is a substitute for X. Notebook computers versus desktop computers is a good example, in which case there will be a positive cross-elasticity; that is, the sales of notebook computers (X) will increase if the price of desktop computers (Y) increases. The effect will also differ if Y is a complement. For example, in personal computers versus Microsoft software, the cross-elasticity will be negative because the sales of personal computers (X) will decrease with an increase in the price of Microsoft software (Y).

In practice, this technique can become very sophisticated. Removing the effects of the other factors involved, such as promotional activities, typically requires exact sales figures covering an extended period and consumes significant amounts of computing power as various regression analyses are run.

These intangibles, of course, represent the type of characteristic most often used in segmenting consumer markets (services as well as products). The intangi-

bles used in industrial markets may be more directly related to the product or service characteristics (e.g., powerful single-use cleaners rather than general cleaners), or at least to product usage characteristics (floor cleaners rather than upholstery cleaners), but also to *customer set* characteristics (cleaners to be used in industrial workshops rather than in hospital operating rooms).

7.5.2 Benefit Segmentation

Using general factors as the basis for segmentation has its limitations. Relating segmentation to specific market characteristics for the product or service is much more productive. Different customers, or groups of customers, look for different combinations of benefits; and these groupings of benefits related to each group's interest, then, define the segments. The producers or service providers can use these differences to position their brands or services where they most clearly meet the needs of the consumers in that segment.

As Russell Haley [5], the father of **benefit segmentation**, explains in his seminal work:

- » The belief underlying this segmentation strategy is that the benefits which people are seeking in consuming a given product are the basic reasons for the existence of true market segments.... (Although) most people would like as many benefits as possible,... the relative importance they attach to individual benefits can differ importantly and, accordingly, can be used as an effective lever in segmenting markets.

Benefit segmentation—A type of segmentation in which different customers are grouped based on their needs of a different combination of benefits.

■ Table 7.1 illustrates this approach by showing an example of various segments in the toothpaste market. Benefit segmentation truly addresses the marketer's fundamental quest for consumer needs—why consumers buy what they buy.

7.5.3 Segmentation by Consumption Profile

In recent decades, a number of research agencies have started to characterize consumer segments in terms of their consumers' purchasing patterns. Thus, segments are characterized by their purchases of a range of key products and, in particular, by a range of media such as television programs, magazines, newspapers, radio, and so on. The data for this approach may be provided in some depth by MRB's Target Group Index (TGI) or Nielsen Holding's surveys, or in less (but still adequate) depth by less wide-ranging surveys. The profile, as described in terms of the

Table 7.1 Toothpaste market segment description

Segment name	The sensory segment	The sociables	The worriers	The independent segment
Principal benefit sought	Flavor, product appearance	Bright teeth	Decay prevention	Price
Demographic strengths	Children	Teens, young people	Large families	Men
Special behavioral characteristics	Users of spearmint-flavored toothpaste	Smokers	Heavy users	Heavy users
Brands disproportionately favored	Colgate, Aim	Rembrandt, Close-Up, Ultra Brite	Crest, Mentadent	Brands on sale
Personality characteristics	High self-involvement	High sociability	High hypochondriasis	High autonomy
Lifestyle characteristics	Hedonistic	Active	Conservative	Value-oriented

Source: Haley, R. I. (1995). Benefit Segmentation: A Decision-Oriented Research Tool, Marketing Insight is Limited Only by the imagination. *Marketing Management*, 59. Adapted with permission of The American Marketing Association

bundle of brands purchased, is supposed to be more meaningful to marketers than the relatively esoteric categories offered by lifestyles.

7.5.4 Segmentation Across National Boundaries

Global marketers approach segmentation from different angles [6]. The standard country segmentation procedure classifies prospect countries based on a set of socioeconomic, political, and cultural criteria (see Table 7.2). Using statistical algorithms such as cluster analysis and factor analysis, you can classify the countries under consideration into homogeneous groups. The results for a three-group country segmentation are presented in Table 7.3. Note that the United States forms a segment of its own, and Japan is grouped with some of the European countries. In general, country segments seldom match geographic groupings. However, the country groupings do not necessarily correspond to market response measures such as market penetration rate, purchase intention, and willingness to pay. Therefore, from a marketer's perspective, the practical usefulness of country segments may be limited.

Table 7.2 Country characteristics

Characteristics	Measures
1. Mobility	Number of air passengers/km Air cargo (ton/km) Number of newspapers Population Cars per capita Motor gasoline consumption per capita Electricity production
2. Health standard	Life expectancy Physicians per capita Hospital beds per capita
3. Trade situation	Imports/GNP Exports/GNP
4. Lifestyle (materialism)	GDP per capita Phones per capita TVs per capita Personal computers per capita Electricity consumption per capita
5. Tourism	Foreign visitors per capita Tourist expenditures per capita Tourist receipts per capita
6. Culture	Language Religion Customs Education expenditures Graduate education in population

Source: Adapted from Helsen, K., Jedidi, K., & DeSarbo, W. S. (1993). A New Approach to Country Segmentation Utilizing Multinational Diffusion Patterns. *Journal of Marketing*, 57, 60–71. Reprinted by permission of The American Marketing Association

Table 7.3 Country segments based on the country characteristics

	Segment 1	Segment 2	Segment 3
	Holland Japan Sweden UK	Austria Belgium Denmark Finland France Norway Switzerland	United States
1. Mobility	Relatively high	Relatively high	Very high

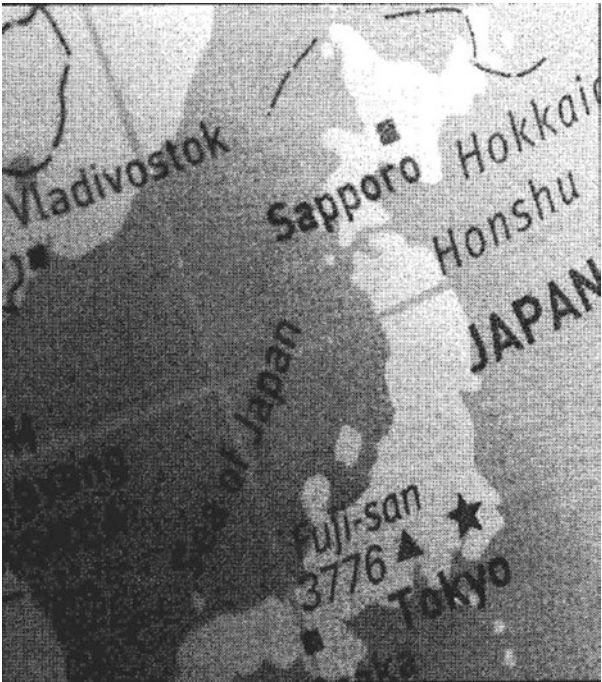
(continued)

Table 7.3 (continued)

	Segment 1	Segment 2	Segment 3
2. Health standard	Very high	Average	High
3. Trade situation	Strong in exports	Balanced trade	Dependent on imports
4. Materialism (lifestyle)	Conserver society	In between	Material society
5. Tourism	Low tourist attraction	High tourist attraction	In between
6. Culture	Not used in the analysis (some factors not quantifiable)		

Source: Adapted from Helsen, K., Jedidi, K., & DeSarbo, W. S. (1993). A New Approach to Country Segmentation Utilizing Multinational Diffusion Patterns. *Journal of Marketing*, 57, 60–71. Reprinted by permission of The American Marketing Association

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To address this shortcoming of the country segmentation approach, the following alternative procedure should be considered [7]:

Step 1: Criteria Development—Determine your cutoff criteria. For example, the convertibility of the local currency for the US dollar is one such criterion. The criteria will be determined by product and company characteristics.

Step 2: Preliminary Screening—Determine *which* countries meet the thresholds for the criteria set forward in Step 1. Countries that do meet the cutoff will be retained.

Step 3: Microsegmentation—The next stage is to develop microsegments in each of the countries in your consideration set. You can come up with these segments in two ways:

- Derive microsegments for each country individually. Survey data collected from prospective customers in each of the countries are used as inputs. This procedure is similar to the ones used in domestic segmentation. In the next step, the analyst consolidates the microsegments *across* countries based on similarities across the microsegments in the prospective countries.
- Jointly group individuals in all the prospect countries to come up directly with *cross-border segments*. Marketing practitioners are more likely to benefit from this approach because it is in tune with the marketing concept. Viable cross-border segments, such as “global elites” and “global teenagers,” can be identified.

Behavioral segmentation is particularly useful when firms consider foreign expansion. For new products, they may consider segmenting countries on the basis of the new product diffusion pattern observed in the countries of interest. Diffusion-based criteria could relate to country traits such as the speed of adoption, the time-of-sales peak, and the consumers’ willingness to try new products. ■ Table 7.3 shows the country groupings based on the diffusion patterns observed in each of these markets for three consumer durable products: color televisions, VCRs, and CD players. Note that the respective country groupings have little in common in terms of the number of segments and their composition. In fact, Belgium and Denmark are the only countries that consistently fall into the same grouping for all three consumer durable products.

7.5.5 Segment Viability

One customer-oriented reason behind segmentation is that, by designing products or services which are narrowly targeted to the needs of one specific segment, you may be able to offer consumers in that segment the best match to their needs. For instance, sellers of PCs below the \$1000 price have started to target the needs of five distinct segments. The first market segment is supposedly the original target for low-priced PCs: first-time buyers who have a limited amount of money to spend. The second segment of these buyers is an unlikely crowd populated by knowledgeable buyers purchasing an additional system. The third key segment has just recently started to emerge, and it is business buyers looking for PCs that will be used for only the most basic functions in their companies, by undemanding users. Next is the college market. Not only is this a large market segment, but due to the most recent baby boom, it is a segment that is only going to grow larger. The final segment is the person just starting a home business. As Americans in increasing numbers take to either augment their incomes from traditional jobs or replace them entirely with their own businesses, the number of computers shipped to this

market has exploded [8]. In practice, producers usually target segments rather than the overall market because this approach allows them to concentrate their resources on a limited group of consumers. In this way, the brand can dominate that segment and gain the benefits of segment leader.

Similarly, a segment may become less viable by encroaching competitors from adjoining segments. For example, in a growing number of new sales, customers compare high-end PCs running Microsoft Corp.'s Windows operating system with other competitive complementary or supplementary products available in the industry and although such competitive products offer users a distinct performance advantage in a few areas, the areas of overlap have been increasing. The former Sun Microsystems once introduced the Sun Blade 150 workstation with 64-bit performance at a PC price. Unix suppliers also had been forced to respond to the incursion [9]. Worse yet, the existing segment may shrink in size or even disappear over time. The makers of pantyhose also experienced this unfavorable shift in customer taste: More and more fashionable women say that they like the bare-legged look. As a result, sheer hosiery suppliers experienced significant decline in sales [10].

In the public sector, greater efficiency may justify such concentration, but in the commercial world, the ultimate objective is to make a profit. To be viable, a segment must meet a number of broad criteria. Some key criteria include the size, identity, and relevance of a segment and accessibility to the segment.

Size Is the segment substantial enough to justify separate attention, and will enough volume be generated to provide an adequate profit? For instance, can multiple producers chasing after one group of consumers all earn a profit? For example, both Gulfstream Aerospace Corp. and Bombardier Inc. once were chasing after the 950 corporations (e.g., GE, Walt Disney Co.), governments, and individuals (e.g., Bill Cosby) that are likely to buy a large business jet. These two jet makers spent more than \$1 billion to develop long-range jets for this small market. With prices of \$30–\$40 million for each plane, many CEOs are wondering whether it is justifiable to spend this kind of money to fly nonstop across the ocean five or six times a year [11].

Because segmentation is a process, at least in the short term, if it is largely under the control of the company, it might be possible to find an increasing number of ever-smaller segments that could be targeted separately. In general, however, it is best to choose the fewest number of segments, and hence the largest average size. This approach allows resources to be concentrated and head-on competition with market leaders avoided.

In part, a viable segment size will be defined in terms of the producer's cost structures. The car market is heavily segmented, with Ford targeting a wide range of separate segments, but even the smallest of these (sharing the same assembly line as others) has to be worth some tens of thousands of cars a year simply to earn its place on that assembly line. On the other hand, Aston Martin, with its custom hand-built automobiles, can very effectively target a segment that is worth just a few hundred cars a year.

Identity The segment must have unique characteristics that producers and consumers can identify and market research can measure. In the car market, there is an identifiable segment for small cars against which Ford targets Focus, such as Toyota Echo and Honda Civic. Within this segment, and across the larger car segments as well, there is a segment for higher-performance cars. In a high-performance car segment, Chevrolet targets the Corvette brand, and Rover uses the otherwise defunct name of MG.

Producers can segment other markets based on the consumer culture. For instance, large companies such as Colgate-Palmolive, Nestlé, PepsiCo, and Procter & Gamble increased the number of products they offer to the Hispanic market in the United States. The US Hispanic population has increased rapidly in recent decades, rising from 6% of the population in 1980 to 13.5% in 2003 and 18.3% in 2019 [12]. With this growth, consumer spending among Hispanics has become an increasingly important segment of the economy. The same phenomenon is occurring in the credit card industry. For example, many Hispanics still do not own credit card or debit cards despite their increased income levels. In a cluttered credit card marketplace in which 80% of non-Hispanics already own credit card or debit cards, credit card companies have a significant opportunity to continue their growth by directly targeting Hispanic consumers [13].

Relevance The basis for segmentation must be relevant to the important characteristics of the product or service. For example, the type of pet owned is highly relevant in the pet food market but will rarely be so in the car market.

Although this point seems obvious, much marketing is still undertaken (mistakenly) on the basis of overall population characteristics rather than those directly relating to the specific product or service. For example, in many markets the tacit segmentation has been made in terms of socioeconomic class, yet the major car manufacturers' segmentation of the car market no longer follows these lines.

Access Finally, the producer must be able to gain access to the segment. If tapping that segment is too difficult, and accordingly too expensive, it clearly will not be viable. For the sake of argument, let us say that a small segment of the general low-priced car market might be met by a small manufacturer using hand-building techniques. If the consumers within the segment were, however, diffused evenly throughout the population, the producer might face difficulties on two levels. The first would be in obtaining national distribution for the low volumes. Setting up a separate dealership network to provide the maintenance facilities would be almost impossible (even some of the smaller existing manufacturers in the United Kingdom, for instance, such as Peugeot and Fiat, have incomplete networks). The second difficulty would be finding the means of delivering the promotional message to these potential buyers.

All these criteria apply equally to the segmentation available in the nonprofit sector. If they can be met, segmentation is a very effective marketing device. It can allow even the smaller organizations to obtain leading positions in their respective segments (*niche* marketing) and gain some of the control this approach offers. It is worth repeating that the most productive bases for segmentation are those which

relate to the consumers' own groupings in the market. Marketers should not artificially impose producers' segments. In any case, segmentation is concerned only with dividing customers or prospects (and not products or services) into the segments to which they belong.

7.5.6 The Internet and Segmentation

The internet has great potential use for segmentation, but it will not be realized without a focused marketing strategy based on segmentation principles. Basic concepts such as segmenting the market; differentiating products; and determining the right mix of product, price, place, and promotion strategies will be key to using it effectively. For example, one of the most effective uses of the internet is to sell group insurance products to employees and affinity groups. They can be given online access to product information, price quotes, sales channels, and customer service. Like any advertising medium, the internet could generate far more indirect sales. The internet offers a raft of new marketing tools: hyperlinks, banners, click-through measurements, and search engines. For example, Autobytel, an online car-buying referral service founded in 1995, has mastered the balancing act. They generated roughly \$17 billion in car sales annually—or 5% of total US volume. Autobytel's network embraces 8800 dealers, ten million customers, and several websites: ▶ Autobytel.com, ▶ AutoSite.com, ▶ Autoweb.com, and ▶ <https://carsmart.shop/> [14].

Many internet users are educated and tech-savvy, relatively affluent people who work. Although it is tempting to characterize all internet users as alike, they are not. We still must identify customer needs and perceptions. With this type of information, the market can be properly segmented. In cyberspace, the traditional “sales push” model, in which customers react to information and proposals provided by agents, is replaced by a “market pull” model, in which a customer can electronically assess product features and compare prices without personal contact. Internet users still must be offered compelling reasons to buy. Basics such as market potential research, customer needs analysis, distinct product design, and, most important, customer communication will still be requisites to success.

The prospect can obtain a quote by email or by calling a toll-free number. Another approach involves electronic malls such as InsureMarket and InsWeb. Originally designed for term life products, these sites have also added personal auto. As mentioned in the preceding paragraphs, another company is marketing personal autos on the Autobytel shopping site for new and used cars. A third category of carriers includes those offering direct links to their agencies. Their websites have easy-to-use agency directories that let prospective customers hyperlink to the agency site or send email messages. Finally, some insurers tested the internet as an information source for curious surfers. These companies, mostly independent agency companies, offer information about themselves to a variety of audiences, including their agents, but do not facilitate contact between the surfing public and their retail agents. They may be interested in establishing an internet presence while trying to figure out how best to use electronic commerce without agent involvement.

Another example is that of Daniels Insurance Agency (► <https://www.daniel-insurance.com/>), a small agency in Westborough and Shrewsbury, Massachusetts. It arranged a sponsored group plan with its internet service provider, TIAC, to sell auto and home business to TIAC's Massachusetts subscribers. The group plan offers discounted rates on auto policies. TIAC members just click on an icon on the TIAC home page and are linked to the Daniels site, where they can obtain quotes, submit applications, file claims, and inquire about other types of insurance.

The most promising internet market segments are characterized by relatively simple, low-cost products, a short sales process, and high customer product awareness and understanding. By placing the right product information in cyberlocations most frequented by target audiences and by taking advantage of banner advertising and search engines, independent agencies and insurers can attract internet surfers. Targeting markets that best fit the right cybertemplate will result in the best return on investment [15].

7.5.7 Segmentation Methods and Practical Segmentation

To achieve a genuine consumer-based segmentation, a company needs to address three technical problems [16]:

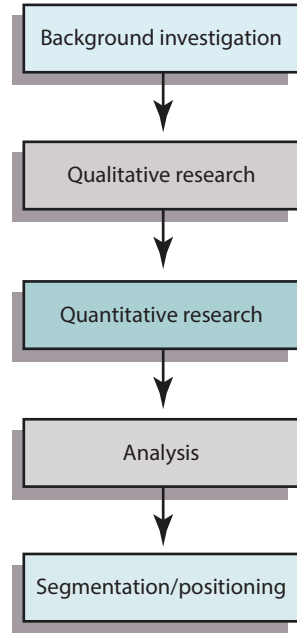
1. Construct a product space, which is a geometric representation of consumers' perceptions of products or brands in a category.
2. Obtain a density distribution by positioning consumers' ideal points in the same space.
3. Construct a model that predicts preferences of consumer groups toward new or modified products.

In practice, segmentation is so very clearly tied to market research programs that it often becomes one element of this aspect of marketing activity. To discover, and use, these *natural segments* requires several steps (see ■ Fig. 7.2) in market research.

Background Investigation The first stage is conducting the desk research that will best inform the researcher and the marketer as to what the most productive segments are likely to be. This essential stage will lead to the *hypotheses* to be tested, but it must not be the only one used to define the segments. At each stage, the marketer must be prepared to abandon any preconceptions or prejudices, in light of the actual data about the customer's view of such segments.

Qualitative Research It is vital that all the characteristics which are important to the consumer are measured and that they are described in terms that are meaningful to him or her. The *language* used by consumers should be first investigated in focus group discussions. For example, small car buyers prefer to appear sophisticated. This consumer psychology is apparent in the following focus group discussion between an interviewer and a respondent:

Fig. 7.2 Necessary steps prior to segmentation



Respondent: I am concerned about fuel economy.

Interviewer: Why do you want to be concerned about fuel economy?

Respondent: Well, I would like to contribute to reducing our country's dependence on foreign oil.

Interviewer: Your contribution must be very limited.

Respondent: It doesn't matter. I just wish all the people were educated enough to know energy independence is important to our country.

Recall that focus groups are frequently used to pilot major research projects and are best conducted by psychologists who are trained to recognize the important nuances. This research discovers the *dimensions* that are important to the consumer (and that are described in their language), from which later strategies will be developed.

Quantitative Research Based on the dimensions (the key descriptive words) revealed by the qualitative research, quantitative research attempts to measure attitudes toward the brand and competing brands using various scales. This work may also extend to the consumer's *ideal brand*. The validity of such *idealizations* is questionable because they are artificial conceptualizations that are not easy for the consumer to articulate, and the results can be ambiguous. In practice, though, the concept of the ideal brand usually appears to work well, especially when the questions are carefully phrased, are specific, and are *mapped* on the specific dimensions involved in the positioning exercise.

Analysis This critical stage is now almost invariably dependent on the use of considerable computing power to undertake the complex analyses involved. Some form of *factor analysis* is usually used to separate those variables that are highly correlated

and hence are almost interchangeable in the consumers' eyes. For example, in some pioneering research in the 1970s, the "motor noise" of a vacuum cleaner was found to be related to its "cleaning power" as perceived by consumers. This research allowed Hoover to reposition its vacuum cleaners as more powerful simply by stressing their powerful sound.

Only when this factor analysis is complete is *cluster analysis* used to create a specified number of maximally different clusters, or segments, of consumers. The number of such specific clusters should adequately describe the significantly different segments in the market. Each of these consumer clusters is homogeneous within itself, but as different from other clusters as possible. The typical outcome will be a set of prioritized position maps, preferably limited to the five to eight most important dimensions.

As illustrated in ► Sect. 7.5, "Market Segments," ExxonMobil provides an excellent example of consumer segmentation at its gas stations. The company has learned that no more than 20% of its customers are price-conscious and has begun to emphasize customer service and quality at its gas stations. After all, price competition is what all marketers wish to avoid.

Segmentation/Positioning The marketer must then pore over position *maps* to determine exactly what the strategy should be, taking into account the available resources as well as the competitive and consumer positioning on the map. What will the target groups be? What will the chosen segments be? Where will the products or services be repositioned (if needed) to compete most effectively and/or to be most attractive to consumers? This is probably the most important set of decisions that any marketer has to make, and from it most other decisions will emerge naturally. The intellectual effort committed to this process therefore should not be underestimated.

Of the thousands of new health and beauty care stockkeeping units introduced each year, a few ever really hit it big on supermarket shelves, mostly because manufacturers often misjudge consumers' needs and desires. The product's name, its promise and actual benefits, and its market positioning must all touch a consumer's nerve to stimulate the purchase. For example, Dr. Care Toothpaste was a product that its manufacturers tried to introduce into the US market from Canada. It was positioned for children and the family, but it was packaged in an aerosol can. Understandably worried by what their young children might do with an aerosol can while unsupervised in the bathroom, parents shunned Dr. Care.

When Clairol called its new conditioner Small Miracle, the name was a major problem for the product. Just about everybody has "bad hair" days, some have them virtually every day. Consumers move from brand to brand looking for a big miracle. Women had gigantic expectations, and Clairol offered only a small promise. Small Miracle sought a new position with the claim that it was a once-a-week conditioner that would last through three shampoos. Some consumers felt that they did not obtain one real benefit, much less three, that it was indeed a small miracle—one they could hardly notice [17].

The complexity of this positioning/repositioning process does mean that the marketer and researcher must work closely together. Each must have a sound appreciation of what the other is doing and, most importantly, confidence in the

other's ability to handle the complexities. This time- and resource-consuming process reaps tremendous benefits [18].

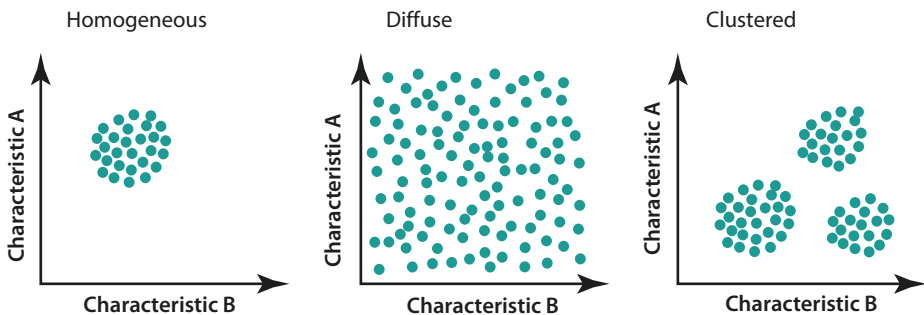
7.6 Product/Service Positioning

There can be some confusion between *segmentation* and *positioning*, and indeed the two processes often overlap. The key difference is that the former applies to the customers (or occasionally *products*) that are clustered into the *natural* segments that occur in a particular market. The latter relates specifically to the product or service and to what the supplier can do to best *position* its offerings in the mind of the customers in these segments.

A further complication is that *positioning* can sometimes be divorced from *segmentation* in that the supplier can select dimensions on which to position the brand that are not derived from research, but are of his or her own choosing. Indeed, such positioning can be applied (to differentiate a brand, for instance) even when segmentation is not found to be viable. Further confusion can arise when the process is associated with **product differentiation**—the practical “positioning” of products or services so that they are recognizably different from their competitors—as measured in terms of their positions on the *product space*, the “map” of competitive brand positions.

Product differentiation—A product strategy in which products are given unique identities to distinguish them from their competitors.

Recall that the most effective *segmentation* of a market is usually based on sets of characteristics that are specific to that market. As shown in ■ Fig. 7.3, the spread of users across these characteristics may, however, differ quite significantly. Both the homogeneous example, where all the users have similar, closely grouped preferences (e.g., a commodity such as sugar), and the diffused example, where users have requirements spread evenly across the spectrum, tend to specify treatment of the



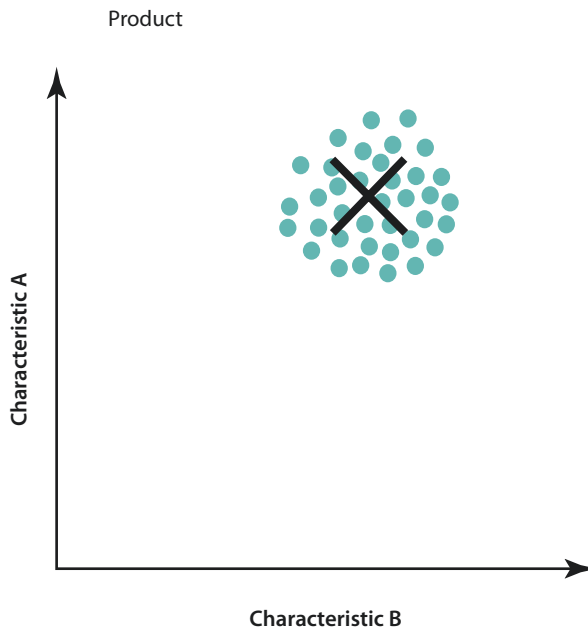
■ Fig. 7.3 Different spreads of customers across two characteristics

market as one single entity (but for very different reasons). Segmentation is not relevant unless competitors in a diffused market have left part of it uncovered.

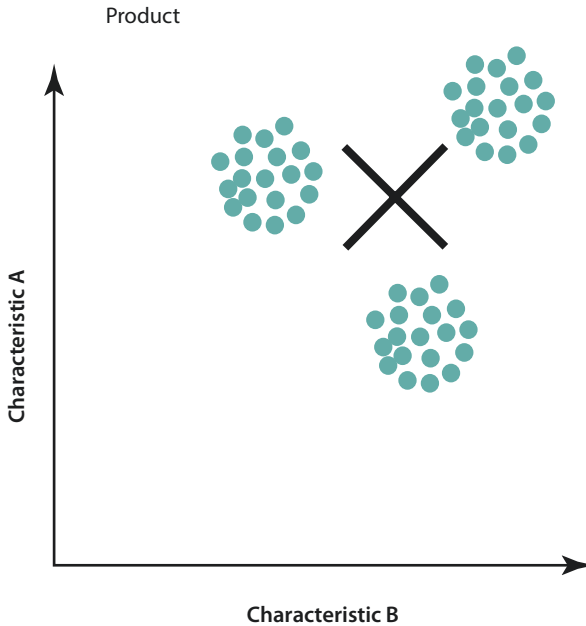
For example, Tecnol Medical Products Inc. makes a variety of specialty face masks that can, among other things, protect doctors from micron-sized particles. Tecnol executives found that both Johnson & Johnson and 3 M were not responding adequately to healthcare personnel's fear over the transmission of HIV, AIDS, and other diseases. Because Tecnol executives found that their main competitors were "asleep at the switch," they now have 60% of the hospital market for face masks, as compared to 3 M's 21% share and Johnson & Johnson's 10% share [19]. VTech of Hong Kong provides another example of finding opportunities in uncovered markets. VTech entered the educational toy niche with computer-based offerings and now has more than 60% of the electronic educational toy market in the United States and Europe, selling under the VTech name through chains such as Toys "R" Us [20].

In practice, segmentation often can be most successfully used in the clustered market. Ideally, the marketer will choose to place the product exactly in the center of the cluster that he or she is aiming for (see ■ Fig. 7.4). If the clusters are too small to justify a segmentation policy, or the marketer simply wants to have a more general product brand that can be correspondingly larger, another approach is to launch the product or service so that it is equidistant from several clusters that the marketer wishes to serve (see ■ Fig. 7.5).

Theodore Levitt [21] argues that in an era of global competition, successful companies are shifting from a product policy of offering customized products to



■ Fig. 7.4 One large clustered market



■ Fig. 7.5 Several small clustered markets

that of offering globally standardized ones. According to Levitt, prices tend to be low, and product reliability is high as a result of product standardization. Although the product may not exactly match the needs of any one group, it is close to meeting those of several other groups and, therefore, customers are attracted to the product. However, such *positioning* may be vulnerable to attack from competitors who position their brands exactly on one of the clusters.

Conventionally, product positioning (*product space*) maps are drawn with their axes dividing the plot into four quadrants. The reason is that most of the parameters upon which they are based typically range from “high” to “low” or from “+” to “–” with the “average” or zero position in the center (see ■ Fig. 7.6). The value of each product’s (or service’s) sales, as well as that of each cluster of consumers, is conventionally represented by the area of the related circle.

In ■ Fig. 7.6, you can see just two clusters of consumers, one buying mainly based on price (and accepting the lower quality that this policy entails) and one based on quality (and prepared to pay extra). Against these segments are just two main brands (A and B), each associated with a cluster or segment. This product space also includes a smaller brand (C), associated with cluster 1; Brand C offers an even higher quality alternative but at an even higher price.

Real-life product positioning maps will be more complex, involving a number of such dimensions; they are drawn with less certainty as to where the boundaries might lie. They do, however, offer an immediate picture of where potential may lie and which products or services are best placed to tap it (see ■ Fig. 7.7). They also offer a sound basis for *repositioning* existing products (or launching a complemen-



■ **Fig. 7.6** An example of a product space

tary new product) so that they better match the requirements of the specific *clusters* they are targeting. In ■ Fig. 7.6, Brand C might be content to remain a *niche* product. Alternatively, the positioning map in ■ Fig. 7.7 shows that if it were slightly reduced in price (and were backed by sufficient promotion), it might become a very competitive contender for Brand A's market share.

In theory, it is possible to use promotion to move the consumer ideal closer to the brand rather than the other way around. This technique is favored by *conviction marketers* (the use of promotion is discussed in detail in ► Chap. 12, "Designing Effective Promotion and Advertising Strategies"). Equally, the launch of a really innovative product such as the mini-disc audio player may change the dimensions



■ Fig. 7.7 Positioning over time

of the whole market. Although very effective when they succeed, such approaches are very difficult to achieve.

7.6.1 Positioning over Time

So far we have discussed the *positions* at one point in time—the *current* position. However, if the positioning research is carried out regularly over time, the map can also show that these positions change, ideally in line with the strategy. In ■ Fig. 7.7, we can see that Brand C has moved only slightly (in line with strategy), but in so doing, it has improved its competitive position significantly (helped by the fact that

Brand A's competitive response, also reducing price, has moved it away from the ideal).

The Cadillac Division of General Motors may provide an example of an organization failing to track such market changes over time. Even when it finally revamped its range in 1985, its slimmed-down models seemed to move away from the area where the core of its market was. This gave Ford's Lincoln-Mercury Division, which continued to produce larger cars, a major competitive advantage. Tracking changes in position is thus a very powerful marketing tool.

Like Ford, Hyatt Hotels is also keeping up with changing markets. After an initial slow realization that the "all-frills" approach was not working, Hyatt is then started to win "high marks" for its understanding of "tightened industry economics." The hotel abandoned its 20-year-long approach of adding services, such as turning down every bed at night, regardless of costs. In response to its changed approach, its revenues went up 13%, while profits climbed 45% in the mid-1990s [22].

7.6.2 Perceptual Maps

Perceptual maps are an alternative graphical approach to static positioning maps. For example, to produce just one diagram containing all the information that would otherwise be contained in the various dimensions (requiring a number of separate maps), a computerized plotting compression technique is used. As most often used, this technique initially plots the products, say, against the two most significant dimensions (exactly as in the two-dimensional maps that we have already examined). Subsequently, *vectors* are overlaid (from the origin) showing the other, less important, dimensions. The direction of these vectors is calculated so that the relative displacement of the products from each other reflects any particular product's position against the others on the original two-dimensional maps (see ■ Fig. 7.8).

Perceptual maps—An alternative graphical approach to the static positioning map in which computerized plotting compression technique is used.

In ■ Fig. 7.8, three dimensions—maturity, nutrition, and refreshing—are found to be most important in representing a beverage market. Using a pair of dimensions, two perceptual maps are developed so that marketing managers can visually see how consumers think of various beverages in their mind. Hot coffee and hot tea are considered mature drinks that are not either refreshing or nutritious. Bouillon and tomato juice are both considered nutritious drinks, but bouillon is perceived to be a much more mature drink than tomato juice. Naturally, these nutritious drinks

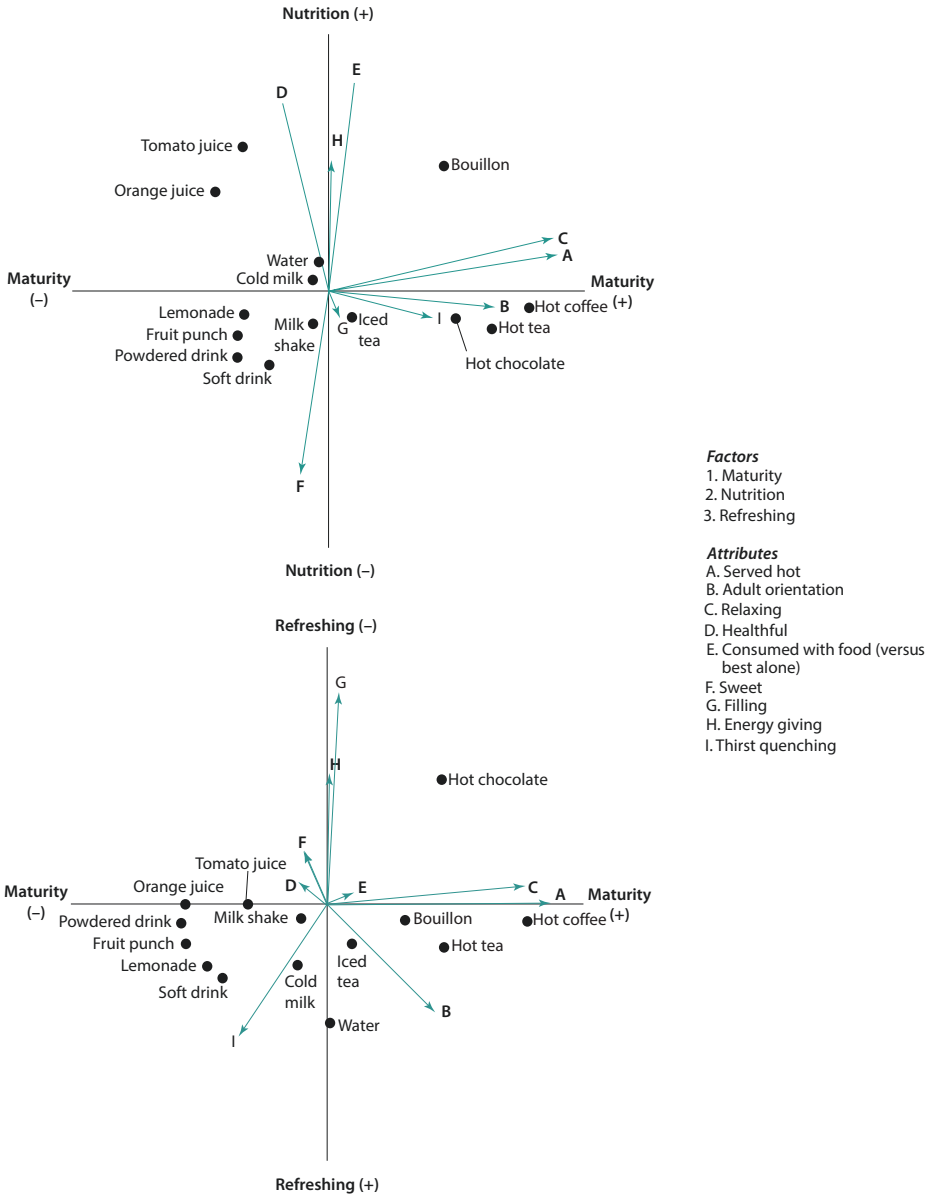


Fig. 7.8 Perceptual maps of a beverage market (Source: Aaker, D. A., Kuman, V., & Day, G. S. (1995). *Marketing Research* (5th ed.). New York: John Wiley & Sons. © 1995 Reprinted with permission of John Wiley & Sons, Inc.)

are also perceived to be healthful (D), consumed with other food (E), and energy-giving (H).

This type of representation offers a useful shorthand, which is easier for managers to digest. On the other hand, if the managers are capable of digesting the contents of the three or four separate two-dimensional plots (and most are), the basic approach should offer a better picture, and one that is inherently more useful, than the relation to the vectors on the compressed picture, which is often somewhat less than obvious!

The key point to remember, however, is that the dimensions of these product positioning maps must reflect those that are important to the consumer, not just those that the supplier favors. Such knowledge can be worth a great deal of money to the supplier, who is able to use it optimally to position the brand where it becomes most attractive to the targeted market segment. It can be almost as valuable to a public service provider, who seeks to position an offering so that it best meets the real needs of the maximum number of recipients.

7.6.3 Target Marketing

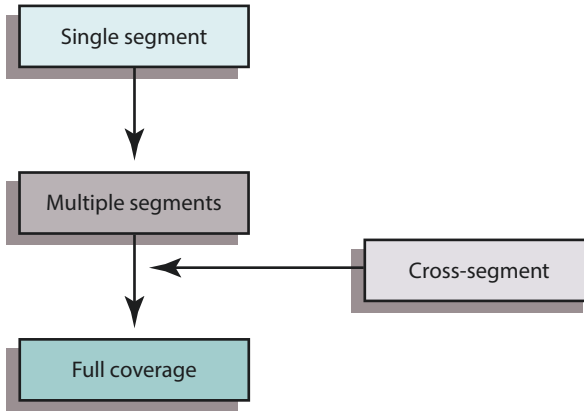
The *positioning* process can be developed to most effectively implement the segmentation process. Three steps clearly separate the various activities:

Step 1: Market segmentation—This is the basic activity, which has already been discussed at some length.

Step 2: Target marketing—Knowledge of the segments is not enough. Considerable effort has to be put into selecting the segments that best meet the needs of the organization. As discussed earlier, this approach involves consideration of the available resources as well as the consumer segments and the competitive positions. Segmentation and target marketing are in fact related to each other. For example, on the one hand, recognizing the particular needs of a specific group of customers helps segment the entire market into different segments. On the other hand, target marketing helps marketers to further analyze those segment-specific needs, in order to plan how marketers could most effectively position the product value and its differentiating factors in the mind of that particular market segment, focusing on those segment-specific needs.

Step 3: Product positioning—This step makes it clear that after selecting the optimum segments, the supplier then needs to choose the optimum position within those segments (as shown, e.g., on the brand positioning maps).

Once again there can be confusion between the ideas generated by *positioning* and the activities related to its implementation. Thus, the processes of *positioning*, in terms of concepts or ideas (deciding *where* the brand should be), are arguably the most important input into the strategy process for some products and services. Indeed, “where the brand should be” largely defines that strategy.



■ Fig. 7.9 Four different segmentation strategies

7

7.7 Possible Approaches to Segmentation

Clearly, a wide range of detailed actions may be suggested by the outcome of a segmentation analysis. As schematically presented in ■ Fig. 7.9, four main strategies may be adopted.

7.7.1 Single Segment

The simplest response, often the case where limited funds are available, is to concentrate on one segment and position the product firmly within that segment (sometimes described as *niche* marketing). This form of marketing is very effective, especially for the smaller organization, because it concentrates resources into a very sharply focused campaign. It is perhaps more risky because there may be a greater likelihood of the *niche* disappearing than of the whole market being subject to catastrophic change. On the other hand, it is considerably less risky than spreading resources too thin across a number of segments.

Customized Marketing In recent years, two trends have combined to allow for narrower segments or niches:

- *Increasing variety demanded*—Consumers have come to demand more variety from their suppliers, rather than accepting a more uniform product (even if this means that the consumer has to pay a higher price).
- *Flexible manufacturing methods*—Microprocessing technology and just-in-time manufacturing enable firms to deliver a greater variety of products without reducing productivity to any significant extent.

The outcome has been that even some *mass marketers* can now provide individually customized products (at least to some degree). With the use of *precision marketing*

techniques, described in ► Sect. 13.2, “Precision Marketing,” the supplier is now able to deliver a *product* specifically designed for an individual.

Niches A specialized and extreme version of segmentation is that of creating *niches*. This approach is practiced usually by firms pursuing either a low end or a high end of the market. The organization then sets out to capture this segment (and possibly to expand it), confident in the knowledge that no competitor will subsequently be able to follow profitably. On the low end, Ugly Duckling Rent-A-Car, headquartered in Tucson, Arizona, has captured a strong niche for budget-conscious car renters. On the high end, Daimler AG has long maintained a strong market niche with Mercedes cars in the automobile market. The danger, as was discovered by Daimler AG, for instance, is that competitors based in other segments, such as Toyota’s Lexus Division, may still be able to draw sales from the niche market and in the process reduce the viability of the niche operation itself (see Web Exercise 7.2). *Niches* could be further simplified by segmenting an already segmented market into even further smaller sub-segments. For example, a company could segment their entire market based on different age groups, e.g., young people segment, middle-aged segment, aged segment, and aged plus segment. In this context, the young people segment could be further segmented (as niches) into 0–5-year-old kids, 6–12-year-old kids, and 13–17-year-old teens, in order to understand even the smaller needs of these age groups within the broader young people segment, in order to serve these niches as profoundly as possible focusing on those smaller needs along with serving the core needs.

7.7.2 Multiple Segments

A more complex response is to address several major segments with one brand or to launch several brands targeted against different segments. Nestlé uses this latter strategy by offering brands to meet the “ground coffee,” “continental,” and “decaffeinated” segments, as well as the main brand itself, which, in line with the former strategy, spans a number of segments. An organization may also use this technique when it intends to achieve full market coverage by invading the market segment by segment.

7.7.3 Cross-Segment

Most suppliers resolutely ignore the segments and pattern their marketing on other factors. This is almost invariably the case in the more bureaucratic responses of the public sector, which are based on the demands of the *delivery systems* rather than on the needs of the clients. In the commercial field, this cross-segment strategy is often successful. A company may specialize in a particular product that covers a number of segments, with a band of devoted supporters who recognize the specialized expertise embodied. This strategy is particularly prevalent and successful in the industrial area. For example, DuPont’s Teflon, a nonadhesive polymer, is used in tubing, gaskets, bearings, and rollers and as a coating for saw blades and cooking

utensils. This approach is based on deliberately targeting across segments that have similar characteristics (such as similar production technologies).



Web Exercise 7.2

Look at the websites for Ugly Duckling Rent-A-Car (► <http://www.carrentaldir.com/ugly-duckling-car-rental.html>), Daimler (► <https://www.daimler.com/> and ► www.mercedesbenz.com), Toyota (► www.toyota.com), and Lexus (► www.lexus.com). What clues on these websites indicate the niches the companies are trying to reach? What products do you see as responses to various consumer concerns?

7.7.4 Full Coverage (“Mass Marketing”)

Full coverage is limited to those organizations that can afford the strategy. With the intention of addressing the whole market, it can take two forms:

- *Undifferentiated*—A few organizations attempt to address a whole market with a single product or nonsegmented range. Coca-Cola is arguably such a company. Another example of such undifferentiated full coverage is celebrity endorsement to promote a cause-related brand, such as Grameen Bank (the microfinance-oriented bank for disadvantaged communities), where such cause-related brands (in most cases) attempt to promote the brand image underpinning by the image of a celebrity to the celebrity’s fans, who are also the brand’s total target market.
- *Differentiated*—Where the organization covers the market with a range of products or services (under the one brand) that are more or less individually

targeted at segments, the coverage may be differentiated. IBM, for example, covers almost the whole range of computer products and services, but with individual products aimed at each segment.

The most sophisticated approach would match the pattern to the market's development stage. In a new market that is typically developed by one supplier, just one brand is launched to cover the whole market. As the market develops and competitors enter (usually targeting specific segments to obtain a foothold), the major supplier may move to preempt this competitive segmentation by launching its own new brands targeted at the most vulnerable segments. On the other hand, a competitor seeking to enter a market may initially target a particularly vulnerable segment and then use this as a base from which to grow incrementally by taking in more segments. For example, Kellogg's created a cereal market with Corn Flakes in the 1920s and has since introduced many other cereals as the market matured. Similarly, Toyota, Nissan, and Honda, respectively, have introduced Lexus, Infiniti, and Acura luxury car divisions as customers traded up from economy to more luxurious cars as their incomes grew over time.

7.7.5 Counter-Segmentation

Although segmentation has been a very popular strategic marketing device in recent years, there is an argument that it may have been taken too far in some areas. Constantly pursuing a better match between consumers' needs and firm offerings, Toyota and Nissan, for example, have oversegmented the car market with many different models and features. Further aggravated by the appreciation of the yen against the dollar, their costs of maintaining the product lines have gone up precipitously. These Japanese automakers' response is to consolidate several segments by launching a brand (or repositioning a brand or integrating several existing brands) to cover several segments. This may allow economies of scale without major reductions in benefits and, on balance, maintain competitive advantage. This process has been called **counter-segmentation**. Although it may only rarely apply, it should not be forgotten in the enthusiastic rush to segment.

Counter-segmentation—The process of consolidating several segments by launching a brand, repositioning a brand, or integrating several existing brands to cover several segments.

7.7.6 Segmentation and Ethics

Firms naturally locate their sales outlets where customers have easy access and offer products or services that customers will purchase and even restrict their supply for exclusive positioning. Malt liquors such as the former Heileman Brewing

Company's PowerMaster have been criticized for targeting the poor, inner-city segment of the beer market, allegedly emphasizing a high alcohol content for the money [23]. Similarly, the mortgage loan approval rates at banks are found to be much lower for some minority groups than others. These rates are lower than can be justified on the basis of loan applicants' economic factors alone, implying the existence of some customer segmentation across other dimensions [24]. Although their segmentation efforts may be justifiable on the basis of profitability, competition, and risk factors, marketing executives have to be careful that the result of their segmentation efforts will not go against accepted ethical standards (see Manager's Corner 7.1).

Manager's Corner 7.1

Targeting Credit Cards to the Gay or Lesbian Household

For years, credit card issuers have been slow to target gay and lesbian consumers due to fears of controversy and lack of knowledge as to how to serve the segment. Now interest in the category has been heating up.

Think, for a moment, of a hypothetical, two-person household. The two are both upper-income professionals, they own their own home, their disposable income exceeds the national average, and they have no children. In addition, the couple belongs to a niche group that is both identifiable as an affinity market and interested in purchasing goods and services from companies that target them specifically. One might think that credit card issuers would beat a path to their doors.

Well, if the household is gay or lesbian, probably not. Although research indicates that an estimated 6–9% of the US population is gay, and despite market research showing that self-identified gay consumers are wealthier and more avid spenders than the general populace, the reluctance of most credit card issuers to build relationships with this market segment has been notable.

Perhaps unsurprisingly, much of the banks' resistance to targeting the gay market stems from concerns other than the bottom line. "You couldn't get a more conservative set of institutions" than banks, says William F. Keenan, president of Convergence Group, a Hockessin, Delaware-based card consulting firm. "It simply has to do with the nature of the card industry. It's risk-averse, and if there's any perception of controversy they'll avoid the risk."

Other industry sources agree that societal angst over the acceptance of homosexuality has made banks a bit skittish when it comes to gays and lesbians. "When you've got five different programs that are competing for your time, and they're all worth the same amount of money, and there's one program that's got a potential for controversy, you probably won't choose that," says Scott R. Seitz, a partner and principal in Spare Parts Inc., a Westport, Connecticut, market research firm that surveys gay consumers. In addition, the prejudices that individuals within the card industry might have regarding gays can come into play when it comes to developing gay-focused cards.

The best-known credit card to target the gay and lesbian community directly is the Rainbow Card, launched in October 1995 by Travelers Bank, now part of New York-based financial services giant Citigroup. The no-annual-fee Visa card, which offered an introductory interest rate on purchases of 0% for 6 months and 15.9% thereafter, contributes a portion of all transactions to the Rainbow Endowment, a nonprofit organization that donates funds to gay-related causes. “The Rainbow Card has been a very successful product in the gay and lesbian community” in terms of audience penetration, usage, and profitability, says a Citigroup spokesperson, who declined to provide the size of the card program.

Sources: Fargo, J. (1999). Gay Marketing: A Profitable Niche?. *Credit Card Management*, 48–54; and Bekiaris, M., & Field, N. (2004). Love and Money. *Money*, 34–42; Campbell, J.E. (2015). Gay and lesbian/queer markets/marketing. In Cook, D.T., & Ryan, J.M. (Ed.), *The Wiley Blackwell Encyclopedia of Consumption and Consumer Studies* (1st Ed.) (pp. 1–4). New Jersey: John Wiley & Sons.

7.8 Differentiation and Branding

Another technique, which is more normally considered under product or product strategy, is *product differentiation*. Usually applicable to commercial organizations, product differentiation is used to give products unique identities to distinguish them from their competitors (in particular, between competitors in the same market from the same company).

The epitome of this process is *branding*. The product is given a *character*, an *image*, almost like a personality. This is based first of all on a name (the brand) to establish a distinct identity of the product, but then almost as much on the other factors affecting the image of that brand identity: the packaging, advertising, and, in particular, how the brand is able to authentically keep its promises/claims in terms of contributing to the customers’ needs. The general purpose of branding is to influence the target audience (e.g., customers and all other key stakeholders) of an organization (or a product or a brand) to possibly ensure that the target audience thinks/perceives about the organization in a way that the organization wants its target audience to think/perceive about them. For example, when we think about ALDI, the supermarket, automatically, it comes to our mind that ALDI offers comparatively more affordable price in comparison to its competitors (e.g., Asda in the United Kingdom or Woolworths in Australia). ALDI promotes themselves through the branding campaign “everyday low price” [25–27], because ALDI wants to differentiate their offerings in comparison to their competitors as more affordable supermarket. This is what ALDI wants to ensure that their target audience thinks/perceives about them as “more affordable.” In most cases, branding campaigns are planned, implemented, and evaluated centered on a long-term communication goal of the brand.

This technique of branding attempts to make the brand its own separate market, or at least its own segment, so that shoppers buy Heinz Baked Beans rather than ordinary baked beans. This approach sometimes succeeds to the extent that

brands (such as Kleenex, Hoover, Netscape, Scotch Tape, Vaseline, and Xerox) become almost generic. It is also applicable to a cola drink, as there are different types of competitive colas available in market; however, when we think about cola, in general, Coca-Cola or Pepsi-Cola first comes to our mind as generic replacement of cola drink.

In order to plan for branding, it is worthwhile to look further on what a “brand” is. The simplest definition of a brand would be a brand is anything that reminds us about something. For example, when we see the letter “f” in small case, in white color, and in blue background, straightaway, it reminds us about Facebook. Similarly, when we see a partially eaten apple, it reminds us about the Apple Corporation, or when we see the letter “m” in small case and in yellow color, we understand that it is the logo of McDonald’s. In the same vein, in comparison to your coworkers, when you will be most effectively helping your coworkers so often at your organization, you would be able to brand yourself as the “most effective team player” in your office as one of your differentiating factors with your coworkers. As a result, when a colleague would think about team collaboration, your previous effective contribution to your team could automatically remind your colleague about yourself as a team man. In this context, the activities marketers undertake to influence the perception of their target audience are collectively known as branding or positioning in the mind of the target audience.

Branding or brand positioning activities (e.g., designing and promoting a brand logo) help marketers to convey a particular brand message to their target audience, in order to pursue a particular strategic marketing goal. Branding or brand positioning is relevant to “Plato’s assertion that memories evoke related memories” [28, 29], where the stakeholders’ *perceived experience* or memories about a *unique value or utility* of a brand is important to differentiate it from other brands by creating and maintaining a unique image or reinforcing the existing image of the brand, based on that unique brand value or utility. In fact, branding or brand positioning is a brand communicational tool that concerns “how a brand is *positioned in the mind* of the consumer with respect to the value/need with which it is differently associated or which it owns” [29–31]. In this context, the overall activities associated with the entire efforts to position the relevant information about the brand and its uniqueness in the mind of the stakeholders to distinctively satisfy their needs are generally known as branding. Therefore, branding or brand positioning is the combination of activities:

- That support the creation of an identity (e.g., name, symbol, logo, mark, color, a unique experience, etc.) that identifies and differentiates a product or service or an organization as a distinctive brand
- That convey the promise of a memorable experience that is uniquely associated with the brand (e.g., Coke and Pepsi or Apple and Samsung)
- That serve to consolidate and reinforce the recollection of pleasurable memories of the brand experience, all with the intended purpose of creating a favorable image of the brand that influences consumers’ decisions [32]

Indeed, a firm's branding strategy is to make its products different from its competitors in such a way that customers are convinced that they are superior. This result can be realized by making the physical product different or by making the way in which the customer perceives the product different. These factors can be achieved by packaging differences; variations in size, shape, quality; gimmicks; after-sales service provisions; or perhaps most importantly by promotional activity usually linked to at least one of the differences. Another important option to differentiate a brand would be attaching a specific sustainability concern to the brand's activities and performance. For example, a brand could contribute to a socioeconomic or an ecological cause by developing awareness about the cause, as well as contributing to the cause. Ethical consumers have been increasing in number around the world, especially from Generation Z [33, 34]. Ethical consumers are those who value ethical perspectives in their buying decisions. For example, the ethical consumers want to make sure that the garments item they purchase, the production process of those garments does not harm the environment, or the workers who made those garments are well-supported by the garments' factory. In this context, differentiating a brand centered on a socioeconomic or ecological cause differentiates the brand as a caring brand in its market or society where the brand serves its customers. The main aim of promotion, such as media advertising or "above the line" promotion of such a differentiating factor of a brand, is to create a definite and distinct brand image.

Branding has equally been applicable to nonprofit activities. In this case, branding is used as a means of improving awareness of what is available and of differentiating between alternative offerings designed for different segments. Probably the most well-known telephone number for emergency is 911, and it is clearly distinguished from any other number. However, many nonprofit activities are not consolidated into one centralized organization. Therefore, *competition* between charities can sometimes be as cutthroat as any in the commercial sector. Such competition has even reached the stage where major charity organizations, such as the United Way and the March of Dimes, have adopted *logos* in an attempt to differentiate their services.

7.8.1 Brand Monopoly

Economically, the *brand* is a device designed to create a *monopoly*—or at least some form of *imperfect competition*—so that the brand owner can obtain some of the benefits leading to a competitive advantage that accrue to a monopoly, particularly those related to decreased price competition. Think about brand names such as Coca-Cola, Häagen-Dazs, Sony, and Perrier. In this context, most *branding* initiatives are implemented by promotional means. However, there is also a legal dimension, for it is essential that the brand names and trademarks are protected by all means available. The monopoly may also be extended, or even created, by patents and intellectual property (or copyright, as it used to be called in a narrower context).

7.8.2 Branding Policies and Strategies

Once established in the minds of consumers, brand names can build a strong brand equity [35]. *Brand equity* is considered a powerful asset that has an economic value. The three levels of branding policies are as follows:

- *Company name*—Often, especially in the industrial sector, just the company’s name is promoted (leading to one of the most powerful statements of *branding*—the well-known saying “No one ever got fired for buying IBM”).
- *Family branding*—In this case, a very strong brand name (or company name) is made the vehicle for a range of products (e.g., Mercedes or Black & Decker) or even a range of subsidiary brands (such as Cadbury’s Dairy Milk, Cadbury’s Flake, or Cadbury’s Wispa).
- *Individual branding*—Each brand has a separate name (such as 7UP or McDonald’s), which may even compete against other brands from the same company (e.g., Persil, Omo, and Surf are all owned by Unilever).

7

In terms of planning, implementing, and evaluating branding strategies, there are two commonly utilized approaches. For the first approach, a brand could strategically be promoted to convey a particular message (e.g., a brand’s contribution to a socioeconomic cause as a differentiating factor) to its target audience. Under this first approach, another strategy is to focus on creating as much awareness about the brand and its message among its wider target audience. The second approach considers what to brand. For example, a branding strategy could aim for corporate branding (e.g., promoting Unilever as a corporation). Branding strategy could also be aimed at branding a particular business unit within an organization, which is known as strategic business unit level branding (e.g., promoting Unilever’s all Home Care products at once or collective promotion of Unilever’s all Food and Refreshment offerings). Also, branding strategy could be focused on creating awareness of a particular product within a specific business unit (e.g., promoting Lipton tea as an individual product of Unilever under its Food and Refreshment business unit). In terms of existing products, brands may be developed in a number of ways; some other strategies are discussed in ► Sects. 7.8.3, 7.8.4, 7.8.5, 7.8.6, and 7.8.7.

7.8.3 Brand Extension

An existing strong brand name can be used as a vehicle for new or modified products. For example, after many years of running just one brand, Coca-Cola launched Diet Coke and Vanilla Coke. Procter & Gamble, in particular, has made regular use of this device, extending its strongest brand names (such as Ivory Soap) into new markets (the very successful Ivory Detergent and more recently Ivory Shampoo). General Mills has also adopted the brand extension strategy by introducing variants of its Cheerio brand cereal, including Honey Nut Cheerios, Apple Cinnamon

Cheerios, Multi-Grain Cheerios, and, most recently, Frosted Cheerios. Victoria's Secret has rolled out its new cosmetics line, while its sister company, Bath & Body Works, just added a glitter line for girls called Art Stuff that includes cosmetics, body care, and accessories. The line was designed “for girls beginning to develop their own personal care routines.” Each year, 120–175 new brands are introduced into America's supermarkets. Approximately 40% of the new brands are actually brand extensions [36]. Brand extension strategy is designed to capture as wide a shelf space in the retail store as possible in pursuit of *shelf space monopoly*. Marketing in Action 7.2 describes how this strategy may have hurt Mattel.

7.8.4 Multibrands

In a market that is fragmented among a number of brands, a supplier can deliberately choose to launch totally new brands in apparent competition with its own existing strong brand (and often with identical product characteristics). This is done simply to soak up some of the share of the market that will in any case go to minor brands. The rationale is that having 3 out of 12 brands in such a market will give a greater overall share than having 1 out of 10 (even if much of the share of these new brands is taken from the existing one). In its most extreme manifestation, a supplier pioneering a new brand that it believes will be particularly attractive may choose immediately to launch a second brand in competition with its first, to preempt others entering the market. Individual brand names naturally allow greater flexibility by permitting a variety of different products, of differing quality, to be sold without confusing the consumer's perception of what business the company is in or diluting higher quality products [37].

Once again, Procter & Gamble is a leading exponent of this philosophy, running as many as ten detergent brands in the US market alone. This practice also increases the total *shelf space* it receives on supermarket shelves. Sara Lee, on the other hand, uses multibrands from Sara Lee cakes through Kiwi polishes to L'eggs pantyhose to keep the very different parts of the business separate. In the hotel business, Marriott uses the name Fairfield Inns for its budget chain, and Ramada uses Rodeway for its own budget chain.

Although multibranding has worked very well for many companies in the United States, this is not necessarily the case in other countries. In Japan, consumers tend to associate the quality and reliability of products with the reputation of the company. While maintaining a multibrand strategy, Procter & Gamble became successful in the Japanese market after it began to emphasize its corporate logo, P&G, more than its brand names. Therefore, a key lesson of this P&G example is that marketers must need to consider the sociocultural norms and values, perceptions, and ways of seeing life of their particular target market, before planning and implementing a branding strategy in that target market.

7.8.5 Cannibalization

Cannibalization is a particular problem of a *multibrand* approach, in which an organization's new brand takes business away from its established one. This technique may be acceptable (indeed to be expected) if there is a net gain overall. Alternatively, it may be the price the organization is willing to pay for shifting its position in the market—the new product being one stage in this process. Some of the alternative scenarios [38] are illustrated in ■ Fig. 7.10. However, the cost may sometimes unexpectedly reach an unacceptable level, in terms of the attrition of the existing profitable business.

Marketing in Action 7.2

*How Did
Mattel Go
Wrong with
Barbie?*

Founded in 1945, Mattel, Inc. (► www.mattel.com) designs, manufactures, and markets family products. In 1959, Mattel introduced “Barbie,” the doll that resembles a teenage fashion model and is targeted to the 3- to 7-year-old girl market. Currently, more than 1.5 million Barbie dolls are sold per week around the world.

In 1987, Mattel began implementing a strategy of maximizing its core brands. As a part of this strategy, the company introduced its first “Holiday Barbie” in 1988. Holiday Barbie was Mattel's first foray into what it saw as a new segmentation strategy based on designing different professions and activities for Barbie dolls in an attempt to entice girls to want several of the dolls.

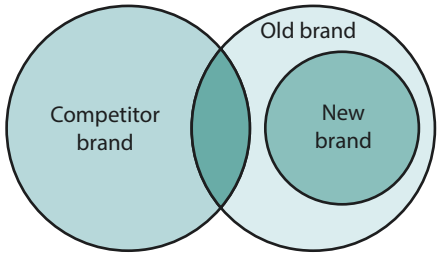
The new strategy apparently worked, and American girls averaged eight Barbie dolls each by the late 1990s. Additionally, the Holiday Barbie concept had taken off in the collector's market. This adult market purchased approximately one half of all 1989 Holiday Barbies. By 1996, collectors constituted a \$220-million business.

With collectible Barbies in huge demand by both young girls and collectors, Mattel's operational strategy was one of increased production and expanded distribution. Unfortunately, thousands of the 1997 Holiday Barbie dolls were left on store shelves. By early 1998, the specialty doll was selling for \$9.99 at Toys “R” Us. Other exclusive \$100.00 Barbie dolls were selling for \$29.99 on the Home Shopping Network. By December 1998, Mattel was predicting fourth-quarter sales \$500 million below expectations. As such, Mattel's stock dropped 30% in 1 day.

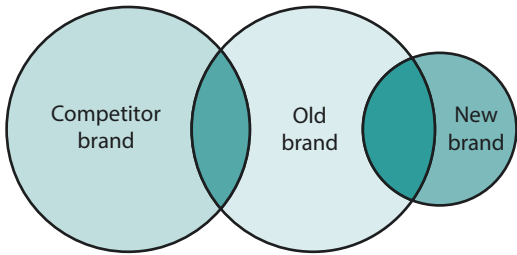
What happened? How did Mattel segment the Barbie doll market? What would you have done differently?

7.8.6 Cobranding

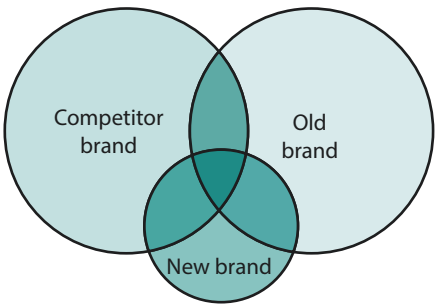
Consumers usually buy a bundle of complementary products. For example, many consumers add raisins, chocolate chips, or peanuts, among other things, when they eat cereal. Noticing this, General Foods and Hershey Foods have teamed up to



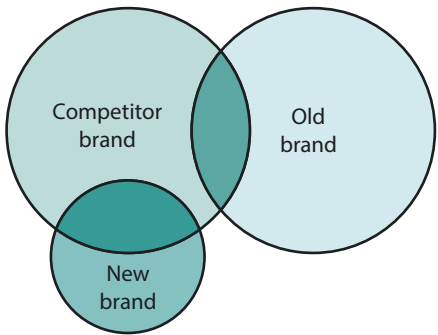
The worst situation possible. The new brand provides no competitive advantages and simply shares sales with the firm's current brand.



Cannibalization still takes place, but the firm has expanded its total market and has increased its market share.



The new brand shares the market with the old brand, steals some from competitors, and expands the total market by attracting new customers.



An ideal situation, with no cannibalization. The new brand cuts into the sales of competitors and brings new buyers into the market.

■ Fig. 7.10 Scenarios of brand cannibalism

create a brand of cereal called Reese's™ Peanut Butter Puffs. This *cobranding* strategy helps to fill a market segment not tapped by either company's existing products.

Sometimes, the complementary nature of the products may not be as obvious, yet cobranding may prove to be beneficial to companies. For example, frequent-flyer programs encourage people to accumulate mileage by flying with certain airlines. Noticing that many frequent flyers charge their tickets on their credit cards, Citibank offers a Mastercard cobranded with American Airlines' AAdvantage frequent-flyer program so that its card users can collect mileage for every dollar charged on their cards. Similarly, recognizing that frequent flyers call home from out of town, MCI has joined American Airlines' frequent-flyer program so that MCI customers can collect mileage every time they make long-distance calls.

7.8.7 Private and Generic Brands

7

With the emergence of strong retailers, there has also emerged the **private brand**, the retailer's own branded product (or service). Where the retailer has a particularly strong identity (such as Marks & Spencer and Sears), this store brand may be able to compete against even the strongest brand leaders and may dominate those markets that are not otherwise strongly branded. For example, even though manufactured by Whirlpool, Amana, and others, Sears Roebuck's Kenmore-brand home appliances have a reputation for reliability and durability and compete directly with General Electric and Maytag. Another example of such a private brand is "Home Brand" products of Woolworths in Australia. Woolworths promote their own products under the brand name "Home Brand" products, such as Home Brand's muesli or Home Brand's milk.

Private brand—A retailer's own branded product.

Companies with national brands became concerned that such *private brands* might displace all other brands (as they have done in Marks & Spencer outlets in Britain), but the evidence is that, at least in supermarkets and department stores, consumers generally expect to see on display more than 50% (and preferably more than 60%) of brands other than those of the retailer. Therefore, the strongest independent national brands such as Kellogg's and Heinz, which have maintained their marketing investments, should continue to flourish.

At the same time, **generic brands** (i.e., effectively unbranded goods) have also emerged. These brands made a positive virtue of saving the cost of almost all marketing activities by emphasizing the lack of advertising and, especially, the plain packaging (which was, however, often simply a vehicle for a different kind of image). The penetration of generic brands peaked in the 1980s, and most consumers still seem to be looking for the qualities that the conventional brand provides. For generics to continue to attract the consumer, the retailer will need to position

them as a sensible value alternative and back them with the retailer's guarantee of acceptable and consistent quality [39].

Generic brands—Unbranded goods.

7.8.8 Differentiation of Services

Marketers may have difficulty in differentiating their own service offerings from those of their competitors. The service company can add innovative supplementary features to distinguish its core service offerings. **Core services** are the necessary outputs of an organization that consumers are looking for, whereas **supplementary services** are either indispensable for the execution of the core service or are available only to improve the overall quality of the service offerings [40]. For example, the core service in the car rental industry is providing customers with safe and well-functioning vehicles for transportation. The facilitating services may include special benefits for frequent renters, ease of making reservations, speedy check-in, availability of maps, and so on. Competitive advantage is increasingly determined by a service firm's capability in providing facilitating services to differentiate itself from its competitors [41]. Although such *service innovations* are relatively easy to copy, a strong reputation gained early on by providing excellent facilitating services is key to a service firm's long-term competitiveness.

Core services—The necessary outputs of an organization for consumers are seeking.

Supplementary services—The indispensable outputs of an organization that are available only to improve the overall quality of service offerings.

Summary

Markets can be defined in a number of ways, but for a marketer, the key definition is in defining who the customer is. Even so, there are different categories: (1) customers, (2) users, and (3) prospects. This categorization leads to the concepts of penetration and brand (market) share.

Within markets, there may be segments, which a producer may target to optimize the use of scarce resources. The viability of these segments depends on (1) size, (2) identity, (3) relevance, and (4) access. The identification of market segments requires a number of activities including (1) background investigation, (2) qualitative research, (3) quantitative research, (4) analysis, (5) implementation, and (6) segmentation/positioning. A major aid to positioning is usually offered by two-dimensional maps based on the two most critical dimensions identified by statistical analysis.

Branding is the most powerful marketing device for differentiation, which may, in effect, create a near *monopoly*. Once established, a brand name has a strong *brand equity*. Branding policies may be based on (1) company name, (2) family branding, and (3) individual branding. These policies may be developed further by brand extensions and multibrands, but this approach may be limited by cannibalism. *Cobranding* by companies that market complementary products helps fill market segments not met by them individually. *Private brands* and *generic brands* are also becoming increasingly important in price-sensitive markets.

Key Terms

Benefit segmentation

Branding

Brand positioning

Cluster analysis

Core services

Counter-segmentation

Generic brands

Market

Penetration

Perceptual maps

Private brand

Product differentiation

Segment

Supplementary services

Target marketing

7

? Review Questions

1. What is the basic element of a market? What are the differences between customers, users, and prospects? What is the difference between penetration and market share?
2. What are the tests for viability that should be applied to segments within a market?
3. What steps may be involved in practical segmentation?
4. In the process of segmentation, what marketing research techniques may be used, and how?
5. What are the differences between segmentation, market targeting, and brand positioning; and how does each work?
6. How may maps be best used to aid positioning?
7. What segmentation strategies may be employed? Where does niche marketing fit in? How may industrial marketing differ?

8. What benefits may be obtained by branding? How may this create a near monopoly?
9. What branding strategies may be employed? How may brands be extended?

? Discussion Questions

1. BMW is easing its all-new X5—which it calls a Sports Activity Vehicle or SAV—out of the closet. Claiming that it has opened a new market segment, BMW says its X5 will be characterized by its high seating position, coupled with “exceptional handling on roads of any kind throughout the world.” The X5—developed from the ground up—will have a unitized body and independent suspension, front and rear. Coupled with the independent suspension will be a four-wheel-drive system that has a four-wheel application of the brakes, plus BMW’s All Season Traction and Dynamic Stability Control. Power for all of this will come from three engine choices: a V-8, straight six, or a six-cylinder diesel engine.

All of this is packaged in a vehicle with an overall length of 183 inches that has wheel wells designed to handle monster wheels and tires up to 19 inches. Other measurements indicate the X5 will be spacious. Height is 67.7 inches, and it’s a wide 73.6 inches. Safety will be addressed with a total of ten inflatable airbags located in the front, at the sides, and higher-placed bags for head protection of both front and rear passengers. Comfort features include a multi-function steering wheel, electric rear seat rests, rear climate controls, and a high-line audio system. No prices have been set.

Write a brief profile of prospective BMW X5 customers in the targeted segment based on the preceding product description—their lifestyle, their values, income, and consumption behavior.

2. Do you think the following market segmentation criteria bring market opportunities to some product marketers? Are these segments viable for certain products? If so, identify them. Also, identify some leading brands currently positioned for people in these segments. Can you think of a few of your own innovative product concepts targeted at these segments?
 - People who are into fitness and into working out. They believe in a total fitness lifestyle. For them, taking care of the outside is just as important as taking care of the inside.
 - People who have the speed bug. These 25- to 30-year-olds save \$800 working for 3 months at a local bar and blow it all on a weekend course in race-car driving because they are tired of recreational vehicles that now clog the show-rooms.
 - Online shoppers who tend to be more affluent than average when compared to those who are online but don’t shop (\$65,000 median annual household income versus \$59,000, respectively). They cut across all ages, although those 50 and older are more likely than their younger counterparts (aged 18–24) to make purchases online.

- The single-mothers segment includes divorced or never-married women in their 30s who have a child. The single population in general is growing. In 1970, there were 3.4 million single mothers in the United States; now there are nearly ten million. More important, these are women with increased independence for whom husbands are less of an economic necessity.
 - Segregated racial populations in the eight largest metropolitan areas in the United States: New York, Los Angeles, Chicago, Washington–Baltimore, San Francisco–Oakland, Philadelphia, Detroit, and Dallas–Fort Worth. In the 1990s, most residences and, often, most workplaces were located beyond big-city boundaries in a new kind of suburbia. These eight metropolitan areas account for one quarter of the total population of the United States. Over this period, while population shifts have occurred, segregated residence patterns remain intact.
3. Anheuser, Miller, Coors, and Stroh's currently control 80% of the beer market in the United States. Lately, these brewers have been on a rampage, purchasing microbrewers that may produce only 15,000 barrels a year (Anheuser produces 41.4 million barrels of Budweiser every year). What are these major brewers searching for? After purchasing these microbrewers, the majors tend not to apply their massive marketing muscle to promote their new beers. Why is that? Further, why do the majors go to great lengths to hide their ownership of these microbrewers from their customers? What is wrong or right with this marketing and acquisition strategy by the majors?
 4. The leading brand of Ready-to-Eat (RTE) breakfast cereals in the United States has less than a 4% market share. What kind of branding strategy is this? What challenges would face a potential entrant to the RTE cereal market? How could they be overcome?
 5. Positioning maps, which were discussed in ► Sect. 7.6, "Product/Service Positioning," map products along product characteristics. Discuss why more is not always better. Give four real-life examples (e.g., setting a lower price can decrease sales).
 6. Some experts predict that in the near future, most American households will receive more than 200 television channels. Do you agree or disagree with this prediction? As the management of NBC, ABC, or CBS, what are your long-term positioning strategies? What would be the challenges of a niche player in this market?

Practice Quiz

1. In the long run, it is customers with their _____ who decide what the market really is.
 - (a) Needs
 - (b) Purchasing power
 - (c) Suppliers
 - (d) Market responses

2. _____ is the proportion of individuals in the market who are users of the specific product or service.
 - (a) Market share
 - (b) Brand share
 - (c) Penetration
 - (d) Market segment
3. Consumer behavior can be divided into which of the following?
 - (a) Consumer characteristics and consumer responses
 - (b) Consumer characteristics and consumer purchases
 - (c) Consumer responses and consumer purchases
 - (d) Consumer purchases and consumer values
4. _____ are the most powerful tools for segmentation.
 - (a) Consumer responses
 - (b) Consumer characteristics
 - (c) Consumer purchases
 - (d) Consumer values
5. To address the shortcomings of country segmentation approach, all the following alternative procedures should be considered EXCEPT
 - (a) Criteria development
 - (b) Preliminary screening
 - (c) Microsegmentation
 - (d) Geographic groupings
6. To be viable, a segment needs to meet all the following broad criteria EXCEPT
 - (a) Size
 - (b) Identity
 - (c) Relevance
 - (d) Price-fit
7. The most productive bases for segmentation are those that relate to the customer's _____ in the market.
 - (a) Own grouping
 - (b) Fit to the product
 - (c) Profitability
 - (d) Relevance
8. In cyberspace, the _____ model is replaced by the _____ model.
 - (a) Sales push, market pull
 - (b) Market pull, sales push
 - (c) Market push, sales push
 - (d) Sales pull, market pull
9. Which of the following positions characterizes a niche product?
 - (a) High quality, low price
 - (b) High quality, high price
 - (c) Low quality, low price
 - (d) Low quality, high price

10. The positioning process includes all the following steps EXCEPT
 - (a) Market segmentation
 - (b) Product segmentation
 - (c) Target marketing
 - (d) Product positioning
11. In _____, the product is given a character, an image, almost like a personality.
 - (a) Product segmentation
 - (b) Product positioning
 - (c) Product branding
 - (d) Product differentiation
12. All the following are levels of branding strategy EXCEPT
 - (a) Company name
 - (b) Family name
 - (c) Family branding
 - (d) Individual branding

(You can find the correct answers to these questions by taking the quiz and then comparing your answers with the answers that are provided at the end of the book, under the “Practice Quiz Answers” part of the book.)

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Product and Service Decisions

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■ Designing Customers and Cars



■ (Source: ► [pexels.com/royalty-free-images/](https://www.pexels.com/royalty-free-images/))

Ford's 1908 introduction of the Model T radically changed the auto industry. Within 19 years, 15 million T's were sold, and Ford became an international giant. However, nearly 100 years later, the company is in dire straits and faced with tough competition from imports and the SUV phenomenon of sports vehicle. Ford needed to cut \$10 billion in costs by 2005. Its flagship sedan, the Taurus, started to sell only 300,000 units per year—in stark comparison to its 1980s heydays of more than 500,000 cars per year.

To recapture passenger-car market share, Ford was trying to reconnect with its customers. In terms of decision-making before any car designs were made, Ford's Product Development Center set out to understand its market first. With “customer immersion” studies, Ford's researchers moved in with families across the United States and shadowed them through driving, dining, and shopping—all in efforts to understand not only how families drive but also how their cars fit into the larger context of their usual lifestyle.

Insights from the studies resulted in the design of Ford's Model Two, “Kathy” and “Lewis,” individuals whose characteristics and qualities best epitomize Ford's target market's preference. Kathy and Lewis aren't just abstract generalizations; their personalities and daily activities provide an essential backdrop for Ford's designers and engineers.

During these studies, “Kathy” was 39, was married, has two kids (ages 6 and 10), and is a speech pathologist. As a graduate of Syracuse University, she spends the weekends volunteering at the Humane Society and playing recreational volleyball. For her, Ford designed the Freestyle, a hybrid that isn't quite a wagon, minivan, or SUV, but a little of each. It's perfect for her and her driving companions—whether dogs, kids, a briefcase, groceries, a mountain bike, or all the above.

“Lewis” was 41 and married during these Ford studies. As the manager for First National Bank outside Charlotte, he yearns for luxury and comfort but can’t quite afford it yet. His 17-year-old daughter was just about to start at the University of North Carolina, and he was trying to restore his older suburban home. For him, Ford designed the Five Hundred, a European-style sedan with a touch of chrome and imitation burl wood on the dash, an image that suggests “unpretentious luxury.”

Although the descriptions of “Kathy” and “Lewis” may seem too particular, Ford’s Product Development Center tries to understand the target market’s nuances—the subtleties that lead people to buy certain cars. Researchers and designers at Ford must reconnect with customers, a link that used to be instinctive for Ford, a company that soared with “everyman” classics like the Thunderbird, Mustang, and Taurus. Especially in such a fragmented industry, Ford must truly understand its niche, the passenger-car market, to regain competitiveness.



■ Sources: Ford Motor Company (2020). ► <https://www.ford.com/>. Accessed 29 May 2020; Hakim, D. (2003). With Taurus in Its Last Days, Ford Bets on 3 Cars to Take on Japan. *The New York Times*, Section C1; Schneider, G. (2002). The Firm That Got America Rolling Was Desperate for Customers, So It Designed a Pair. *The Washington Post*, Section H1

8.1 Introduction

So far we have primarily dealt with finding out what the customer wants. But this is not sufficient—the supplier’s responses to these wants are also critical. These responses are delivered through the marketer’s toolbox in the form of the marketing mix, which consists of product, price, promotion, and distribution. Even though all these elements of the marketing mix are important, the product, being a good, a service, an idea, or a place, is typically the most visible component and serves as the focal point for all marketing mix aspects. In addition, research has shown that a unique, superior product is the most important success factor to drive and sustain competitive advantage [1].

A good product might sell even if the promotion is mediocre. A bad product will rarely obtain repeat sales, no matter how brilliant the promotion is. Of course, even a good product might not do well if poorly promoted, if sufficient awareness of the product’s availability and accessibility is not established. Unilever developed a toothpaste dispenser that added stripes to the paste coming out of the tube. In the United States, this feature was emphasized with the slogan “Looks like fun, cleans like crazy.” The product was a hit, but repeat sales were dismal because the “fun” justified only one purchase. In the United Kingdom, however, the company sold the product on the basis that the stripe contained fluoride and was an essential component—and sales are still going strong. This chapter’s opening vignette shows how Ford Motor Co. learns about its customers for future product design.

The importance of the product was demonstrated in the early days of the market for portable PCs. The former Compaq company, as a small start-up, and IBM met head on. It should have been no contest. Yet the customers judged the Compaq product to be better. Eventually, IBM had to withdraw its product from the market and reorganize its approach.

8.2 The Product Package

The customer’s perception of the good or service is a complex construct. For example, in the case of branded products, such as Campbell’s soups (► <https://www.campbells.com/campbell-soup/>), the physical product itself is submerged under layers of image and emotional involvement built up from childhood, to which decades of advertising and promotion have contributed. Even with industrial goods, such as computers, the intangibles (e.g., external look, design) often are most important. We therefore can differentiate three product aspects:

- The **core product** is the good or service itself that comes with basic utility to satisfy a particular need—the bare-bones version.
- The **tangible product** indicates elements such as design, color, and packaging and any other physical dimensions that provide benefits to the customer.
- The **augmented product** is further enriched by including warranty and service benefits as added value, the reputation of the firm, and the psychological benefits conveyed by the product.

Core product—The good or service itself, without any amenities.

Tangible product—Elements such as design, color, packaging, and any other physical dimensions that provide benefits to the customer.

Augmented product—A product enriched by characteristics such as its warranty and service benefits, the reputation of the firm, and the psychological benefits conveyed by the product.

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Delineating the dimensions of the augmentation may be difficult. For example, confusion may be caused by reading too much into consumers' superficial answers. When asked why they use or prefer a certain product, consumers may provide strongly rationalized answers or comment mainly on a product's most obvious purposes. When prodded, consumers may then find major differences between products that in reality do not matter to them at all. Similarly, consumers may be unable to evaluate the true benefits of new or planned products because they do not fully comprehend their purpose and capabilities. For example, few consumers would have been able to thoroughly understand, much less comprehensively list, the benefits of the introduction of the many added features in smartphones when such technologies were in the planning stage. This is why sophisticated research techniques have been developed to explore consumers' hidden motivations and relevant latent needs.

8.3 The Product Audit

For existing goods or services, the starting point is to decide exactly what the firm is offering. This is not as obvious as it might seem at first. For example, before Planet Hollywood filed for ► Chap. 11 bankruptcy protection, its co-founder Robert Earl stated, "We're not in the restaurant business, we're in the lifestyle and trademark business" [2]. Therefore, all the features of the brand need to be reviewed, perhaps even by outsiders, because the brand manager who has become used to seeing the brand perform—in the way it has always performed—may have overlooked its other potential features.

The main task of a product audit is to look at goods or services in terms of what core and value-added benefits the customer derives from them. What counts is what the customer sees. An audit might examine some of these factors, such as

- What market segment does this brand address?
- Who are the existing and prospective customers?
- What benefits are these customers and prospective customers seeking?
- How does the product fulfill these customer needs and wants?
- How does it compare with competitive products?

These questions can be addressed in the form of a benefit analysis that examines the specific benefits the products offer in the context of what the customer needs

and wants. The list of customer benefits must be very carefully compiled, often by using sophisticated market research, to see it from the customer's viewpoint. The list also needs to be clearly prioritized to show what the customer considers most important. Otherwise, the temptation is for the supplier to concentrate on those areas in which the organization can excel, regardless of the fact that they are relatively unimportant to the customer. Nevertheless, the differentiating benefits that the supplier can offer, when compared to competitive offerings, may be very important. Equally, the additional benefits offered by the organization itself should not be ignored because elements such as service, support, and corporate reputation often have a major influence on the customer's buying decision.

Such a review may be problematic for some organizations in the nonprofit sector. Members of such organizations often have a core product that is considered unchangeable because of beliefs, convictions, training, or the law. However, without a product audit, the value of the organization's activities can be lessened in two ways. First, preoccupation with a core product can blind members of the organization to the overall needs of their customers and obscure ways in which the product can be augmented to increase customer satisfaction. Second, additions and alternatives sometimes become rigidly associated with the core product even though they are not essential to the achievement of the organization's prime goal [3].

8.4 The Product Strategy

A product strategy for reaching long-term product objectives needs to be developed specifically for each product, targeting different market segments of the product. Market penetration, product development, market development, and diversification are the four basic product strategies for growth in volume and profit, which is what shareholders conventionally demand.

8.4.1 Market Penetration

The most frequently used market penetration strategy is to take an existing product and try to obtain an increased share of that market. The two ways in which this can be achieved are by increasing sales to existing customers of the company and by finding new customers in the same market. The first strategy means persuading users to use more of the product on more occasions, perhaps by replacing an indirect competitor—for example, inducing people to drink orange juice rather than coffee at breakfast. Alternatively, the strategy may be to use the product more often without need to take business from competitors. ARM & HAMMER baking soda provides a fitting example. As the firm's advertisements tell us, this versatile product can be used for cleaning countertops, removing burned-on foods in the kitchen, and creating a home spa in your bathroom. It can also keep the refrigerator smelling good, and, most importantly, when the baking soda is poured down the sink, it will keep the disposal fresh smelling. Once that is done, the customer needs another baking soda purchase. Another example of increasing sales to existing customers,

we have seen in TV commercials of different toothpaste brands. For example, toothpastes' TV commercials from time to time include scenes that kids are brushing teeth in the morning as well as in the evening. The purpose here is to develop awareness of brushing teeth at least twice in 24 hours for hygiene and health issue, as well as to increase usage (subsequently purchase) by the same existing customers.

Manager's Corner 8.1

Financial Powerhouses Boost Online Services

Merrill (► <https://www.international.ml.com/>, ► <https://www.ml.com/>) found out that opposition to cyber-trading was a threat to its own health. Its internet brokerage strategy is described as a daring bid to get back to the cutting edge of the brokerage industry. The nation's largest full-service securities firm, whose customers pay commissions of up to several hundred dollars per trade, started offering online trading for as little as \$29.95 a trade. Here, the company's online plan is built on a large-scale discount-trading operation in which Merrill adds key features to its computer systems and expands its existing customer service centers.

One hundred thousand of Merrill's five million customers switched to Unlimited Advantage, a fee-based account that offers unlimited online and offline trading, either with a broker, online, or over the phone, in return for an annual account fee equaling about 0.2–1% of the account's assets and a minimum fee of \$1500 a year. By 2004, 18% of Merrill brokerage customer assets were held in fee-based accounts. Unlimited Advantage includes free research reports, financial planning help, and basic banking with free ATM transactions. That discounted internet account features web and telephone trading for cut-rate fees. The company also has developed systems to let customers open accounts online without a broker and get account updates immediately after they trade.

Sources: James, K., & David, R. (1999, June 2). Merrill Lunch Hears Net's Call, Firm Breaks Tradition, Integrates Cyber-Trading with Broker Service. *USA Today*; SMA Forum (2004). Top Wirehouses Enjoy Fee-Based Growth. ► http://www.smaforum.com/news/past_briefs/062204_newsbriefs.html. Accessed 29 July 2004; Registered ► Rep.com (2004). ► http://registeredrep.com/mag/finance_merrill_lynych_releases/. Accessed 29 July 2004; Merrill Research & Insights (2020). ► <https://www.ml.com/financial-research-and-insights/all.html>. Accessed 17 June 2020

The second strategy takes business directly from competitors by increasing both penetration and market share. This can be achieved either by changing the product offering or by changing the positioning of the product offering. On occasion, however, this result is also obtained by serendipity, when the environment changes in favor of the firm. For example, a few decades ago canned tuna fish in the United States was mainly sold packed in oil. When Japanese firms entered the US market, they decided to occupy a new (albeit small) niche by selling their tuna packed in water. Over time consumer tastes and preferences have changed, mainly due to dietary considerations. As a result, the segment of consumers desiring tuna packed in water has outgrown the segment preferring the oil-packed tuna.

In terms of a completely new product, an example of a widely used market penetration strategy is free giveaways. For example, many new foods and drinks (e.g., wine tasting) introduce themselves to the market with free giveaways as a market

penetration strategy. Some businesses also even give packages of new products away by, for example, sponsoring events and providing sample packs to the event attendees. In terms of synchronizing the pricing strategy for a new product's market penetration strategy, we saw that when Netflix first launched during the late 1990s, they offered a very low introductory price to develop the awareness and accessibility of their offerings. Netflix introductory penetration strategy was so successful, as they have wiped out their key competitors (i.e., Blockbuster and other traditional DVD shops) from the market. Here, the success of the Netflix market penetration strategy was however underpinned by new technology (i.e., transformation of DVD shops into online streaming); their introductory low-price offering (e.g., subscription price as low as a dollar) was almost like a free giveaway in comparison to the subscription price of the traditional DVD shops.

8.4.2 Product Development

The product development strategy involves a relatively major or sometimes even small modification of goods or services, such as quality, style, performance, or variety. An offer of “high-performance” versions of existing car models can be used to extend the ranges to cover additional customers. Other examples of major modification of existing product to develop a new product can be found in the pharmaceutical industry, where companies such as Pfizer, Merck and Bayer, and others are heavily investing in research and development, in order to launch new and innovative drugs that offer higher performance in comparison to the existing drugs. Similarly, adding vitamins to orange juice will possibly cause some existing users to increase their usage but may also attract new users. An example of trivial modification of existing product to develop a new product is the rivalry of Apple and Samsung, as they add new features in the latest version of their smartphones that offer additional value to their customers. Even modifying the color and design of the packaging of an existing product is an example of small modification to give a new look to an existing product. Manager's Corner ► 8.1 shows how a service firm develops its products to cover its current customers and to entice new ones to come on board.

8.4.3 Market Development

The market development strategy finds new uses for an existing product, thereby taking it into entirely new markets. Apple Computers did so by persuading customers to use its personal computers for desktop publishing and continues to do so with the addition of software. Pharmaceutical firms benefited greatly when it was discovered that one aspirin a day can help prevent heart attacks. Another market development alternative is to aim at a broader market. Going international is an excellent way to implement such a strategy; it offers new markets and new (potential) users. In that sense, any export operation can be viewed as a strategic market development. In market development, marketers attempt to convert the nonusers of

a product into users and to increase the usage rate of the existing users. A classic example of such attempts is Heinz Vinegar. Heinz first started to market their branded vinegar which is used mainly for cooking. After a certain period, Heinz produced window cleaners with the same ingredients of their branded vinegar [4]. As a result, Heinz was able to not only increase the usage rate of the chefs (existing customers who use Heinz Vinegar for cooking) by offering the Heinz window cleaners to those existing customers, but also Heinz started to convert the nonusers (who never used Heinz Vinegar before for cooking) into users of Heinz by offering them the Heinz window cleaners.

8.4.4 Diversification

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The quantum leap offered by diversification, to a new product and a new market, involves more risk and is often undertaken by organizations that find themselves in markets that have limited, often declining, potential. One obvious example is the tobacco companies that have diversified—often at considerable cost—into areas as varied as cosmetics and engineering. However, diversification can also be a positive move to extend the application of existing expertise. For example, the Disney Corporation diversified from cartoons to theme parks to network broadcasting (see *Marketing in Action* ► 8.1). Heinz has steadily and successfully extended beyond its core ketchup business; its Weight Watchers brand is now worth hundreds of millions of dollars. But it should be noted that, like many other similarly successful diversifications, Heinz's strategy was built on a logical extension of the company's existing strengths. Firms must be aware of diversification that is undertaken simply because the grass looks greener in the new market. A company needs a systemic analysis of what sets it apart from its competitors. Excelling in one market does not guarantee success in a new or even related one. Managers must ask whether their company has every strategic asset necessary to establish a competitive advantage in the territory it hopes to conquer [5]. Many companies have found out the hard way that diversification without transferable strengths may not pay off. Consider the experience of the Coca-Cola company, long heralded for its intimate knowledge of consumers, its marketing and branding expertise, and its superior distribution capabilities. Based on those strategic assets, Coca-Cola decided to acquire its way into the wine business in which those strengths were imperative. The company quickly learned, however, that it lacked a critical component—knowledge of the wine business. Having 90% of what it took to succeed in the new industry was not enough because the missing 10%—the ability to make quality wine—was the most critical component of success [6]. For market diversification, as we have seen in Coca-Cola's example that a company needs to serve in an industry that is beyond the core industry of the company, often lack of industry-specific expertise is a challenge for market diversification. To address this challenge, understanding the demand of the diversified offering and the timing of offering is important. For example, the core industry of IKEA is retailing different household products. Along with retailing, IKEA also offers food court within the territory of their outlets as a restaurant business, which is beyond IKEA's core retailing industry. In

order to minimize risk of the diversified offering, IKEA offers their restaurant service mainly during lunchtime, when they have relatively more traffic (customers of their retailing products) inside their outlets.

8.5 The Ansoff Matrix

The four basic product strategies are often presented in the form of the Ansoff Matrix (see ■ Fig. 8.1) [7]. The four alternatives are simply the logical combinations of the two available positioning variables of products and markets. In this matrix, the element of risk increases the further the strategy moves away from known quantities (the existing product and the existing market). Thus, product development, which requires a new product, and market development, which requires a new market, involve a greater risk than penetration. Diversification, when both the product and the market are new, generally carries the greatest risk of all. For this reason, most marketing activity revolves around penetration, which limits the usefulness of the Ansoff Matrix.

Similar to the original Ansoff Matrix, Peter Drucker has identified three kinds of opportunities [8]:

- *Additive*—The additive opportunity more fully exploits already existing resources and does not change the character of the business. In Ansoff’s terms, it is the new product in an existing market or the existing product in a new market.
- *Breakthrough*—The breakthrough opportunity typically changes the fundamental economic characteristics and capacity of the business. It is the high-risk extreme of diversification, which Ansoff warns against.

		Product	
		Present	New
Mission (Market)	Present	Market penetration	Product development
	New	Market development	Diversification

■ Fig. 8.1 The Ansoff Matrix. (Source: Reprinted by permission of Harvard Business School Press. Exhibit from Ansoff, H.I. (1957). Strategies for Diversification. *Harvard Business Review*, 35(5), 114)

- *Complementary*—The complementary opportunity changes the structure of the business. It offers something new that, when combined with the present business, results in a new total larger than the parts. But it always carries considerable risk.

Marketing in Action 8.1

Creating New Products and Services at Disney Imagineering

A \$71.54 billion conglomerate, Disney's (► <https://thewaltdisneycompany.com/>) nearly a century-old corporate mission is to provide quality entertainment to all ages. Worldwide, consumers have been experiencing Disney's traditional product offerings at Disneyland Resort (Los Angeles, California, USA), Walt Disney World (Orlando, Florida, USA), Disneyland Paris (France), Tokyo Disneyland (Japan), Hong Kong Disneyland, or Shanghai Disneyland in China.

While continuing to expand on Disney's traditional forms of theme parks with, for example, Disney's Animal Kingdom and the Tomorrowland at Disneyland, the company has also ventured into nontraditional entertainment. In 1998, the company began initiatives such as ESPN Zone, Radio Disney, ESPN Classic sports channel, and cable's Toon Disney. Additionally, Disney acquired Starwave, created its own Go Network, invested in Infoseek, and started the Disney Cruise Line.

Disney has provided its magic for generations. Walt Disney Imagineers is the think tank behind Disney's magic. Disney's Imagineers are more than 2000 creative, technical, and development wizards who bring Disney's entertainment to the consumer marketplace. These experts are constantly on a quest to both develop new diversified product offerings and improve upon current product offerings. One of the Imagineering examples is Disney's Animal Kingdom. Towering over the kingdom is the "Tree of Life." This 14-story creation took 7 years from concept to completion. DisneyQuest, a family-oriented interactive technology offering, will allow the Imagineers to lead Disney into the future with internet-related products.

Disney's diversification strategies can be divided into four categories. In 2019, the revenues from these four categories were: media networks (\$24.83 billion), parks and experiences (\$26.23 billion), studio entertainment (\$11.13 billion), and direct to consumer and international (\$9.35 billion).

As a creative company, Disney must continue to innovate. What do the Imagineers need to do to move the company beyond the twenty-first century? Is high-tech entertainment where these creative wizards should focus their energies? Will the group need to shorten its product development cycle to remain competitive in the vast world of entertainment? Should the company need to align their offerings with more sustainability and green marketing strategies?

Sources: ► www.disney.go.com, accessed April 7, 2004; Grover, R. (1999, March 8). Disney's Micky Mensa Club. *Business Week*, p. 108; Mouse Hacking (2019). All the Disney parks in the world are ranked by two people who visited them. ► [https://www.mousehacking.com/blog/ranking-every-disney-park#:~:text=There%20are%20six%20Disney%20resorts,%20\(Disneyland%2C%20California%20Adventure\)](https://www.mousehacking.com/blog/ranking-every-disney-park#:~:text=There%20are%20six%20Disney%20resorts,%20(Disneyland%2C%20California%20Adventure).). Accessed 15 June 2020; Statista (2020). Revenue of the Walt Disney company in the fiscal year 2019, by operating segment. ► <https://www.statista.com/statistics/193140/revenue-of-the-walt-disney-company-by-operating-segment/>. Accessed 15 June 2020

Complementary diversification has also been called convergent diversification because it utilizes at least some of the skills and knowledge of the organization [9]. **Conglomerate diversification**, the riskiest diversification of all, moves into completely new areas. For example, British Aerospace decided to apply huge cash flow from its defense business to investments in automobiles, construction, and property. The company never found the expected synergism and either divested the acquisitions or reported large losses [10]. In general, few global conglomerates have been as profitable as organizations focused on a single product category. Unilever is one of such successful conglomerates. Mergers and acquisitions of the conglomerate type should not be confused with those of the complementary type, which are frequently undertaken to build more secure trading groups, as insurance to reduce risk by bringing more factors under management control.

Conglomerate diversification—The riskiest diversification of all, in which a firm moves into completely new areas of business beyond the firm's core industry.

Collaboration—Joint agreements developed by firms to ensure their greater competitiveness in the marketplace.

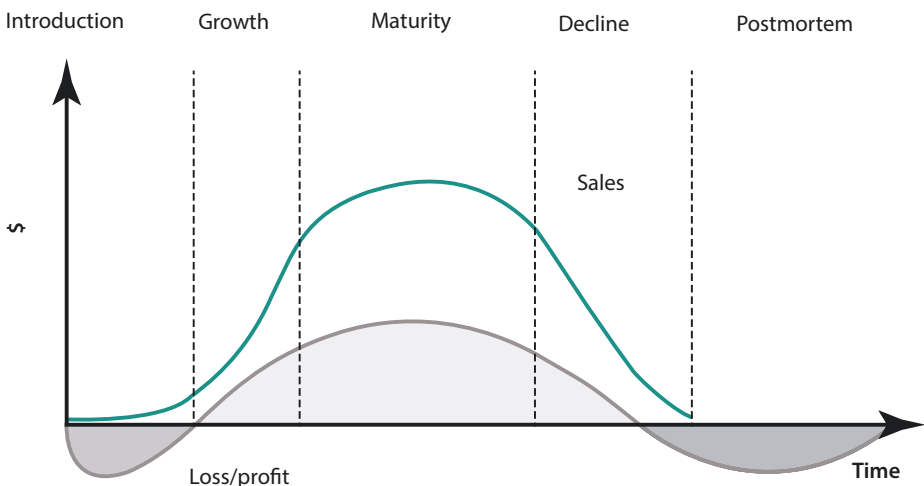
Alliances—One of the physical outcomes of collaboration, resulting in firms' increased coverage to customers and decreased expenses.

A fourth opportunity that has emerged is **collaboration**. Rather than taking over new business, firms are developing collaborative agreements that ensure their greater competitiveness in the marketplace, together with a broader appeal to consumers and markets. For example, airlines increasingly use code-sharing arrangements and **alliances** to offer broad route coverage to their customers and to save expenses through collaborations such as shared executive lounges and pooled maintenance facilities. One of such collaborations among airliners is the partnership among Air France, KLM, Delta, and Virgin Atlantic, which is one of the global leading alliances in this industry that “provides customers with more convenient flight schedules and a shared goal of ensuring a smooth and consistent travel experience, whichever airline people fly” [11]. Automobile manufacturers offer collaborative product and market coverage by swapping models between themselves and are thus able to round out their product offering without incurring the necessary product development cost. One result of the Daimler AG merger was the scrapping of plans for a Mercedes-Benz van. The new corporation had ample options already developed by Daimler. Boeing reduced its risk and investment and increased its market acceptance by collaborating with Japanese firms in developing the 777 airplane. Such arrangements are also emerging in the distribution field, where channel members collaborate to improve their product offering and stretch their reach. The risks of such an approach appear to be substantially less than those of diversification. However, the complexity of melding different organizations should not be underestimated.

8.6 The Product Life Cycle

The product life cycle is a very important element of marketing theory. As we will see, it is incorporated as a basic assumption in the **Boston Consulting Group Matrix** and in theories relating to new product introduction discussed in ► Sects. 8.6.1, “Life-Cycle Stages” and ► 8.7.1, “Life-Cycle Extension.” The fact that products undergo different life-cycle stages has been observed on numerous occasions. Color televisions replaced black-and-white televisions in the 1970s just as, decades later, the traditional color televisions have been replaced by the contemporary flat-screen televisions that come with high resolution and different internet-enhanced value-added advantages. Also, color computer monitors took over from monochrome ones. Having tested the concept against selected 140 categories of nondurable consumer products, researchers concluded that the product life-cycle model is valid in many common market situations [12]. The intuitive appeal of analogy with the human life cycle—consisting of introduction, growth, maturity, decline, and postmortem—is a crucial aspect of the product life cycle. The concept of the product life cycle thus suggests that any good or service moves through identifiable stages, each of which is related to the passage of time and has different characteristics. A profit level is associated with each stage of life cycle, where product strategy varies between the different stages of life cycle. Profits are likely to be negative at the beginning and at the end, when there is high initial investment and high closeout costs. Researchers hope, however, they will be positive by the maturity stage and more than recoup the losses. ■ Figure 8.2 shows a schematized life cycle.

Boston Consulting Group Matrix—A map of an organization’s product strengths and weaknesses varying on two dimensions: market growth and relative market share.



■ **Fig. 8.2** The product life cycle. (Source: Polli, R., & Cook, V. (1969). Validity of the Product Life-Cycle. *Journal of Business*, 42(4), 28. Reprinted by permission of the University of Chicago Press)

8.6.1 Life-Cycle Stages

Introduction In this first stage of a product's life, the introduction, the supplier can choose from a number of strategies ranging from penetration, where the supplier invests through promotion or a low price to gain the maximum share of a new market, to skimming, where the maximum short-term profit is derived, typically by a high price. The speed at which this happens depends primarily on the rate at which the supplier is able or willing to invest. The ideal situation, for both penetration and skimming, is to develop the market as fast as possible. By doing so, the supplier takes advantage of the lead time before potential competitors can respond. Conversely, if a market develops slowly, pioneering efforts may simply pave the way for later suppliers to capitalize on the early investment. In general, though, the pioneer retains the highest market share even after competition enters. It has been shown that such pioneers usually hold double the share of later entrants, even over the longer term [13]. This is why firms increasingly concentrate on enhancing their product's "speed to market," which refers to the time elapsed between product conception and product introduction. An integral part of such speed is the close collaboration between the marketing and production functions within the firm, as well as the development of flexible manufacturing and concurrent engineering. The existence of information systems that tie all corporate functions into the new effort is also crucial in this process [14]. Even though historically it was very difficult to introduce a new product into the market—and even more complex to do so on a global level—the development of internet technology now makes it possible to carry out such introductions more rapidly and more globally. In consequence, products will be able to succeed and fail on a much larger scale.

Growth In the growth stage, customers have become aware of the product and its benefits, and usage is gradually growing. It is now in the interest of the innovating firm to achieve rapid market access and penetration to set itself apart from the competition. Therefore, firms wish to accomplish maximum sales acceleration (achieved, e.g., through product announcements before availability) and constant incremental improvements afterward [15]. During this stage, suppliers often have to increase plant capacity to produce more single product units in comparison to the introduction stage and run promotional campaigns to consolidate and extend their share of the new market. These actions require substantial investments, which usually absorb most of the profit. As a result, this part of the life cycle may demand further net investment. Because of the increasing volumes, prices usually drop. Attracted by the growth in the market, further competitors may enter, but direct price competition tends not to be a major factor. This growth in sales, number of customers, and number of suppliers can be explosive and is known as the *bandwagon effect*. The emphasis on promotion of the brand at this stage may well be to establish consumer attitudes toward the product. In recent decades, another feature of this phase has been the battle for distribution, particularly when a concentration of retail distribution has been in the hands of a few major operators. Because obtaining the widest possible distribution may be vital to the success of a brand, negotiations with these key distribution players are essential.

Maturity No product or market can grow forever; eventually, all the significant uses will have been developed. The sales curve will flatten, and the market or product will have reached maturity. The majority of goods and services currently in the marketplace are at the maturity stage, and much of the practice of marketing revolves around this steady state. Sales may continue to grow, albeit more slowly. Suppliers may attempt to stimulate sales by expanding their ranges or by more clearly differentiating themselves from their competitors. There may be an emphasis, in the face of the market's stagnation, on building groups of loyal users and attracting those from competitors. Price competition may play an increasing role. At the beginning of this stage, profits are likely to be at their maximum, only to decrease as competition increases and prices fall. Some of the minor brands may drop out in the face of this competition, but some new brands may enter as well. At some point, so many competitors are in the market, which is no longer growing, that price wars break out. The product has then reached the saturation level, which is frequently included in the maturity phase.

8

Decline Eventually, the whole market declines or other, newer products are introduced that are substitutes for the established product. For example, the information technology-enhanced global positioning system has replaced the traditional map for navigation purpose. The good or service goes into a terminal decline, which can last for years. Examples are the mimeograph machine, carbon paper, typewriter, video cassette player, Walkman, and the vinyl record. At the decline stage, companies often cease to invest and instead milk products by minimizing costs and maximizing price to take the largest profit advantage of the reduced number of loyal customers who still support the brand. Four organizational strategies exist for a market in decline [16]:

- **Leadership**—If the market is still profitable, it may be worthwhile to invest to become one of the few leaders before harvesting profits.
- **Niche**—A segment may be identified that still has high returns and will decay more slowly. For example, the older people as the niche segment for the traditional paper-based map for navigation purpose.
- **Harvest**—This is the “milking” strategy, characterized by cost cutting, no investment, and reduced levels of customer service.
- **Divestment**—The business can be sold early in decline or even at the end of the maturity phase if the symptoms can be accurately detected.

The biggest difficulty is in recognizing that the market or the brand is in decline. It is not unusual for companies with declining products to apply strategies applicable to the maturity phase or even to the growth phase. The reason for such inappropriate corporate behavior lies in the fact that data in real life are never as smooth as the product life-cycle curve would have us believe. Products experience seasonality, temporary lulls, sudden spurts, and sharp drop-offs, particularly when performance is measured on weekly charts. As a result, it becomes very difficult for management to decide exactly where the product is in its life cycle.

The major problem of declining brands is not the direct losses they bring but rather the distraction of management attention away from the breadwinners and

new products. On the other hand, many brands are discontinued early as a result of conscious but misguided marketing decisions. Slavishly following product life-cycle theory poses the considerable danger of a decline being falsely detected. As we will see later, product life cycles are much longer than are generally assumed. A temporary downturn may be mistaken for the onset of decline and resources being withdrawn (and the brand even milked), leading to an inevitable decline of the brand.

Postmortem A relatively newly emerging final stage of the life cycle is the postmortem. Previously, when management decided to terminate a brand or product, the decision removed the product from the corporate rolls—no more investments, expenditures, sales, revenues, or responsibility. Today, however, for reasons of societal (mainly environmental) concerns, the situation has changed. Even though a product may have been terminated some time ago, its continued existence in the market may require further corporate investment of funds and management attention. In Germany, for example, automobile manufacturers are responsible for the cleanup and recycling costs associated with the disposal of cars even though they may have been produced decades ago. The postmortem problem also exists for facilities. The worldwide attention paid to the planned disposal of an obsolete oil drilling platform by Shell, which resulted in consumer boycotts, government disputes, and rapid shifts in corporate strategy, highlights how a firm can be affected in the long term by the postmortem stage. Conversely, firms are also faced with the challenge of planning for facilities whose useful lives are much longer than the life cycle of any individual product they manufacture. In such instances, facilities planners need to think early on about flexible facilities that can be put to other uses [17]. Given the growing environmental consciousness permeating society, it would appear that firms increasingly need to plan for the postmortem stage and make the appropriate provisions for financial reserves because there will not be any revenues to offset these expenditures.

8.6.2 Lessons of the Product Life Cycle

The product life cycle offers a useful model to keep in the back of marketers' mind when making marketing plans, whether marketing a good or a service or marketing for the non-profit sector. Indeed, if your product is in the introduction phase, or in decline, it should be in the front of your mind, because in these phases you may be making many life-and-death decisions for the product. Between these two extremes, having that vision of mortality in front of you is useful, if for no other reason than to remind you that, if you take no action, product death will come much earlier. On the other hand, the product life cycle is not without its practical difficulties. Rigid adherence to the product life cycle without the consideration of the specifics of a product can lead to erroneous marketing decisions, such as premature withdrawal from markets or insufficient efforts to expand into new markets. If management is mistakenly convinced that the product life cycle is declining and acts as though it is, a self-fulfilling prophecy can occur [18].

8.7 Other Life Cycles

The conventional pattern of a life cycle is a gradual rise to a long plateau before slow decline. However, other patterns may be possible and, in view of their shorter time spans, may be of more practical significance.

8.7.1 Life-Cycle Extension

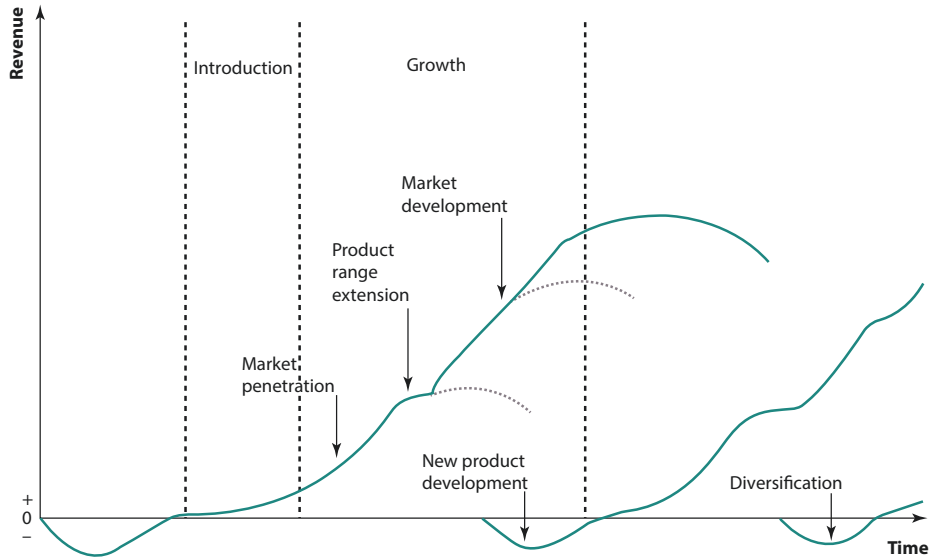
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In practice, most products are in the maturity or saturation stage. For example, an analysis of Mitsubishi indicated that among the 40,000 goods and services offered by the corporation, more than 30,000 were faced with a market situation in which supply substantially outstripped demand. Without a careful marketing effort, many products would rapidly reach maturity and then decline. Much of marketing practice is therefore concerned with profitably extending the life cycle of the product by lengthening the growth phase as far as possible. This is why firms introduce “new and improved” products, launch campaigns to explain different uses for products, or attempt to communicate with new customer groups to persuade them to use the product. Nearly 90% of the thousands of new consumer packaged goods produced each year are line extensions—items added with additional value to an existing product line under an established brand name. Because line extensions are much easier and cheaper to launch in comparison to launching an entirely new product, manufacturers view line extension as an efficient way to reach untapped markets or to grab greater shelf space [19].

Product life extension—A marketing practice in which the aim is to extend the life cycle of the product by lengthening the growth phase as far as possible.

Such **product life extension** is also a primary reason that firms go international in search of new users and uses. Only when looking at the global market do firms begin to discover that the life cycle of products, when measured internationally, may slow down substantially. For example, even though telephones have saturated industrialized nations, they have still remained a product for only selected elites in many other countries. People easily forget that a significant percent of the world’s population has never made a single telephone call [20].

■ Figure 8.3 shows the effects of product range development to rejuvenate the product, followed by market extension and then market development. Such market development, particularly in the international arena, can be crucial to the survival of enterprises that are subject to changing domestic market conditions. The overall goal of all these actions is to extend the life cycle, counter the drop in sales, and continue the progress of the sales curve upward. New product development is shown as starting the next product life cycle. A variation on this process is diversification, or moving into a completely new market with a new product range that is



■ **Fig. 8.3** Product/market strategy and the product life cycle. (Source: Adapted from McDonald, M.H.B. (1995). *Marketing Plans* (3rd ed.). New York: Butterworth & Heinemann, 102. Reprinted with permission from Elsevier Science)

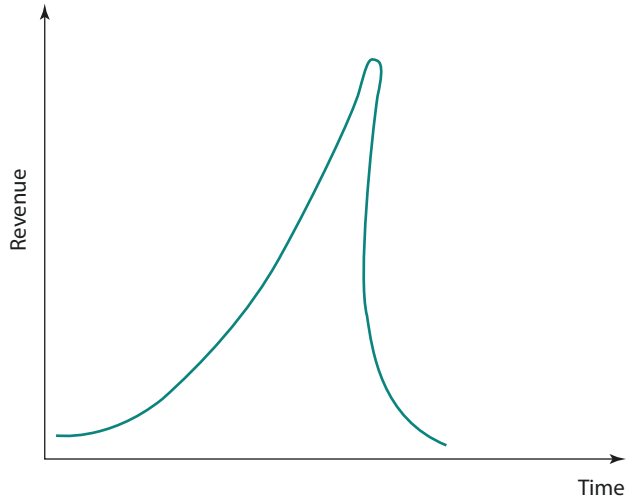
either developed in house or obtained by purchase or takeover. This process is, of course, analogous to the diversification stages of both Ansoff and Drucker presented in ► Sect. 8.5, “The Ansoff Matrix,” and the same cautions apply. Firms should coordinate the rejuvenation strategies for different products. When firms arrange such strategies sequentially, improved use can be made of corporate resources, and the cash flow can be enhanced.

8.7.2 Fashion and Fads

Rapid penetration is an interesting life-cycle pattern that occurs with fashions or fads that come and go very quickly. Almost the whole life cycle is taken up with growth and then rapid decline, with only a very brief period of maturity. Judging these patterns may be a matter of commercial life and death for those in the fashion business. The timing for fashions is very difficult to predict and therefore often results in much more artistic rather than scientific forecasting. Nevertheless, timing is crucial if major sales are not to be lost. For example, merchandise associated with the release of a major motion picture such as *The Matrix III: The Matrix Revolutions* or *Terminator 3* is subject to such a fashion cycle. When the movies are released, the merchandise may become an instant hit. If the demand is not fulfilled very quickly, the desire for the product may fade just as quickly as it grew.

■ Figure 8.4 illustrates what such a fashion curve might look like. A brief introductory period leads to the product becoming a “hit,” whereupon sales shoot up

■ Fig. 8.4 Fashion curve



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rapidly. The key issue here will be meeting the demand, because after the growth phase, there will be only a short maturity stage. After that, the decline stage may also be brief, sometimes spectacularly so, because to be caught with outdated fashion is to invite ridicule.

Many of the most prevalent life cycles relate to fashions in design. The television sets of 2000 look very different (at least in detail) to those of the 1950s, although there has been no significant change in function to explain this. Color television, for instance, did not demand a different shape per se. The way the product is packaged, the design of the retailer's store, and the outward shape of the product, as much as the packaging it comes in, reflect its time and usually date the product far faster than the technology that it contains. **Rejuvenation** is thus often about redesign of features as well as shapes to bring the product in line with current tastes, but without significantly changing its performance. As with technological life cycles, there is therefore a design cycle, but once more, it is largely under the control of the supplier.

Rejuvenation—The redesign of a product's features to bring it in line with current tastes without significantly changing its performance.

An extreme version of fashion is a **fad**, such as pet rocks, Rubik's cubes, and Tamagotchi virtual pets. With a fad, the rapid growth and decline phases are separated only by a very short maturity phase. There is little consumer resistance and hence no need for investment to overcome it. Those who are quick into the market and just as quick out of it—a much more difficult decision—may do very well.

Fad—An extreme version of a fashion; a product with a rapid growth and decline phase, which are separated by only a very short maturity phase.

8.7.3 Technological Life Cycle

Perhaps the greatest justification of the life-cycle theory lies in the area of technological change, though this topic is seldom discussed in the life-cycle literature. Many markets are subject to technological change. Even the laundry detergent market has passed through phases of inclusion of new blue whiteners, biological contents, fabric softeners, deodorants, and nonbiological ingredients. Personal computers now pass through a life cycle in less than a year! Just consider the overlap and then sudden decline in the product life cycles of the computer chips. The effect of these chips has given rise to a component life cycle, which is even shorter than the product life cycle [21]. Chips are the primary determinant of a computer's life-cycle length, particularly in business conditions in industrialized regions. However, the life cycle of a computer may be extended by exchanging the component or by appealing to different users. For example, in industrialized countries such users can be in consumer markets, but in developing markets they may well yet be firms. Nevertheless, the rapid improvements in technology and the resulting decreases in price make even such an extension increasingly difficult.

The technology processes of balancing cash flow against the competitive advantage offered by having the very latest in technology are somewhat removed from the classically described life-cycle theory. The most important difference from the conventional life cycle is that the brand never changes its place in the market; it is only the version of the product that changes. Sales volumes experience peaks following the new launch and, perhaps unexpectedly, again during the end-of-life price reductions, but these are not the patterns predicted by conventional theory. Almost as important a distinction is that the cycle is under the control of the supplier, not the market. The “technological breakthroughs” achieved by Gillette razors that offer product improvements and keep the product in the foreground of consumer's minds may serve as an example.

8.7.4 The International Product Cycle

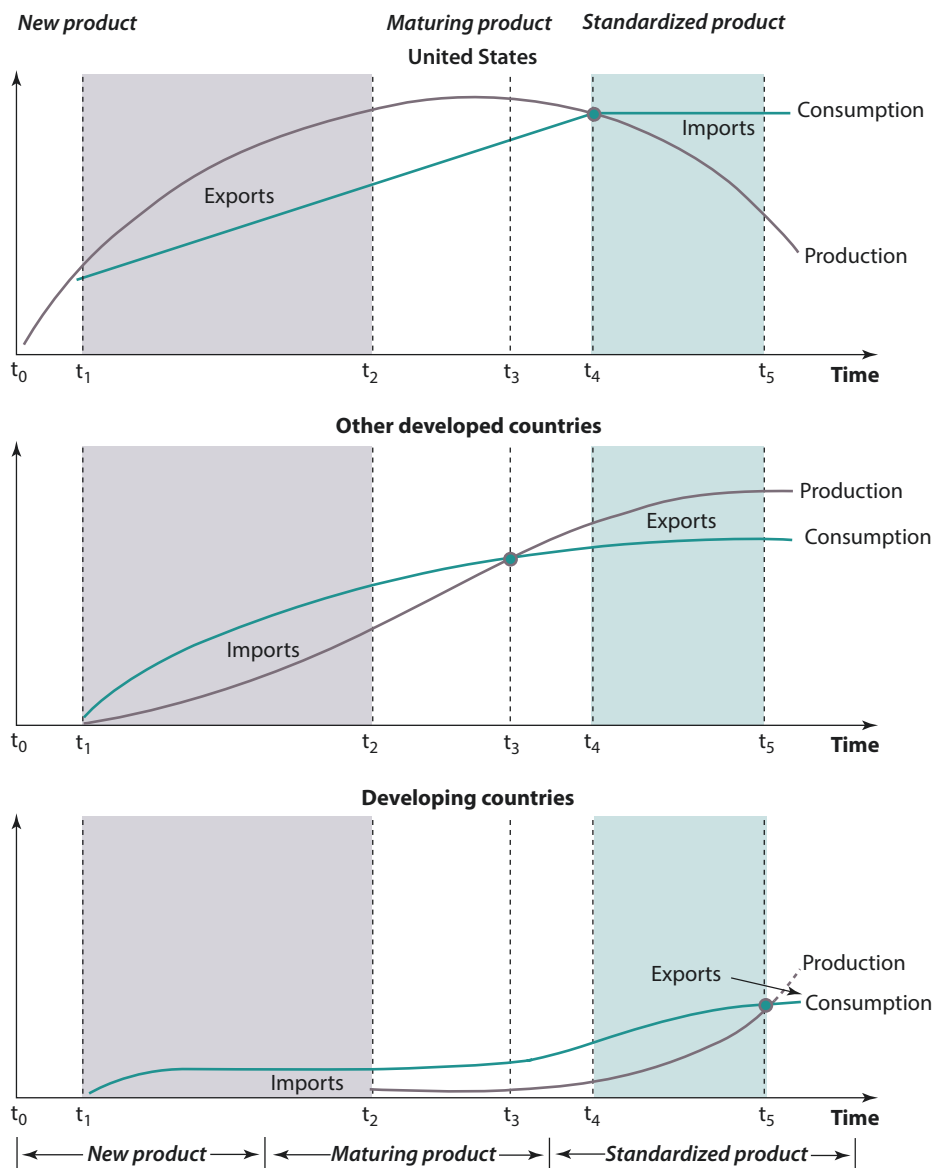
International product cycle theory looks at the production, technology, and cost of products and formulates predictions about their country of production relevant to three different stages of a product. In addition to the cost aspects, this theory also incorporates demand-side factors—namely, the income level and purchasing power of consumers. Both the product itself and the methods for its manufacture go through three stages of international maturation as the product becomes increas-

ingly commercialized [22]. These stages are the new product, maturing product, and standardized product:

1. *The new product.* Technological innovation leading to new and profitable products requires highly skilled labor and large quantities of capital for research and development. In general, the product is designed and initially manufactured near the parent firm, usually in a highly industrialized, capital-intensive country. In this development stage, the product is nonstandardized. The production process requires a high degree of flexibility (meaning continued use of highly skilled labor), so costs of production are high. The innovator at this stage enjoys all the benefits of monopoly power, including the high profit margins required to repay the development costs and expensive production process. Price elasticity of demand at this stage is low; high-income consumers buy the product regardless of cost. An example of such innovation is self-service photo-processing machine at supermarkets. When consumers fill out digital forms for regular photo-processing in the machine, they can also check a box to have their digital photo scanned from their mobile device onto an internal system of the supermarkets for free [23].
2. *The maturing product.* As production expands, processes become increasingly standardized. The need for flexibility in design and manufacturing declines, thereby reducing the demands for highly skilled labor. The innovating country increases its sales to other countries through exports. Competitors develop slight variations, exerting downward pressure on prices and profit margins. Production costs are an increasing concern. Products in this category are Boeing and Airbus aircraft and Microsoft software.
3. *The standardized product.* In this final stage, the product is completely standardized in its manufacture. With access to capital on world markets, the country of production is simply the one with the cheapest unskilled labor. Profit margins are thin, and competition is fierce. The product has largely run its course in terms of profitability for the innovating firm. The country of comparative advantage has therefore shifted as the technology of the product's manufacture has matured and moved its location of production. But such advantages may be fleeting. As knowledge and technology continually change, so does the country of that product's comparative advantage. Personal computers, televisions, radios, and Nike shoes may serve as examples for products in these categories.

Implications of the International Product Cycle Product cycle theory analyzes how specific products were first produced and exported from one country but shifted their location of production and export to other countries over time. ■ Figure 8.5 illustrates the trade patterns that can result from the maturing stages of a specific product's cycle. As the product and its market mature and change, the countries of its production and export shift.

In this example, the product is initially designed and manufactured in the United States. In its early stages (from time t_0 to t_1), the United States is the only country producing and consuming the product, and production is highly capital intensive and skilled labor intensive. At time t_1 the United States begins exporting



■ **Fig. 8.5** Trade patterns and product cycle theory. (Source: Vernon, R. (1966). International Investment and International Trade in the Product Cycle. *Quarterly Journal of Economics*, 80, 190–207. © 1966 by the President and Fellows of Harvard College. Reprinted by permission of MIT Press Journals)

the product to other developed countries. These countries possess the income to purchase the product while still in the new product stage, although it is relatively high priced. These other developed countries also commence their own production at time t_1 but continue to be net importers. A few exports do find their way to devel-

oping countries at this time as well. As the product moves into the maturing product stage, production capability expands rapidly in the other developed countries. Competition begins to appear as the basic technology of the product becomes more widely known and the need for skilled labor in its production declines. These countries eventually also become net exporters of the product near the end of the stage (time t_3). At time t_2 the developing countries begin their own production, although they continue to be net importers. Meanwhile, the lower-cost production from these growing competitors turns the United States into a net importer by time t_4 . The competitive advantage for production and export is clearly shifting across countries at this time. The final stage of the standardized product sees the comparative advantage of production and export shifting to developing countries. The product is now a relatively mass-produced product that can be produced with increasingly less-skilled labor. The United States continues to reduce domestic production and increase imports. The other developed countries continue to produce and export, although exports peak as the developing countries expand production and become net exporters themselves. The product has run its course, or life cycle, in time t_5 .

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It is important to note that throughout this international product cycle, the countries of production, consumption, export, and import are identified by their labor and capital levels, not by their firms. It could very well be the same firms that are moving production from the United States to other developed countries and to developing countries. The shifting location of production is instrumental in the changing patterns of trade but not necessarily in the loss of market share, profitability, or competitiveness of firms. It is the country of comparative advantage that changes. To formulate predictions about the country of production in international product cycle, analyzing the different contexts of international data is instrumental for as accurate prediction as possible. Manager's Corner ► 8.2 presents different contexts of international data.

Of course, the product cycle theory has many limitations. It is obviously most appropriate for technology-based products. These products are most likely to experience the changes in production process as they grow and mature. Other products, either resource-based (such as minerals and other commodities) or services (which employ capital mostly in the form of human capital), are not so easily characterized by stages of maturity. The product cycle theory is most relevant to products that eventually fall victim to mass production and cheap labor forces [24]. In addition, the theory reflects the time of its origin through its principal focus on the United States. Today the innovation can take place in a multitude of European or Asian countries. Nevertheless, the principle of the international product life cycle still appears to hold when you observe, for example, the gradual farming out of production from China into other countries in Asia and the Pacific Rim such as Malaysia, Indonesia, India, Bangladesh, Vietnam, and other developing countries in this region.

Manager's Corner 8.2

***International
Data Need to
Add Up***

A useful analysis requires the understanding of data and a belief both in the data and their issuer. Companies, organizations, and scholars vary widely in their interpretation and use. International comparisons often differ substantially in data collection and quality control. Manager's Corner ► 8.2 presents comparisons of data *contexts* across national borders. Here is an international perspective on research, going beyond quantitative data aspects and embedding human warmth and insights.

In an era of lengthy and diverse supply chains, investors need to transparently identify corporate action and its effect on the marketplace. Clear rules of origin are just like license plates. They identify ownership and assign responsibility. Labels cannot simply state “manufactured in the European Union.”

Information needs to be compatible across domains. For example, to compare medical information across nations, one has to segment patient differences by age, country, health patterns, variations in access to medical care, prophylactic treatment, and pharmaceuticals. Thus, the demographic *context* of the product users needs careful consideration.

Culture as another *context* affects personal behavior. For example, research identified wearing face masks is helpful to viral containment. In Asia, there is ongoing and rapid use of breathing masks. Particularly in wintertime, masks are encouraged both to protect oneself and others from contamination. No negative connotation is associated with the use of a mask. By contrast, in the United States, a mask reflects for many the existence of a medical problem by the wearer. In consequence, masks are not seen as protective but rather as an announcer of risk, which in turn negates their use.

Social structure as a particular *context* of a target market matters for marketers, particularly as it reflects the differences in infrastructure and trust. Not all countries have the capability to fund and collect data within short time spans. The need to save face can then lead to the furnishing of poor data. In consequence, “current” information may really be old and may not even begin to alert users to important changes in one's society or social conditions.

Data work needs to recognize the emotional component of information as another important *context* in international markets. How will people feel about their direct exposure to hard and cold numbers alone? How can one systematically but honestly include emotions into one's analysis? How to cope with self-fulfilling prophecies? What are the short- and long-term effects of optimism with data—particularly when insights can cover the entire range of a scale? For most people, numbers are mere indicators of opportunities for action and change.

Analyses and forecasts need to consider change. An evaluation based on the next quarter may reflect the next 25 years. Insufficient or incorrect reflection of change and innovation may lead to precariously wrong decisions. Imagine the decision-making process for countertrade, where the outcome and conclusion of an agreement may take decades.

Synchronicity in international markets is another important *context*. Ludwig Erhard, the second chancellor of the Federal Republic of Germany who was credited with Germany’s postwar “Wirtschaftswunder” or economic miracle. When Erhard concentrated expenditures on some sectors and called for a “tightening of belts” for others, these steps were rapidly and fully implemented by government, firms, and society, leading to a powerful impact. The stakeholders actually cared. Therefore, marketers need to consider the aspects of synchronicity in the targeted cross-border market(s), while planning for international product cycle.

Apart from human emotions, economic reemergence requires measurement scales benefiting from recalibration and new benchmarks. For example, a scale measuring export controls which ranges from “no controls” to “tight controls” is only in part complete since it omits policy resulting from subsidies and voluntary restraints. Numbers are only snapshots of a current condition. These conditions are not frozen in salt, but they will change and with them their impact. In a dynamic and complex environment, even the efficacy of aspirin benefits from review.

Different *contexts* of international data sources are discussed here. Think about the prospective implications of such international data *contexts* for international product cycle management for new product, maturing product, and standardized product.

Source: Czinkota, M.R. (2020). International data need to add up. ► <http://www.slguardian.org/2020/04/international-data-need-to-add-up.html>. Accessed 10 June 2020

8.8 Product Life

One aspect of life-cycle theory seldom discussed but vital to the brands involved is the total life span. The life of products, and of markets, can vary dramatically. Life cycles cover a wide range, from the few days of a pen drive to the many years of a Boeing 747; the length of the cycle can vary significantly even in markets that are very similar. The formulation of baked beans has barely changed in generations, but much of the snack market has now become almost a fad market, changing every few months. To reflect these lifestyles, Enis et al. developed a redesigned, extended product life cycle [25]. They split the conventional maturity stage into maintenance, designed to stabilize sales at a given level, and proliferation, where many more varieties of the basic product are added.

Disagreements about the value of the product life-cycle concept center on its practical use; the predictive rather than descriptive role of the technique is open to question [26]. It has been said that the product life cycle is a dependent variable determined by market actions, not an independent variable to which companies should adapt their marketing programs. Marketing management can alter the shape and duration of a brand’s life cycle [27]. Thus, although in the right context the life cycle may be a useful theoretical device, trying to put it into practice frequently poses significant problems. How, for example, do you determine where you are in a life cycle when real-life sales or usage curves do not follow the smooth path that the theory shows? How do you predict when turning points will be reached when, again, the picture is “fuzzy” and you need to make decisions well in advance,

without the theoretician's invaluable advantage of hindsight? In many markets, the product or brand or market life cycle is significantly longer than the planning cycle of the organizations involved. Even if the product life cycle exists for them, their plans will be based on just that section of the curve where they currently reside (perhaps in the "mature" stage), and their view of that part of it will almost certainly not encompass the whole range from growth to postmortem.

8.8.1 Life Cycles and Marketing Strategy

One of the favorite uses of life-cycle theory is to predict what the strategic marketing mix should be at each stage. Once more, the lessons derived from this theory are most useful at the beginning and end of the cycle.

Introduction At the introduction stage, the clear priority is to establish the brand. This process generates three main activities. First is the building of distribution, which starts before the brand is formally launched, so that the distribution channels can be used for product delivery as soon as the product is launched. Emphasis is on achieving the widest distribution through the major distribution channels, or on pilot installations with the major customers in industrial markets. In many sectors, therefore, the salesforce spends a disproportionate amount of its time on new brands. The second requirement is to build awareness so that customers know that the brand exists. The classical vehicle for this effort is a heavy television campaign; however, in the age of information technology and social media, online promotion is a useful strategy to develop early awareness of a brand. In industrial markets, where it may take months for the salesforce to complete coverage of all potential prospects, the awareness may be built more rapidly by mail campaigns or by telemarketing, often backed up by seminars. The third requirement is to obtain trial. In mass consumer markets, door-to-door deliveries of samples or coupons are used to try to achieve early trial of the new product. In industrial markets, or those of capital goods, the free trial is often used as the equivalent.

Growth In the case of mass consumer goods, following a successful introduction, distribution is extended further. In other sectors the salesforce will canvass the remaining, smaller prospects. The main task, though, is to develop customer or consumer sales—the growth stage. The advertising, possibly using longer commercials with more emphasis on features and image, changes to explain the product and create a favorable attitude so that the consumer is persuaded to switch from the existing brands. Coupons and similar sales promotional strategies may be used to extend trial.

Maturity The maturity stage is the maintenance phase occupied by most products. Distribution should now be as wide as possible. In the computer industry, for example, products were sold in the introductory stage mainly through the manufacturer's field salesforce. In the growth stage, specialized computer retailers were the dominant channel. In the mature stage, distribution shifted to mass merchandisers, discount

retailers, niche resellers, mail orders, and telemarketers. As a result, broader customer groups were reached, and product sales continued to climb [28]. The firm's communication emphasis may now be defensive, consolidating what had been built in the previous phases so that profits can be maximized. At the saturation level, the brand manager eventually faces decreasing prices so that the profitability per unit sold is reduced.

Decline The goal of the decline stage is to obtain profit by milking the brand. The emphasis moves from marketing to internal factors concerned with productivity—although marketing's key responsibility that of advising when to terminate the brand remains. High productivity is of little value when there are few sales, as was found by the owners of highly automated typewriter plants. Yet termination decisions are difficult to make. Research has shown that firms are not consistently removing products from the market at the same rate as they are introducing new products [29]. As a result, declining brands often proliferate, taking management attention and skills away from new and growing brands.

8

Postmortem Management must plan for the postmortem expenses that continue after a product is no longer sold by the firm. These costs, which may consist of servicing, environmental cleanup expenses, or other follow-up expenditures, must be budgeted, incorporated into the overall life-cycle planning, and taken into account for product termination decisions. Although the postmortem expenses may sometimes indicate early termination of a product, on other occasions these expenses may lead to a prolongation of its life span because ongoing staff attention is required anyway (see Web Exercise ► 8.1).

8.9 Cash Flow

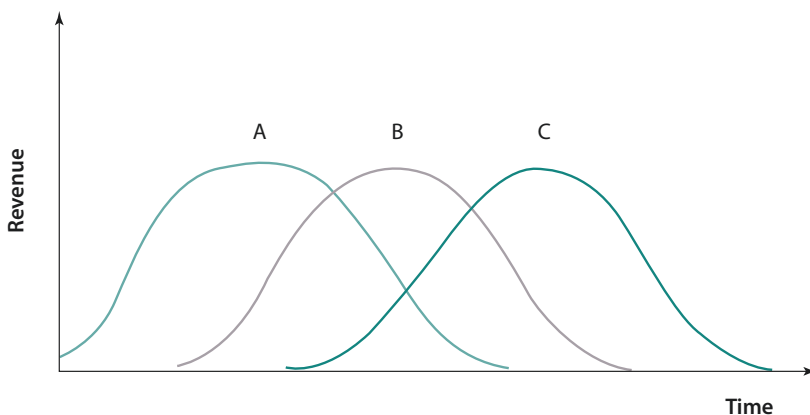
The most important—albeit unwelcome—message that the product life cycle can bring to management is that of cash flow. The model offers a clear reminder that the launch of a new brand requires significant investment that can last from its launch to the end of the growth phase—a longer period than most organizations allow for. What is worse, the more successful the new brand, the greater the investment needed. In new organizations, lack of appreciation of the problems of rapid growth is paradoxically responsible for a number of failures simply because the owners cannot find the funds to cover the debts that they have incurred to meet the needs of rapid growth. When the maturity phase is reached, profits must be generated quickly enough to recoup the investments and to fund new products. This was a lesson that EMI learned the hard way. Its development of the CAT body scanner was a technological masterpiece that won its investor a Nobel Prize. Unfortunately, EMI was still investing well into what should have been the maturity phase when its American competitors moved into the next life cycle. The cash drain was such that EMI was forced to offer itself for sale.

Web Exercise 8.1

Product life is an important product decision, and life cycles vary widely among products. The product life of an airplane can stretch for decades, as has been proven by Concorde. Yet, there is an end to everything. In 2003 Concorde made its last commercial flight. Go to the British Airways Concorde site, ► <http://www.britishairways.com/concorde/index.html>, to read about how the decision to end the life cycle of Concorde was made.

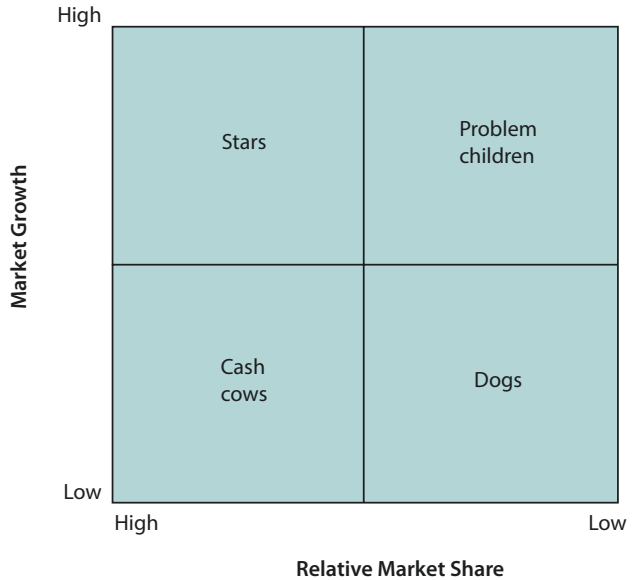
8.10 Product Portfolios

Most organizations offer more than one good or service, and many operate in several markets. The advantage here is that the various products—the product portfolio—can be managed so that they are not all at the same phase in their life cycles. Having products evenly spread out across life cycles allows for the most efficient use of both cash and manpower resources. ■ Figure 8.6 shows an example of such life-cycle management and some of the benefits that can be obtained from a well-managed product portfolio. The current investment in C, which is in the growth phase, is covered by the profits being generated by the earlier product B, which is at maturity stage. This product had earlier been funded by A, the decline of which is now being balanced by the newer products. An organization looking for growth can introduce new goods or services that it hopes will be bigger sellers than those that they succeed. However, if this expansion is undertaken too rapidly, many of these brands will hungrily demand investment at the beginning of their life cycles, and even the earliest of them will be unlikely to generate profits fast enough to support the numbers of later launches. Therefore, the producer will have to find another source of funds until the investments pay off.



■ Fig. 8.6 A well-managed product portfolio

Fig. 8.7 The Boston Consulting Group Matrix



8.10.1 The Boston Consulting Group Matrix

As a visual tool for managing product portfolios, a matrix was developed by the Boston Consulting Group. The Boston Matrix, shown in [Fig. 8.7](#), offers a useful map of an organization's product strengths and weaknesses as well as the likely cash flows. What prompted this idea was the need to manage cash flow. It was reasoned that one of the main indicators of cash generation was relative market share, and market growth rate was indicative of cash usage. It is well worth remembering that one of the key underlying assumptions of this matrix is the expectation that the position of products in their markets will change over time. This assumption is, of course, the incorporation of the product life-cycle thinking discussed earlier.

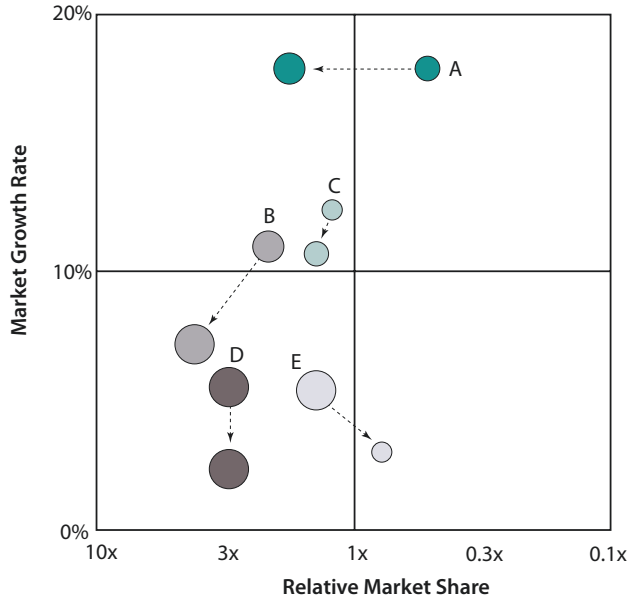
Relative Market Share A high market share indicates likely cash generation, because the higher the share, the more cash will be generated. As a result of **economies of scale** (another basic assumption of the Boston Matrix), it is assumed that these earnings will grow faster as the share increases. The exact measure is the brand's share relative to its largest competitor. Thus, if the brand had a share of 20% and the largest competitor had the same share, the ratio would be 1:1. If the largest competitor had a share of 60%, however, the ratio would be 1:3, implying that the organization's brand was in a relatively weak position. If the largest competitor had only a 5% share, the ratio would be 4:1, meaning that the brand was in a relatively strong position, which might be reflected in profits and cash flow. The reason for choosing relative market share rather than just profits is that it carries more information than cash flow alone does. It shows where the brand is positioned against its main competitors and indicates where it might be likely to go in the future. It can also show what types of marketing activities might be effective.

Economies of scale—An economic condition in which unit costs decrease as production increases.

Market Growth Rate Organizations strive for rapidly growing brands in rapidly growing markets. But, as we have seen, the penalty is that such brands tend to be net cash users. High investment would ensure growth in the reasonable expectation that a high market share will eventually turn into future profits. The theory behind the Boston Matrix assumes, therefore, that a higher market growth rate is indicative of accompanying demands for investment. Determining the cutoff point above which the growth is deemed to be significant (and likely to lead to extra demands on cash) is a critical requirement of the technique; the chosen cutoff point is usually 10% per year. Markets with very low growth rates may make the application of this analysis unworkable. When it can be applied, however, the market growth rate says more about the brand position than just its cash flow. It is a good indicator of that market's strength, of its future potential or level of maturity in terms of the life cycle, and also of its attractiveness to future competitors. The theory is that products lying in each of the quadrants—stars, problem children, cash cows, and dogs—behave differently and require different marketing strategies.

- *Stars* (high market share, high market growth rate). Typically, these products are relatively new in the growth phase. Because they have high market shares, they may be generating sufficient gross profits to cover their current investment needs. Usually, the predominant strategy is to grow stars to the cash cow stage, where the most profit is made. Microsoft system software may serve as an example of a star.
- *Cash cow* (high market share, low market growth rate). Here, the brand has maintained its high share and cash-generation capabilities, but the market life cycle has moved to maturity and growth is slow. Investment is not required to any significant extent because there is little need to recruit new customers and almost no demand for a new plant. A cash cow is, therefore, the main generator of cash to cover the ongoing investment in new products. The ongoing phone operations of telephone companies are typical cash cows.
- *Problem child or question mark* (low market share, high market growth rate). This product, typically a recently launched one, has not yet built its market share. Because it does not yet have the share to deliver reasonable profits, it will almost certainly be a net user of cash. Such problem children often absorb most of the cash flow generated by the cash cows, but the organization hopes that this will be a good investment because the problem child could eventually become a winner and a future cash cow. Probably most of today's internet companies fit into this category.
- *Dog* (low market share, low market growth rate). A product here has few or no prospects. It may not yet be a loss, unless it is demanding a disproportionate use of overhead, but it will probably be one in the not-too-distant future. Hence, its future should be regularly reviewed so that it can be discontinued as soon as it becomes a burden. Some national airlines, particularly those without an international alliance, may be found in this category.

Fig. 8.8 Forecasting future cash flows



The product life-cycle underpinnings of the Boston Matrix indicate that successful products will steadily progress around the quadrants in a counterclockwise fashion, starting as problem children, then moving through stars to cash cows, where the firm hopes they will dwell for some time, and then onto dogs and eventual extinction. Unsuccessful products will never become cash cows and will probably move from problem children directly to dogs, if they are allowed to survive for that long. The matrix is most useful in markets that show clear product life cycles, such as the pharmaceutical industry. GlaxoSmithKline used at least part of the massive profits from its Zantac antiulcer drug (a cash cow whose life, protected by patents, was running out) to develop two new products: Sumatriptan (a migraine treatment) and Salmeterol (an asthma treatment). In theory, cash flow is generated almost exclusively in the cash cow quadrant and is transferred in part to the stars, but mainly to the problem children. The firm can then plot forecasts of future developments to indicate what the related future cash flows may be.

One of the most informative uses of the Boston Matrix is to plot competitors' positions along with the firm's own. Doing so gives a valuable insight into their position (especially their cash position), indicates how they may behave in the future, and shows the relative strengths and weaknesses of the firm's own brands.

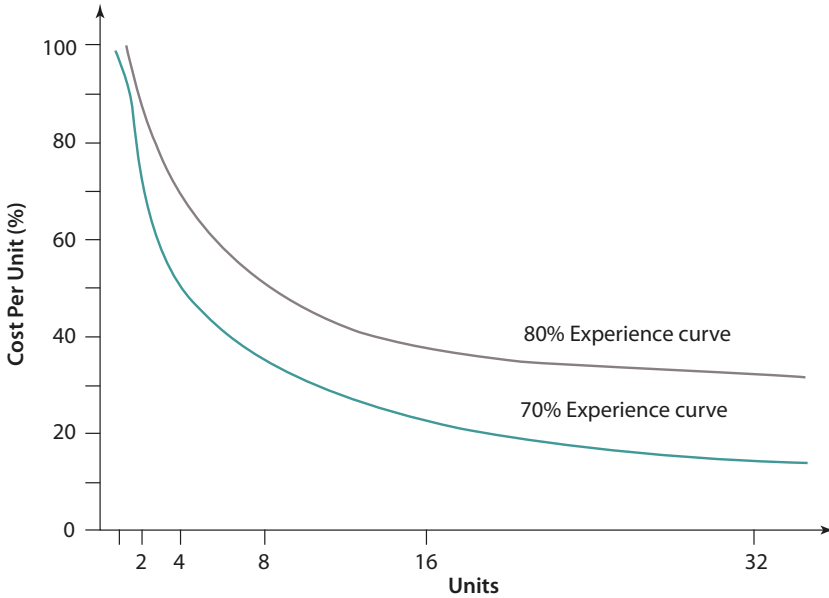
Figure 8.8 provides an example of different brands, where the size of each circle represents the value of brands' sales. The market is maintaining a high rate of growth for Brand A. By increasing its market share, the product has moved from problem child to star. Cash usage should be reduced, and the brand might even

become self-supporting. The market growth for Brand B has slowed, but the brand has increased share and has consequently moved from star to cash cow. It has begun to generate the high level of profits that the organization depends on. Despite the fact that Brand C has gained market share and sales volume, the market growth has slowed down while it is still in the star quadrant. Its progress will have to be followed very carefully because it may absorb disproportionate amounts of cash and could quickly become a dog. The market growth for Brand D has slowed further, but no share has been lost and the product remains a cash cow, still generating healthy profits. Brand E has lost share in a market that is growing and has moved over the borderline from cash cow to dog. In view of the lack of precision of the borderline, this move may not be as fatal as it sounds, but the future of Brand E must be regularly reviewed so that it can be milked or terminated when the time is ripe.

Criticism of the Boston Matrix As originally introduced by the Boston Consulting Group, the matrix was undoubtedly a useful tool for graphically illustrating cash flows. However, a simplistic use of the matrix can result in at least two major problems: The cash flow techniques are applicable only to the limited number of markets whose growth is relatively high and where a definite pattern of product life cycles can be observed. Perhaps worse is the automatic implication that the brand-leader cash cows should always be milked to fund new brands. Often the brand leader's position is the one to be defended through corporate investment because brands in this position will probably outperform most newly launched brands. Such brand leaders will generate large cash flows, but they should not be milked to such an extent that their position is jeopardized, particularly because the chance of the new brands achieving similar brand leadership may be slim.

Economies of Scale Apart from the general existence of life cycles, one of the major hidden assumptions of the Boston Matrix is economies of scale. The more that is sold, the more that is produced, and the lower the unit cost. This philosophy used to be embraced by Japanese corporations in particular. For example, Matsushita strategy gave explicit recognition to the importance of market share. Perhaps the corporation's most outstanding use of economies of scale to dominate a market was seen in the past for its VCRs, before VCRs are replaced by online streaming. Very high volumes enabled Matsushita to offer prices that allowed it to capture almost two-thirds of the world market, which in turn gave it the volumes necessary for massive economies of scale. Such economies of scale are widely believed to apply in many industries.

More generally, though, experience is now seen as the main source of economies of scale. More production results in more learning. Such learning takes place through improvements in operator or management activities or through process innovations. Simultaneously, more experience makes it possible to achieve economies of scale through procurement economies or reduction of



■ Fig. 8.9 Experience curves

excess capacity [30]. The overall outcome is a reduction in costs, as shown in ■ Fig. 8.9. Because economies of scale relate to experience over the total production run, not just the current production levels, the effect is cumulative. This process offers the early leaders a major source of competitive advantage and creates substantial barriers against late entrants. This theory was supported by the Boston Consulting Group when it proposed that the characteristic decline in the unit cost of value added is 20–30% each time accumulated production is doubled. This decline goes on in time without limit (in constant prices) regardless of the rate of growth of experience. The rate of decline is surprisingly consistent, even from industry to industry [31].

Today, however, many markets are moving toward a significantly increased variety of goods and services. This requirement imposed by consumer demand does not favor economies of scale. The basis for economies of scale may therefore be of less certain value in the longer term. In fact, it has been shown that at least in the case of stable markets, low market share does not inevitably lead to low profitability. Successful firms are characterized by strategies of selective focus (often described as niche marketing); they do not copy the strategies of market leaders [32].

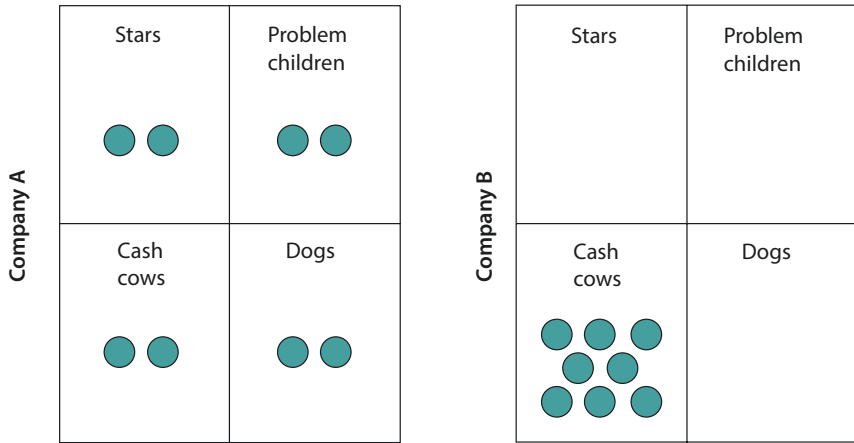
Finally, there is growing controversy about additional effects of market share that may influence the future competitive position of the firm. Many believe that

market share, growth, and leadership result in improvements in products as well as in the level of service obtained by customers. However, growing market share can also strain scarce resources and negatively affect service levels. Systems can become overburdened, and service times can increase. America Online's rash of service outages and the inability of its customers to connect are indicative of such a phenomenon. The existence of a negative average effect of market share on quality [33] may then result in growth and profitability patterns that do not fit the expectations raised by the BCG Matrix.

8.10.2 Theory Versus Practice

Having completed our description of two of the most widely taught marketing techniques—product life cycles and product portfolios—some practical cautions are in order. Marketing theories, concepts, and techniques should be worthwhile for marketers to implement. They should be used as an aid to the creative decision-making process and never as a substitute for them. Although they may frequently offer helpful insights, they almost never offer definitive answers in themselves. There is sometimes a desire to look for simple solutions to what are usually complex marketing problems. Solutions that incorporate the expertise of acknowledged masters in the field are particularly welcome. The temptations for the marketer can be severe when the techniques are as elegant, and in their own way powerful, as those we have just described. Indeed, they do frequently offer a valuable insight. In all cases, however, the wise marketer will recognize that such techniques usually offer just one perspective on the problem. The marketer should always consider other perspectives, particularly because, as we have seen, each of these tools typically has a limited range of situations in which it may be appropriately applied. The experienced marketer takes fresh approaches to each new situation. In many ways a blank sheet of paper is the most powerful analytical tool. Only when all the options have been examined should it be decided which of the specific tools available, if any, is most suitable. There is no single tool that offers a universal answer to all marketing problems. Undue attention to any individual tool can distract the marketer from the range of other factors that may apply.

The myopia this can cause is particularly well illustrated by the dangers inherent in ill-informed use of the Boston Matrix. Review the companies illustrated in ■ Fig. 8.10. Chances are that 80% of readers would choose Company A as being in the best shape because of the evenly balanced spread of products. Even the 20% of you who might choose Company B would probably feel nervous about that choice. Yet, as you should now realize, the clear choice has to be Company B. Think of this example in terms of the eight cash cows. Which two would you want to



■ Fig. 8.10 The product portfolios of two organizations

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downgrade to stars and which to problem children? Which would you want to destroy by making them dogs? Of course, the figure oversimplifies the position. It does not specify the size of the brands, and a star the same size as a cash cow might be preferable because it will presumably grow. The real lesson is that the Boston Matrix is useful as a tool to do a certain job. It should, for example, remind the owners of Company B to invest in some new products so that they may become stars and then cash cows to underwrite an uncertain future. On the other hand, it should not distract attention from the much more important task of maintaining the cash cows so that they do not turn into dogs. The money used to fund new developments should never come at the expense of the future of the existing cash cows.

8.10.3 Product Mix

The product portfolio can be assessed based on other factors as well, such as the product mix. The product mix refers to the total number of product lines carried by a firm, where each line reflects one type of product. For example, Unilever has a very wide product mix, which covers Birds Eye frozen foods as well as Lever 2000 soaps and Snuggle detergents, whereas for many years Coca-Cola had a very narrow product mix, based on just one product. **Product line length** refers to the number of products within a product line, such as the different types of laundry detergents offered by Procter & Gamble. **Product depth** refers to the number of variations of one particular product—for example, a range of package sizes from trial-size to “jumbo economy” that can address the differing needs of the consumers.

Product line length—The number of products within a product line.

Product depth—The number of variations of one particular product.

The balance of the product mix concerns the volumes achieved by the different lines. What may appear to be a wide and deep portfolio may be an illusion if just one product within it produces 90% of the total sales. The same is true—and more frequently found—in relation to profit. A sound product mix shows a balanced profit contribution from a number of lines, although, as predicted by the 80/20 rule, it is likely even then that a minority of the products will contribute most of the profit. Overall, the major product decisions are therefore about the type of mix and the product line width and depth. How many items are to be carried, and in what markets and segments? If too few lines are carried, sales opportunities will be missed. If the firm adds a variation on an existing line—a different package size, for example—additional sales may be created. If the additional revenue created is greater than the additional costs, these extra sales will generate extra profit. On the other hand, product lines tend to grow to the point at which some products in the list will actually take a loss. Therefore, two types of product mix decisions must be made in this context: (1) **line stretching**, in which additional items are added to tap potentially profitable extra business, and (2) **line rationalization**, in which items are removed to reduce costs and improve profitability. Marketing in Action ► 8.2 describes an example of expanding product line depth.

Line stretching—The product mix decision in which additional items are added to tap potentially profitable extra business.

Line rationalization—The product mix decision in which items are removed to reduce costs and improve profitability.

8.11 Refining Product Strategies

So far, we have described product strategy as if for just a few products with small product line. However, many organizations may have many products, perhaps tens of thousands in the case of a superstore operator who operate with extensive product lines such as Unilever. In these situations, devoting the same level of management attention to each individual item is impossible. It may be advisable to introduce a rule-based process instead. Defining such rules—which determine whether a product line should be promoted, whether it should be stocked widely or only in certain locations, or whether it should be deleted—is a difficult and time-consuming process. However, after these rules are available, they can be rapidly applied to the entire product offering.

Marketing in Action 8.2

Unilever Repositions Its Laundry Detergent

Unilever (► www.unilever.com) is an Anglo–Dutch consumer goods company with turnover of €52.00 billion (approximately \$58.2 billion) in 2018. With around 1000 brands, the company has four major product groups: Foods, Home and Personal Care, DiverseyLever, and i-marketing. The Foods group is composed of products such as ice cream, tea, yellow fats, and culinary frozen foods. The Home and Personal Care group includes product categories such as laundry, personal wash, hair, oral, and deodorants. DiverseyLever focuses on the institutional and industrial professional cleaning and hygiene marketplace. In 1998, the company created its interactive marketing group by forming strategic alliances with America Online (► www.aol.com), Microsoft (► www.microsoft.com), and NetGrocer (► www.netgrocer.com).

Unilever's Home and Personal Care group had combined 1998 sales of \$20 billion. One product, All Free Clear with Allergen Fighter laundry detergent, was introduced in 1991 and targeted to people with sensitive skin. By 1998, All Free Clear held approximately 1.5% of the \$4 billion worldwide laundry detergent market. In a 1999 move to increase market share, Unilever repositioned All Free Clear. Previously billed as tough on stains but gentle on sensitive skin, Unilever then started marketing of All Free Clear as an allergy medication for laundry. Supported by results from internal research, ads for All Free Clear promise that the product will combat dust mites. Unilever's product is the first to make the allergen-reducing claim, let alone be able to support it. The question was whether the shift from stain fighter to allergy fighter would be lucrative. Today, All Free Clear is Unilever's number-one selling detergent and number-one dermatologist-recommended detergent.

Detergents such as All Free Clear, which do not include dye or perfume, account for around 8% of the total detergent market. This 8% is a decline from previous years and may be attributed to the onslaught of detergents with bleach and bleach alternatives. Is Unilever making the right move by repositioning its product into a declining submarket? Where should Unilever target its 25% projected increase in All Free Clear's ad spending?

Sources: Unilever (2020). ► www.unilever.com. Accessed 10 June 2020; Unilever (2019). Unilever 2019 Full Year Results. ► https://www.unilever.com/Images/ir-q4-2019-full-announcement_tcm244-543823_en.pdf. Accessed 11 June 2020; Beatty, S. (1999). Unilever Targets Buyers Bugged by Mites. *Wall Street Journal*, B7

A very effective approach is to use simple indices. Each product line is given an index value, calculated from sales and profit levels, growth rates, and market potential, as well as the fit of one product line with others, its importance to customers, and its role in its relationship with suppliers. Without this additional information, results may be misleading. For example, carrying diapers may be unprofitable, but customers who come to purchase them also buy baby food, which may be highly profitable. Each component is then rated, and the resulting ratings are combined into an overall product score. For example, the value of sales for a given item may justify an index level of 2, profit of 3, importance to customers of 3, and links to other products of 3. The total, 11, can then be compared to rules that say, for instance, that products in the range of 10–20 should be stocked in all locations but

not promoted. These indices can also be used in support of other decisions such as customer service levels or shelf space.

The components of these indices are difficult to decide, and their relative weightings are frequently the subject of great debate, which is why making rules absorbs so many resources. However, rule making is essential to rational decision-making; it yields a well-balanced product mix and a much better understanding of what is really important in terms of the organization's products.

8.12 Product Standardization and Adaptation

When expanding its market, the firm is likely to encounter different users, usage conditions, and regulations. Particularly when going international, the firm must make decisions regarding the product modifications that are needed or warranted. The four basic alternatives are (1) selling the product as is, (2) modifying products for different countries or regions, (3) designing new products for new markets, and (4) introducing a “global” product.

The question of whether to standardize or custom-tailor products and marketing programs in different market areas mirrors the question of whether to practice undifferentiated or differentiated marketing. The key benefits of standardization—that is, selling the same product worldwide—are savings in both production and marketing costs. Coca-Cola, Levi's jeans, and Colgate toothpaste have provided evidence that universal product and marketing strategies can work [34]. Yet the argument that the world is becoming more homogeneous may be true for only a limited number of products with universal brand recognition and minimal product knowledge requirements for their use [35]. Industrial products, such as steel, chemicals, and agricultural equipment, tend to be less culture bound and therefore warrant less adjustment than consumer products. Similarly, marketers in technology-intensive industries, such as scientific instruments or medical equipment, are more likely to find universal acceptability for their products [36].

In many cases, however, demand and usage conditions vary sufficiently to require some changes in the product. For example, German products are very precise in their performance specifications; if a German product is said to have a lifting capacity of 1000 kg, it will perform precisely up to that level. Similarly, buyers of Japanese machine tools have found that these tools will perform at the specified level but not beyond them. The US counterpart, however, is likely to maintain a safety factor of 1.5, resulting in a substantially higher payload capacity. Customer usage may take these patterns into account. Consumer goods typically require substantial product adaptation because of their higher degree of culture grounding. For example, McDonald's adjusts its menu to take regional taste preferences into account (see Web Exercise ► 8.2). In the United States, menus in the South carry iced tea, whereas those in the Northeast do not. Internationally, menu additions include beer in Germany and wine in France, while in India, the core product—beef—is deleted from the menu due to local sensitivities. The degree of change needed may depend on economic conditions in the target market as well as on cultural differences. For instance, low incomes in a particular market may suggest a need to simplify the product to make it affordable to those customers.

Web Exercise 8.2

Flexibility can be critical when marketing a product globally. Many products can make the cultural shift without change (e.g., Pampers and Levi's jeans); others require some customization. McDonald's is well-known for modifying its standard US menu to accommodate tastes abroad. On McDonald's "Surf the World" Web page for Japan, the company even states, "If meeting the demands of local culture means adding to our regular menu we'll do it. In Japan we added the Teryaki McBurger.... A sausage patty on a bun with teriyaki sauce."

Visit the McDonald's site in Japan at ► www.mcdonalds.co.jp/. Visit other McDonald's sites worldwide, and compare how the company alters its products, advertising, and premiums to suit the local culture. Here are some places to start:

- McDonald's France: ► <http://www.mcdonalds.fr/>
- McDonald's Singapore: ► <https://www.mcdonalds.com.sg/>
- McDonald's Portugal: ► <http://www.mcdonalds.pt/>
- McDonald's Czech Republic: ► <http://www.mcdonalds.cz/>

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There is no straightforward answer to questions of adaptation. Certainly in the case of mandatory adaptations, firms must conform to the prevailing economic, legal, and climatic conditions in the target market. For discretionary adaptations, firms must resolve the issue of whether the effort is worth the costs involved in adjusting production runs, stock control, or servicing. Such cost factors perhaps accounted for the fact that US carmakers for decades refused to make right-hand driven cars for the Japanese market. At the same time, of course, such a lack of adaptation to local preferences also resulted in low sale of US cars to Japan.

8.13 Packaging

Packaging is needed to deliver a product to the consumer in sound condition, be it a bottle for shampoo or a box with shock-absorbing padding to protect delicate electronic goods. The requirement here is purely technical: an efficient container designed to hold and protect the product. As self-service has become a dominant feature in most distribution chains, the packaging of a product has become a major element of the product itself. It is often the supplier's only opportunity at the point of sale to present the benefits of the product to the potential consumer who has picked it up to assess its value. Packaging considerations therefore must be broadened beyond the container aspects. One important issue concerns product description. The package must convey to the potential consumer not just what the product is but also what it does. This initial message is conveyed by words, graphics, and the overall design of the package, which the potential buyer is expected to read in a few brief seconds and probably from a distance of 3 feet or more. Packaging must also convey a required product image. For example, the boxes for expensive chocolates look expensive in themselves—so much so that the consumer almost hates the waste of throwing the packaging away. Packaging is also linked to product value.

Many packages are designed to make their contents look like more than they really are. Liquid laundry detergent bottles, for example, feature large cutouts for use as a handle to portray a bigger outline without using an extra product. Alternatively, the package may be designed as compact as possible to make the most of the available shelf space. Stackability, so that a shelf can take several layers of product, is another packaging option.

Packaging also needs to harmonize with consumer usage. Thus, it delivers pharmaceuticals in tamperproof and childproof containers or with built-in applicators, such as inhalers. Built-in handles allow “economy” packs to be carried. Suppliers must also keep the packaging demands of their customers in mind. In an industrial setting, these demands may be quite varied. Some large customers, such as Walmart, may delineate precisely how products are to be packaged. In other cases, the development of a packaging strategy that, for example, makes the breaking down of a large shipment at a warehouse easier may be the winning formula for gaining a competitive edge.



Packaging in the world market takes on even more importance. An international shipment is subject to the motions of the vessel on which it is carried and to the

stress of transfer among different modes of transportation. Differences in climate can also play a major role; special provisions need to be made to prevent damage to the product when the ultimate destination is very humid or particularly cold. Moreover, dramatic changes in climate can take place in the course of long-distance transportation. As a result of heat, for example, grass packaging that is perfectly adequate at the point of shipment may be totally useless at the point of arrival. The weight of packaging must also be considered, particularly when air-freight is used, as the cost of shipping is often based on weight. At the same time, packaging materials must be sufficiently strong to permit stacking in international transportation. Another consideration is that, in some countries, duties are assessed according to the gross weight of shipments, which includes the weight of packaging. Obviously, the heavier the packaging, the higher the duties will be. The supplier must also pay sufficient attention to instructions provided by the customer for packaging. For example, requests that the weight of any one package not exceed a certain limit, that specific packaging dimensions be adhered to, or that barcoding be used may reflect limitations or requirements of transportation and handling facilities at the point of destination.

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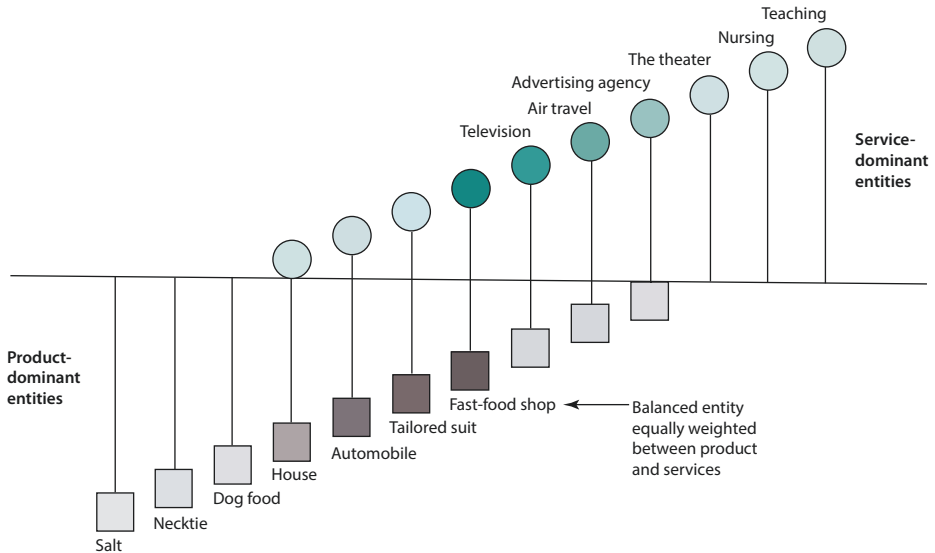
In addition to these marketing considerations, the formal package description, typically on the label, must conform to any legislative standards for the product category, particularly in terms of the list of ingredients. In terms of perishable goods in particular, the production date and the date of expiry should clearly be marked. Packaging must also be responsive to environmental legislation and concerns. As such, it must comply with societal and environmental demands for subsequent use, recycling, or disposal. To a growing degree, the ability to reflect such demands is a crucial determinant for market acceptance and profitability. Increasingly, customers expect the amount of packaging materials to be minimized and the materials themselves to be environmentally “friendly.” For example, Isetan Corporation, one of Japan’s leading retail chains, uses simplified wrapping for traditional midyear and year-end gifts rather than the elaborate wrapping used previously [37].

8.14 Strategies for Services

So far in our discussions, we have used the term *product* to designate both goods and services. However, services have some different requirements from goods and therefore need to be considered separately. Services also are increasingly part of the global marketplace, as Manager’s Corner ► 8.3 explains.

8.14.1 Service Categories

“Service” is a general classification that covers both pure services that stand by themselves (such as insurance and consultancy services) and services that support goods, for example, freight forwarding services that offer logistics support



■ **Fig. 8.11** Scale of elemental dominance. (Source: Shostak, G.L. (1981). *How to Design a Service*. In J. Donnelly and W. George (Eds.). *Marketing of Services* (pp. 21). Chicago: AMA. Reprinted by permission of the American Marketing Association)

for product distribution. Also, after sales services are an integral part of many products. Computers, for example, require sophisticated support services. In such cases, service elements are ultimately as important and as costly as the physical good itself, although customers typically view the physical good as the dominant element. A home security service is based on physical goods—intruder alarms and smoke detectors—but many homeowners are happy to pay a consultant to design and install them and to pay the people who maintain the service.

The simple knowledge that services and goods can interact is not enough: Successful managers recognize that different customer groups view the service–good combination differently. The types of use and usage conditions also affect evaluations of the market offering. For example, an airline’s record of on-time arrivals may be valued differently by college students than by business executives. Similarly, a 20-minute delay will be judged differently by a passenger arriving at the final destination than by one who has just missed a connecting flight at the transit point. As a result, adjustment possibilities that emerge in both the services and goods areas can be used as a strategic tool to stimulate demand and increase profitability. As ■ Fig. 8.11 shows, the importance of services and goods *elements* varies substantially. The manager must identify the role of each and adjust all of them to meet the desires of the target customer group. By rating the offerings on a scale

ranging from dominant tangibility to dominant intangibility, the manager can compare offerings and also generate information for subsequent market positioning strategies.

8.14.2 Distinctive Features of Services

Services differ from goods most strongly in their *intangibility*. This inability to hold and touch services has important implications, ranging from difficult competitive comparisons to financing, and makes precise specifications, such as the ones used in manufacturing, almost impossible. Though the intangibility of services is a primary differentiating criterion, it is not always present. For example, publishing services ultimately result in a tangible good—namely, a book or a computer disk. Similarly, construction services eventually result in a building, a subway, or a bridge. Even in those instances, however, the management of the intangible component that leads to the final product is of major concern to both the producer of the service and the recipient of the ultimate output because it brings with it major considerations that are nontraditional to goods.

Another major difference concerns the *storing* of services. Services are difficult to inventory. If they are not used, the “brown around the edges” syndrome makes them highly perishable. Unused capacity in the form of an empty seat on an airplane, for example, quickly becomes nonsalable. After the plane has taken off, selling an empty seat is impossible—except for an in-flight upgrade from economy to business class—and the capacity cannot be stored for future use. For example, from the customers’ point of view, if a customer fails to timely catch up a flight, the customer cannot claim that particular seat for a next available flight, which was reserved for the customer in that particular flight. Similarly, the difficulty of inventorying services makes it troublesome to provide service backup for peak demand. To maintain constant service capacity at levels necessary to satisfy peak demand would be very expensive. The manager must therefore attempt to smooth out demand levels to optimize overall use of capacity.

For many services, the *time of production* is very close to or even simultaneous with the *time of consumption*, which necessitates close customer involvement in the production of services. Customers frequently either service themselves or cooperate in the delivery of services. As a result, the service provider often needs to be present when the service is delivered. This physical presence creates both problems and opportunities, and it introduces a new constraint that is seldom present in the marketing of goods. For example, close interaction with the customer requires a much greater understanding of the cultural factors of each market. For example, a particular haircut service delivered in a culturally unacceptable fashion is doomed

to failure. A common pattern of internationalization for service businesses is therefore to develop stand-alone business systems in each country [38].

Because of the close interaction with customers, many services are *customized*; this contradicts the firm's desire to standardize its offering, yet at the same time it offers the service provider an opportunity to differentiate the service. The concomitant problem is that to fulfill customer expectations, service consistency is required. For anything offered online, however, consistency is difficult to maintain over the long run. Therefore, the human element in the service offering takes on a much greater role than in the offering of goods. Errors may enter the system, and unpredictable individual influences may affect the outcome of the service delivery. The issue of quality control affects the provider as well as the recipient of services because efforts to increase control through uniform service may be perceived by customers as the limiting of options and may therefore have a negative market effect [39].

Buyers have more difficulty in observing and evaluating services than goods. This is particularly true when the shopper tries to choose intelligently among service providers. Customers receiving the same service may use it differently. This aspect of service heterogeneity results in services that may not be the same from one delivery to another. For example, the counseling by a teacher, even if it is provided on the same day by the same person, may vary substantially depending on the student. Moreover, the counseling may change over time even for the same student. As a result of all these possible changes, comparing services to one another becomes very difficult, meaning that for buyers (and often also suppliers) the transparency of the services market is comparatively lower than the goods market.

Because service quality may vary for each delivery, quality measurements are quite challenging. In response to this challenge, much research work has been carried out in the service quality measurement field. The most visible effort consisted of the SERVQUAL model, which proposed a series of measures to determine the discrepancy between customers' expectations and their perceptions of services [40]. Over time, the measures used have been significantly expanded and refined [41]. Most researchers, however, agree that the most important tool for service design and evaluation is *blueprinting*. This term refers to a visual definition of a service process that displays each subprocess or step in the service system and links the various steps in the sequence in which they appear. A service blueprint then allows the identification of processes that are visible to the customer, those that are invisible, and the possible failure points. An understanding of these processes and their linkages then allows the firm to design quality into the service [42].

Manager's Corner 8.3

Help Wanted: The Global Job Shift*"Is your job next?"*

That question was posed by a *Business Week* cover story that captured the concerns and uncertainty that many Americans are feeling. A Forrester report estimated that by the year 2020, 3.3 million US service industry jobs—including one million IT service jobs—and \$13 billion in wages will move offshore. Others pointed to unprecedented unemployment in domains expected to be core strengths and pillars of America's future economic growth. According to the Bureau of Labor Statistics, unemployment rates among electrical engineers hit 7% by the middle of the first decade in this current century, while computer programmer unemployment was at 6.8%, both exceeding the national average for overall unemployment. US citizens have been encountering a daunting concern: Can America lose these jobs and still prosper?

Three major factors account for the worldwide job shift. First, the forces of technology—digitalization, the internet, and high-speed data networks—allow design, analysis, and research to be easily performed abroad. Second, a global pool of college-educated men and women is readily available and increasing, especially in low-wage countries. With a population of 109.60 million, the Philippines graduates 380,000 college students trained in US accounting standards per year. Clearly, a major impetus for shifting "knowledge jobs" abroad is the cost-of-production factor: cheaper labor. Bank of America, for example, now hires information technology specialists in India, where the labor costs \$20 an hour versus the US rate of \$100. Other sectors such as insurance and accounting can obtain workers abroad at 40% of the US cost.

While the first wave in the global job market began two decades ago with the shift of US manufacturers of shoes, cheap electronics, and toys to developing nations including China and Cambodia, the next wave came with the exodus of simple service work such as credit card receipt processing and software code writing. American Express, Dell Computers, and Eastman Kodak hired across national boundaries to maintain 24-hour customer care services. Today, however, globalization is shifting upscale jobs abroad, particularly those in crucial Research and Development (R&D) projects.

Large and small businesses alike are dipping into the new global job market of "knowledge workers." Cities including Manila, Shanghai, Budapest, and San Jose, Costa Rica, have become major supporting offices for American, European, and Asian firms. For example, GE Electrical employs 6000 scientists and engineers in 10 different countries, and Microsoft plans to invest \$400 million in India, in addition to the \$750 million already dedicated to China. SGV & Co., a Manila accounting firm, is the major support staff for Ernst & Young International. And although million-dollar home buyers in San Francisco demand the creativity of architect David Marlatt, his blueprints and three-dimensional computer models are actually refined by the architects of Zimay, a Hungarian firm. Even in health care, a field in which physical proximity to patients is usually thought of as a necessity, jobs are going abroad: Near Bangalore's airport, the Indian firm Wipro Ltd. has five radiologists who interpret CT scans daily for Massachusetts General Hospital.

In response to the exodus of service jobs to low-wage countries, representatives in 38 states proposed provisions to prohibit offshore outsourcing of government work. As state representatives learned, however, a solution cannot be brought about by a mere blanket ban. Although amendments were added to the Kansas state budget to require food-stamp telephone services to be performed in the United States, the measure was repealed after studies showed that it would boost the state's cost by \$640,000.

Although workers who see their jobs shipped overseas are indeed hurt by the effects of globalization, outsourcing is far from being a zero-sum game. In today's global economy, US-based companies also gain opportunities to win outsourcing contracts, especially as developing countries improve their own domestic markets for services. In 2003, US cross-border exports of IT services totaled \$11 billion, whereas imports measured at only \$3 billion. According to a McKinsey report, for every \$1.00 in services outsourced to a country such as India, \$1.14 is returned to the US economy. Outsourcing, therefore, is an economic principle that creates real benefits, which can be redistributed to help retrain those left behind by structural shifts in employment. In addition, from the developing nations' perspective, a decrease in their participation in the global job market is unlikely: At the beginning of this century, in India, the expectation was that they will export IT and related service of \$57 billion in revenue and employ seven million people by 2008.

As US Assistant Secretary for Technology Bruce Mehlman states, "America's future depends greatly upon the concurrent success of many other nations. Our economy grows fastest when we're able to sell our goods, products, and expertise into other growing economies." Therefore, win-win situations brought by global sourcing must be employed so that the rising tide can lift all boats.

Sources: Aeppel, T. (2004). Offshore Face-Off. *The Wall Street Journal*, R6; Baily, M., & Farrell, D. (2004). Exploding the Myths of Offshoring. *The McKinsey Quarterly*; "Bruce Mehlman, Offshore Outsourcing and the Future of American Competitiveness," speech to ITAA Board of Directors, Arlington, Virginia, 2003; Rowland, C. (2004). Measure Seeks to Ban State Outsourcing. *The Boston Globe*, C1; Worldometer (2020). ► <https://www.worldometers.info/world-population/philippines-population/>. Accessed 21 June 2020

8.14.3 Marketing Repercussions of Service

Marketers must first determine the nature and aim of the services offering, that is, whether the service will be aimed at people or at things and whether the service itself will result in tangible or intangible actions. ■ Table 8.1 provides examples of a classification that will help marketers clearly determine the position of the services effort. The manager must then consider the tactical variables that have an impact on the preparation of the service offering. For example, the measurement of capacity and delivery efficiency often remains highly qualitative rather than quantitative. Furthermore, the intangibility of the service reduces the manager's ability to provide samples, which makes communicating the service offered much

Table 8.1 Understanding the Nature of the Service Act

Nature of the Service Act	Direct recipient of the service	
	People	Things
Tangible actions	Services directed at people's bodies:	Services directed at goods and other physical possessions:
	Health care	Freight transportation
	Passenger transportation	Industrial equipment repair and maintenance
	Beauty salons	Janitorial services
	Exercise clinics	Laundry and dry cleaning services
	Restaurants	Landscaping/lawn care
	Haircutting	Veterinary care
Intangible actions	Services directed at people's minds:	Services directed at intangible assets:
	Education	Banking
	Broadcasting	Legal services
	Information services	Accounting
	Theaters	Securities
	Museums	Insurance

Source: Erramilli, K., & Rao, C.R. (1993). Service Firms' International Entry-Mode Choice: A Modified Transaction-Cost Analysis Approach. *Journal of Marketing*, 57, 19–38. Reprinted by permission of the American Marketing Association

more difficult than communicating an offer of goods. Brochures or catalogues explaining services often must show a proxy for the service to provide the prospective customer with tangible clues. For instance, a cleaning service can show a picture of an individual removing trash or cleaning a window, but the picture will not fully communicate the performance of the service. Because of the different needs and requirements of individual consumers, the manager must also pay attention to the two-way flow of communication. In the service area, mass communication often must be supported by intimate one-on-one follow-up. The contemporary technological capabilities to communicate individually with each potential client may presage a host of new opportunities for delivering service information.

The role of personnel deserves special consideration in service delivery. The customer interface is intense, so proper provisions must be made for training personnel both domestically and internationally. Major emphasis must be placed on appearance. Most of the time, the person delivering the service—rather than the service itself—will communicate the spirit, value, and attitudes of the service

■ **Table 8.2** Actions to balance supply and demand in service systems

Supply side		Demand side	
1.	Inventory wherever possible (e.g., spare capacity, and people)	1.	Have customers wait in favorable environments
2.	Schedule workers according to demand (e.g., shift working and part-time employees)	2.	Schedule customers (e.g., appointment systems)
3.	Subcontract work to other service organizations	3.	Provide substitute goods or services (e.g., automatic tellers)
4.	Diversify demands (e.g., enter counterseasonal markets)	4.	Have peak-time efficiency routines (e.g., do only essential jobs)
5.	Increase customer participation in the production process (e.g., self-service)	5.	Turn customers away during peak demand period (e.g., differential pricing)
6.	Share service/facilities with other service organizations	6.	Use marketing to shift demand (e.g., advertising campaigns)
7.	Improve the service system (e.g., use technology where possible)	7.	Change customer expectations of service (e.g., through usage)

Source: Cowell, D. (1984). *The Marketing of Services*, pp. 42. Reprinted with permission of Elsevier Science

corporation. This close interaction with the consumer also has organizational implications. Although tight control over personnel may be desired, the individual interaction that is required points to the need for decentralization of service delivery. This, in turn, requires delegation of large amounts of responsibility to individuals and service subsidiaries and demands a great deal of trust in all organizational units. This trust, of course, can be greatly enhanced through proper training and supervision. Sole ownership also helps strengthen this trust. Research has shown that service firms, in their international expansion, tend to greatly prefer the establishment of full-control ventures. Only when costs escalate and the company-specific advantage diminishes will service firms seek out shared-control ventures [43].

The lack of storage capabilities for services results in the need to aggressively accommodate variations in demand. For example, staff schedules may need to overlap, and part-timers or seasonal staff may be called in to accommodate demand at peak times. Job flexibility may also be essential so that employees can be redeployed into different functions. For example, line managers in the hotel and catering industries may help with the serving of customers at peak times. ■ Table 8.2 shows some examples of how demand and supply can be balanced in service systems.

The areas of pricing and financing also require special attention. Because services cannot be stored, greater responsiveness to demand fluctuation exists, and therefore greater pricing flexibility must be maintained. As a result, people who book last-minute flights on airlines may be able to get a better price if there are a large number of unoccupied seats. Alternatively, someone who is willing to dine in a restaurant during off-peak hours may be able to use a discount coupon. Pricing flexibility is countered by the desire to provide consistency for both the seller and the buyer of services to foster an ongoing relationship. The intangibility of services also makes financing more difficult. Even financial institutions with considerable experience are often less willing to provide financial support for services than for goods because the value of services is more difficult to assess, service performance is more difficult to monitor, and services are difficult to repossess. Therefore, customer complaints and problems in receiving payments are more troublesome for a lender to evaluate in the area of services.

8 Services often require entirely new forms of distribution. Traditional channels frequently are multitiered and long and therefore slow. Often they cannot be used at all because of the perishability of services. A weather-reporting service, for example, either reaches its audience quickly or rapidly loses value. As a result, direct delivery and short distribution channels are required for services. When they do not exist, service providers need to be distribution innovators to reach their market. Increasingly, many services are “footloose,” in that they are not tied to any specific location. Advances in technology make it possible for firms to separate production and consumption of services. As a result, labor-intensive service performance can be moved anywhere in the world where qualified, low-cost labor is plentiful. As you read in Manager’s Corner ► 8.3, services such as hotel reservations and insurance claim processing are performed with great ease and at low cost far from the customer. As communication technology further improves, other services such as teaching, medical diagnosis, or bank account management can originate from any point in the world that offers the most cost-efficient service production location and yet can still reach customers in many countries.

The unique characteristics of services exist in both domestic and international settings, but their impact has greater importance for an international manager. For example, the perishability of a service, which may be a mere obstacle in domestic business, may become a major barrier internationally because of the longer distances involved. Quality control for international services may be much more difficult because of different service uses, changing expectations, and varying national regulations. International services are also more sensitive to cultural factors than are goods. Their influence on the individual abroad may be welcomed or greeted with hostility. For example, countries that place a strong emphasis on cultural identity have set barriers inhibiting market penetration by foreign service firms. France is leading a major effort within the European Union to cap the volume of American-produced films to obtain more playing time for French movies.

Summary

The good or service as seen by the consumer constitutes much more than just a physical core product; all the intangibles that accompany the product form the package. The product audit is used to explore what this package comprises. The Ansoff Matrix looks at the four main growth strategies and demonstrates the increase in risk as a company moves from penetration of the known market to diversification into a totally unknown market.

The theory of the product life cycle says that the stages of introduction, growth, maturity, decline, and postmortem that a product goes through are to be reflected in the corresponding marketing mix. Even though most attention is focused on new product launches, most products are in the maturity stage, where they need careful management attention to either prolong their life cycle or to lead to graceful retirement.

A popular theoretical tool for structuring product portfolios is the Boston Consulting Group Matrix. Its four quadrants are based on market share and market growth: problem children (or question marks), stars, cash cows, and dogs. Because of its assumption of a significant product life cycle and economies of scale, the Boston Matrix may have less relevance than its advocates suggest. In any event, use of the matrix requires a sound understanding of the complex interrelationship between market growth rate and relative share.

The development of a product mix needs to consider both the width and depth of product lines and may require line stretching or line rationalization. In doing so, the firm must carefully consider the implications of such product policies on sales, profits, and relationships with customers and suppliers.

When using a strategy of market expansion, the firm must consider whether and how to standardize or adapt its products. In addition, attention must be devoted to packaging. No longer simply driven by product protection, packaging must reflect market requirements, promotional opportunities, and distribution considerations.

Services, whether related to goods or pure services, have distinctive features. In particular, they are more dependent on people, which necessitate more, and higher, standards of management. The intangibility of services means that the associated physical elements may be used for promotion, and strong branding is important. The lack of storage capacity may require new efforts at smoothing out demand fluctuations through personnel management or pricing strategies.

Overall, even though all elements of the marketing mix are equally important, the product is the most visible component and serves as the focal point for all marketing mix aspects.

Key Terms*Alliances**Augmented product**Boston Consulting Group Matrix**Collaboration**Conglomerate diversification**Core product**Economies of scale**Fad**Line rationalization**Line stretching**Product depth**Product life extension**Product line length**Rejuvenation**Tangible product***8****? Review Questions**

1. How do you determine what the goods or service package comprises?
2. What is the Ansoff Matrix? How is it used, and how does it approach risk?
3. What are the stages of the product life cycle? What strategy is employed at each stage?
4. What are the differences between product, market, and technological life cycles?
5. What is the Boston Consulting Group Matrix, and how is it used?
6. What are the problems posed for use of the product life cycle? What are the problems posed by use of the Boston Matrix?
7. How can you achieve the requisite width and depth in the product mix?
8. How do services differ from goods? How are these differences dealt with from a marketing standpoint?
9. How does service standardization differ from goods standardization?

? Discussion Questions

1. In the 1960s, American automakers introduced three new cars: the Mustang, Camaro, and Firebird/Trans Am. These brands marked the beginning of a completely new product category, the pony car, which was tremendously successful. Recently, however, rising costs of ownership (purchase price, insurance premiums, and fuel costs) and blurred lines of distinction between pony cars and the higher line cars with which they compete have caused sales for all three models to drop dramatically. Ford has adapted by expanding the Mustang product line, thereby expanding the appeal of the product beyond the shrunken pony car segment. Although it ceased production of the Firebird/Trans Am and Camaro in 2001, GM plans to extend the life of the brand names. The new models would be designed to meet different consumer wants and needs than

those of their predecessors. Considering the reactions to shifts in the automotive market by both companies, discuss the differences in the applicability of the product life-cycle theory to product categories (e.g., pony cars) versus brands (e.g., Mustang or Camaro) [44].

2. Levi Strauss' international success can be attributed, in part, to the fact that it creates product lines specific to various countries or regions. Vintage Clothing, All Duty™, and StaPrest® from Europe and Crinkle 501® from Japan are some examples of clothing lines developed specifically for foreign consumption. Mitutoyo is a world leader in the manufacture and sales of industrial measuring equipment such as depth gauges and calipers. In contrast to Levi Strauss, Mitutoyo makes few or no changes to product lines developed in Japan that are sold there and also distributed abroad. Explain why certain companies would adopt a standardization or a customization policy when it comes to marketing their products internationally [45].
3. Procter & Gamble's launch of two global products marked the beginning of a company initiative to shorten the development, test marketing, and introduction of products designed to be sold worldwide. Dryel home dry-cleaning kit and Swiffer sweeper system spent only 18 months in test marketing performed simultaneously in the United States and Europe. P&G uses standardized packaging, brand names, and advertising to pitch the products in American, European, and Asian markets. Standardization allows P&G to get the two products to market in less than one-third of the time required for similar products in the past. Analyze how P&G's ability to take these two new products from development to introduction so quickly might have influenced its decision to market the products globally. How does P&G's marketing strategy affect the international product life cycle for the two products? [46] For more details, see *Marketing in Action* ► 9.2.
4. In Europe, cellular service often includes more than just phone calls. Sonera cellular service of Finland allows customers to use their mobile phones to charge purchases of commercial products such as vending-machine sodas or car washes and consolidate the charges on their cellular service bill. Omnitel of Italy introduced voice recognition systems that offer advice about restaurants or relay stock quotes, bank balances, or news and weather information—all through cellular technology. Americans have not yet fully embraced such cellular extras for pricing and technological reasons. How can US companies create domestic demand for the types of supplemental cellular services described above?

Practice Quiz

1. The _____ indicates elements such as design, color, and packaging.
 - (a) Core product
 - (b) Intangible product
 - (c) Tangible product
 - (d) Augmented product

2. All the following questions are answered in product auditing EXCEPT
 - (a) What market segment does this brand address?
 - (b) Who are the prospective customers?
 - (c) How does it compare with competitive products?
 - (d) How can the price be adjusted to best fit the customers' needs?
3. _____ involves modification of quality, style, performance, or variety.
 - (a) Market penetration
 - (b) Product development
 - (c) Market development
 - (d) Diversification
4. _____ involves finding new uses for an existing product.
 - (a) Market penetration
 - (b) Product development
 - (c) Market development
 - (d) Diversification
5. _____ involves offering a new product in a new market.
 - (a) Market penetration
 - (b) Product development
 - (c) Market development
 - (d) Diversification
6. According to the Ansoff Matrix, all the following are elements of product strategy EXCEPT
 - (a) Market penetration
 - (b) Market development
 - (c) Diversification
 - (d) Collaboration
7. Which of the following is NOT a part of the product life cycle?
 - (a) Growth
 - (b) Maturity
 - (c) Decline
 - (d) Rejuvenation
8. Maximum sales acceleration is the goal at which product life-cycle stage?
 - (a) Growth
 - (b) Maturity
 - (c) Decline
 - (d) Rejuvenation
9. All the following are organizational strategies for a market in decline EXCEPT
 - (a) Leadership
 - (b) Niche
 - (c) Harvest
 - (d) Investment

References

10. In which international product life-cycle stage are profit margins thin and competition fierce?
 - (a) New product
 - (b) Maturing product
 - (c) Standardized product
 - (d) Declining product
11. According to the Boston Consulting Group Matrix, _____ are characterized by high market share and low market growth rate.
 - (a) Stars
 - (b) Questions
 - (c) Cash cows
 - (d) Dogs

(You can find the correct answers to these questions by taking the quiz and then comparing your answers with the answers that are provided at the end of the book, under the “Practice Quiz Answers” part of the book.)

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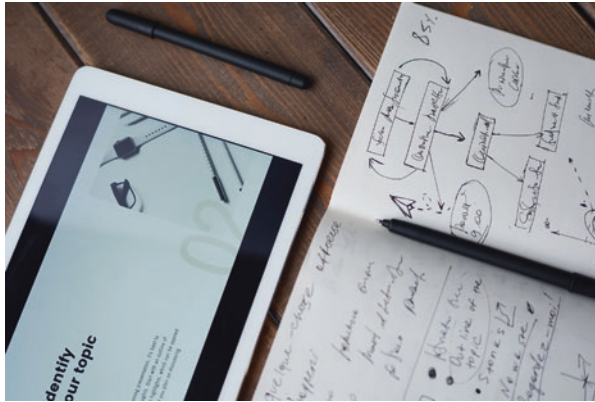
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■ Internet-Savvy Firms Shorten Product Development and Marketing Cycles



■ (Source: ► pexels.com/royalty-free-images/)

Marketing strategists often assume that marketers should first create a plan on the basis of a careful review of environmental and firm information and then execute that plan. However, in some cases these two events occur simultaneously. In the article “The Convergence of Planning and Execution: Improvisation in New Product Development,” published in the *Journal of Marketing*, authors Christine Moorman and Anne S. Miner define such convergences as “improvisation.” They investigated the conditions in which improvisation is likely to occur and be effective.

The results show that organizational improvisation occurs moderately and that the frequency of improvised product development decreases as long as the company keeps good track of past product development experiences and increases as market uncertainties and turbulences increase. Although improvisation may reduce new product effectiveness, environmental and organizational factors can reduce negative effects and sometimes create a positive effect for improvisation. This suggests that, in some contexts, improvisation may be not only what organizations actually practice but also what they should practice in order to flourish.

For example, Dell, HPE, and Lenovo lead as cloud server market surged to a US\$86 billion in 2018. In 2019, Dell delivered solid numbers with fourth-quarter revenue up 1% to \$24 billion year-on-year and for the full year a 2%. In fact, the growing adoption of artificial intelligence (AI) across different applications is in parallel driving the need for greater server processing power and thus semiconductor capabilities within the servers. Synchronizing with this AI-dominated market trend appears as instrumental for some of the leading server manufacturers like Dell EMC and HP Enterprise to grow fast. As a result, following the market trend enabled Dell EMC and HP Enterprise to appear as the major competitors in the global server market to increasingly compete with the other traditional major players such as IBM. In 2018, Dell EMC and HPE both earned 16% market share in 2018 in terms of total revenue. Electronic commerce puts forward-thinking compa-

nies, such as Dell EMC, on the leading edge of consumer need identification, helping them to improve new product development and marketing processes. Given the speed and ease of information gathering on the internet, market intelligence analysis and product development planning proceed increasingly in tandem. The internet has both upstream and downstream benefits in the corporate value chain. The two most important “downstream” benefits of online marketing are the ability to collect behavioral sales data rapidly and the consumer intimacy that stems from that. Behavioral data allow marketers to develop relevant marketing campaigns targeting their most valuable customers immediately. Consumer intimacy allows marketers to beat traditional manufacturers to market with successful new products. The important “upstream” benefit of online marketing is as the information tool that links an Original Equipment Manufacturer (OEM) with suppliers, distributors, and contract manufacturers to reduce cost, eliminate waste, and speed up new product development.

In order to respond to the market competition, product developers have started to abridge the overall product development process by the help of internet-enhanced digital technologies. Firms across the industries and sectors underpin their information technology architectures and capabilities to track consumer behavior more accurately, in order to adopt agile ways of serving consumers. Since competitors are not waiting, product developers need to accurately track consumer behavior and need to understand their target market’s changing needs promptly, in order to accelerate the product innovation process, so that new product could be launched before the competitors launch a product to satisfy those changing needs of the target market. Utilizing artificial intelligence (AI), Amazon’s market data mining forecasting method enables them “to anticipate product demand far enough in advance,” which is an example of accurately and promptly exploring consumer behavior through data mining. “In the near future, AI is expected to make marketing more efficient by speeding up the decision-making process and providing marketing managers with information and insights that they could not develop in any other way.”

The internet-enhanced digital platforms opened the gates for manufacturers to sell directly to consumers. Many argue that e-commerce is less intimate than retail, but it actually provides more targeted demographic and psychographic information. Manufacturers that traditionally sell through the retail channel benefit the most from e-commerce. Furthermore, customer information no longer is held hostage by the retail channel. Instead, marketers have access to robust behavioral data that allows them to segment best customers and identify trends and customer needs. Most importantly, the enormous flow of market data allow for the development of relevant marketing messages aimed at important customers and initiating loyal relationships. Clearly, more interactive, improvised product development and marketing processes are increasingly becoming a mainstay marketing strategy, which further shortens the product life cycle.



■ **Sources:** Moorman, C., & Miner, A.S. (1998). The Convergence of Planning and Execution: Improvisation in New Product Development. *Journal of Marketing*, 1–20; “Improvisation Can Help New Product Development,” *Marketing News* (July 20, 1998): 42; Degenholtz, A. (1999, March 29). E-Commerce Fueling the Flame for New Product Development. *Marketing News*, p.18; Burrows, P. (2003, June 23). Innovation, Lego-Style. *Business Week*, p. 74–76; Overgoor, G., Chica, M., Rand, W., & Weishampel, A. (2019). Letting the computers take over: Using AI to solve marketing problems. *California Management Review*, 61(4) 156–185; Brossard, M., Erntell, H., & Hepp, D. (2018). Accelerating product development: The tools you need now. McKinsey & Company. ► <https://www.mckinsey.com/business-functions/operations/our-insights/accelerating-product-development-the-tools-you-need-now#>. Accessed 29 June 2020; Quicke, S. (2020). Dell looking for server growth. MicroScope. ► <https://www.computerweekly.com/microscope/news/252479324/Dell-looking-for-server-growth>. Accessed 24 July 2020; Singh, P. (2019). Dell, HPE, Lenovo lead as cloud server market surges to a US\$86 Billion in 2018. CounterPoint. ► <https://www.counterpointresearch.com/dell-hpe-lenovo-lead-cloud-server-market-surges-us86-billion-2018/>. Accessed 24 July 2020

9.1 Introduction

The first stage in developing new products or services is to undertake a **gap analysis** in the target market to establish what the new offering will need to provide. This need may be met best by a feature modification of an existing product or service. Most new product development is, in fact, incremental development of existing brands rather than introduction of totally new offerings. For example, an incremental development of an existing shampoo that is good for dandruff prevention would be adding vitamin D in the shampoo to prevent hair loss.

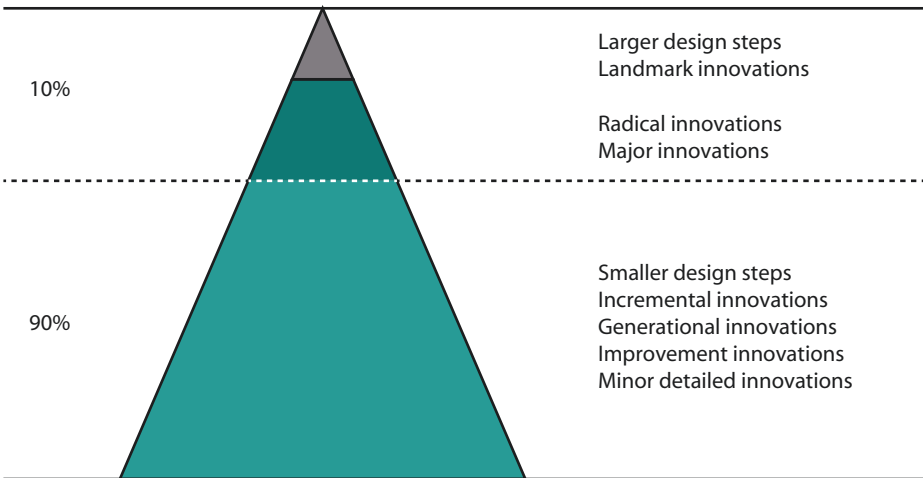
Gap analysis—The technique used to identify the difference between what the existing products offer the consumer and what the consumer demands.

Following the usual (Western) approach, a new development has to be judged against corporate needs and then against the product factors that the organization can handle. The “creative” steps of developing new products are described in this chapter, as are the subsequent screening and testing stages, to ensure that risk is minimized and marketing myopia could be avoided. Brand stability implies there should be more emphasis on the further development of existing brands than on totally new ones—contrary to conventional teaching. The Japanese approach, however, is to launch many more “new products” without following any of the stages of testing described here [1].

The one common element of life-cycle theory and portfolio management that is almost universally accepted is that products or services that remain unchanged will sooner or later die. Consumers’ tastes or circumstances may change, or the product may be superseded. As presented in the vignette at the beginning of this chapter, the internet-enhanced digital tools and platforms are accelerating product development and inevitably shortening the product life cycle. Inevitably, any organization that plans to be around for more than a few years has to move into the area of new product development, even if only to redevelop its existing product or service so that its life cycle is extended indefinitely.

The most successful new product development typically revolves around the revitalization of existing products. Launches of totally new products generate the drama, but the profit is more likely to come from the more mundane relaunches (see ■ Fig. 9.1) [2]. About 30% of 3M’s annual revenues come from products less than 4 years old, but most of these new products are actually variations on the old ones [3].

In this chapter, as elsewhere in this book, the term *product* includes services, nonprofit activities and associated offerings, and any other kind of market offer-



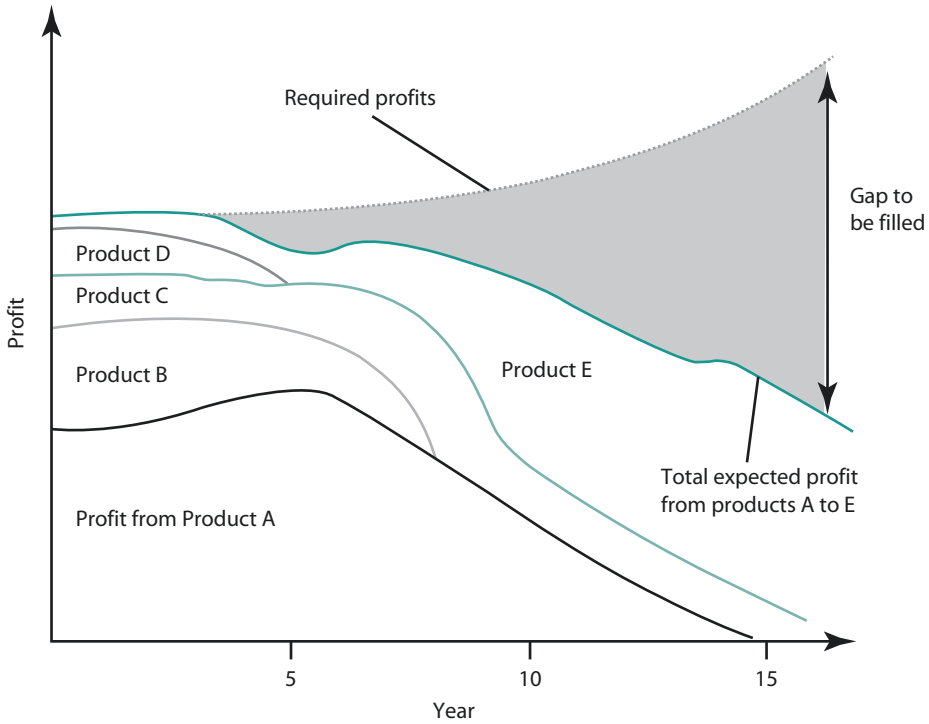
■ Fig. 9.1 Technical changes

ings (e.g., an election candidate) that has some utility to satisfy the need of a particular target market. In the service sector, just as in the manufacturing sector, there is a continuing need to develop the offerings that are made to customers or clients, even though there is normally much less new product development activity in the service sector.

9.2 Gap Analysis for Scanning and Idea Generation

The need for totally new products or for additions to existing lines may have emerged from the portfolio analyses, in particular from the use of the BCG Matrix (see ► Chap. 8, “Product and Service Decisions”). The gaps in the projected cash flow demonstrated by that exercise could have provided sufficient stimulation, but it is more likely that the need will have emerged from the regular process of following trends in consumers’ requirements. At some point a gap will have emerged between what the existing products offer the consumer and what the consumer demands. It could be a latent need of the consumers, which they might not know at the moment, but if you offer them, they would happily accept it. In general, latent need is something that initially we do not feel the necessity to fulfill or consume as we do not know about that particular need; but once a particular value is delivered to us to fulfill that latent need, we feel that this is what we were waiting for. For example, in 2017, the British National Health Service (NHS) [4] recognized that three in five patients have prescriptions that need to be refilled in near future. However, refilling generally requires visiting the doctors again and obtaining permission, “which could be an inconvenience at the best of times and just not doable at all at the worst of times.” Based on this background, NHS introduced *Patient Access*, which is an online platform that enables customers to access their health data, contact their doctor, request repeat prescriptions through this online platform, and keep in touch with the respective medical service providers with up-to-date health data and advise, without visiting the medical center. Here NHS recognized the market gap of a convenient digital platform as the latent need of the patients to accelerate the medical service delivery process, which is happily accepted by most customers. Such latent market gaps have to be filled if the organization is to survive and grow.

To locate a gap in the market, the technique of *gap analysis* is often used. In ■ Fig. 9.2, the thick descending line shows what the forecasted profits are for the organization as a whole. The rising dotted line shows where the organization (in particular, its shareholders) *wants* those profits to be. The shaded area between these two lines represents what is called the **planning gap**: It shows what is needed of new activities in general and of new products in particular.



■ Fig. 9.2 Gap analysis

Planning gap—The difference between required profits and total expected profits from all products that is found via gap analysis.

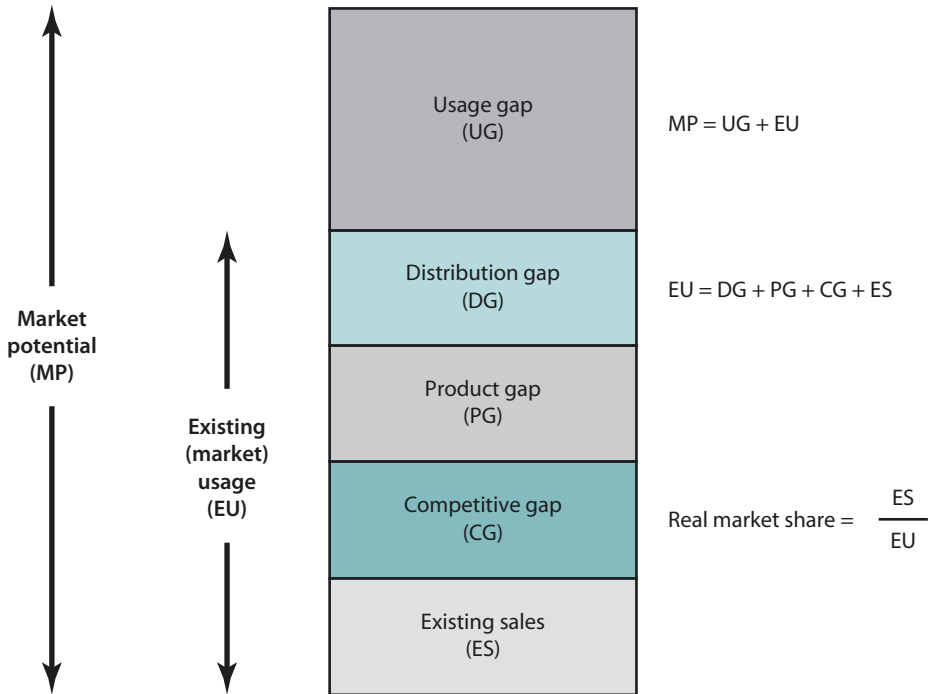
Usage gap—The difference between a firm's market potential and its products' existing usage.

Distribution gap—The amount of imposed limits on the distribution of a firm's products or service.

Product gap—The part of the market from which the individual organization is excluded because of product or service characteristics.

Competitive gap—The differences in the effectiveness of a firm's marketing strategy relative to its competitors in the same product market.

The planning gap may be divided into four main elements: (1) **usage gap**, (2) **distribution gap**, (3) **product gap**, and (4) **competitive gap**. The relationship between these gaps is best illustrated as shown in ■ Fig. 9.3.



■ Fig. 9.3 Four levels of gaps in a market

9.2.1 Usage Gap

The usage gap identifies the gap between the total potential for the market and the actual current usage by all the consumers in the market. Clearly, two figures are needed for this calculation:

- Market potential
- Existing usage

Market Potential The most difficult estimate to envision is probably that of the total market potential of a particular product available in the whole market in order to serve all potential customers, including all segments covered by all competitive brands. It is often achieved by determining the maximum potential individual usage and extrapolating this by the maximum number of potential consumers. The result is inevitably a judgment rather than a scientific extrapolation, but some of the macro-forecasting techniques, which were discussed in ► Chap. 6, Section 6.4.3 “Macro- and Microforecasts,” may assist in making this “guesstimate” more soundly based.

The maximum number of consumers available will usually be determined by market research, but it may sometimes be calculated from demographic data or government statistics. Ultimately, limitations will, of course, be placed on the actual number of total consumers. The cosmetics market, for example, is mainly limited to most women and girls over the age of 12, but boundaries of this market

may shift in the future. High demand would evolve from the potential male segment of the cosmetics markets, perhaps for skin care products. Not so long ago, the lower age boundary was something over 16 years, and who is to say that men will not at some time in the future also purchase cosmetics? After all, they have in recent years purchased perfume, known as men's colognes and fragrances, and sometimes even camouflaged as aftershave lotions.

For guidance, you can look to the number of consumers using similar products. Those wishing to sell the newly developed digital storage devices must have paid great attention to the preceding sales of records of blank compact disk, in order to understand better the demand of the digital storage market. Alternatively, you can look to what has happened in other countries. It is often suggested that Europe follows patterns set in the United States, and similarly Australia follows the United Kingdom, but after some time lag. The increased affluence of all the major Western economies means that such a lag can now be much shorter. In fact, in the case of the development of a DVD standard (which is now eliminated from the market because the online streaming technology has replaced the demand for DVD), European and primarily Japanese companies had led the way. One group trying to set the standard is a team led jointly by Philips and Sony, while the other is a team of companies led primarily by Toshiba [5].

9

The maximum potential individual usage of a particular product, or at least the maximum attainable average usage (there will always be a spread of usage across a range of customers), will usually be determined from market research figures. It is important, however, to consider what provokes consumers for such usages. One consumer panel produced some very high averages when one of the panel members decided to feed her flock of turkeys a specific brand of porridge oats: The resulting dramatic increase in usage was included in the overall results.

Existing Usage The existing usage by consumers makes up the total current market, from which market shares are calculated for a particular product. It is usually derived from marketing research, most accurately from panel research such as that undertaken by Nielsen Holdings but also from ad hoc work. Sometimes it may be available from figures collected by government departments or industry bodies; however, these figures are often based on categories that may make sense in bureaucratic terms but are less helpful in marketing terms. The *usage gap* is thus: $\text{usage gap} = \text{market potential} - \text{existing usage}$.

Making this calculation is important. Many, if not most, marketers accept the *existing* market size, suitably projected over the timescales of their forecasts, as the boundary for their expansion plans. Although this assumption is often the most realistic, it may sometimes impose unnecessary limitations. Once upon a time, the original market for video recorders was limited to the professional users only who could afford the high prices involved for the recording devices. Only after some time was the technology extended to the mass market. Another ongoing example is the decline of coffee consumption, as illustrated in Marketing in Action ► 9.1. Can the existing consumption level be increased in the coffee market?

Sometimes the market potential can be grossly overestimated. It can be at the individual brand level as well as at the industry level. For example, for the case of

3DTV, the industry experts overestimated the imminent demand of 3DTV, because of an initial enthusiasm demonstrated by focus groups' participants [6]. In this context, the TV manufacturers, especially, Sony and LG started to manufacture 3DTVs with a hope to earn high profit based on this anticipated revolutionary new product. Yes, there was high demand for 3D cinemas that started from the launch of Avatar's 3D version. However, in terms of 3DTV, the manufacturers did two mistakes in their market estimation. First, "everybody just assumed demand was there (for 3DTV) based on Avatar's success" [6]; however, the customer training and prospective side effects of 3DTV were not evaluated sufficiently. For example, 3DTV requires additional glasses and eliminates second screening; also it could cause headache and neck strain for some people, especially watching it for a long time. Second, the manufacturers also did not consider that what contents people will watch on 3DTV, for example, there would be disruptions in watching live sports through 3DTV. As a result, "ESPN discontinued their 3D feeds," and LG and Sony also have discontinued their 3DTV models, and also no other major TV manufacturers have demonstrated greater enthusiasm for the 3DTV experiment as a new product, so far [6].

In the public sector, where the service providers usually enjoy a "monopoly," the usage gap will probably be the most important factor in the development of services, although, as we shall shortly see, the product gap should not be ignored. Persuading taxpayers to pay their income taxes more promptly, for example, should probably be more important to the Internal Revenue Service than opening more local offices and providing free assistance on the phone.

The usage gap is most important for brand leaders. If a firm has a significant share of the whole market—say, in excess of 30%—it may find investing in the expansion of the total market to be worthwhile. The same option is not generally open to the minor players, although they may still be able to profitably target specific offerings as market extensions. For example, Heinz Vinegar started to produce and sell Heinz window cleaners, in order to fill up the usage gap of Heinz Vinegar, e.g., consumers who do not use Heinz Vinegar may like to use Heinz window cleaner.

All other "gaps" relate to the difference between the organization's existing sales (its market share) and the total sales of the market as a whole. This difference is the share held by competitors. These "gaps" will, therefore, relate to competitive activity.

9.2.2 Distribution Gap

The second type of "gap" is that posed by the limits on the distribution of the product or service. If distribution is limited to certain geographical regions, as some draft beers are, the distributor cannot expect to make sales in other regions. At the other end of the spectrum, multinational corporations may take distribution to the extremes of globalization. Equally, if the product is limited to certain outlets, just as some categories of widely advertised drugs are limited by law to pharmacies, then other outlets will not be able to sell them. A more likely outcome

is that, not being the market leader, a brand will find its overall percentage of distribution limited. The remedy here is simply to maximize distribution.

Unfortunately, maximizing distribution is not quite as easy as it sounds, except for the obvious market leaders. It is true that additional salesforce effort, backed by suitable sales promotional activities, should be able to increase distribution somewhat, although there will still have to be a balance between the benefits gained and the costs incurred. The prime barrier to distribution will probably be the resistance of the distribution chains to stock anything other than the bestsellers. With the power of new computer systems, retailers can more easily tell what they are selling in each of their stores and are now less likely to overstock products that do not sell well or to run out of products that do sell well [7]. This situation can partially be overcome in the short term by offering better terms and higher margins so that the distributors make more on each sale. The distributors have long since learned that their biggest profits come from concentrating on the main brands. They, above all, live by the 80/20 rule.

Marketing in Action 9.1

Coffee for the Younger Generation

Nestlé S.A. (► www.nestle.com) may be the world's largest food company, but its coffee products were fighting a drink war with the likes of Coca-Cola and Pepsi. Unfortunately for Nestlé and other large coffee roasters, soft drinks were becoming the drink of choice in America. Because most coffee is purchased in the grocery store, not even the specialty coffee stores have been able to make coffee popular with the younger generation.

The Nestlé Company groups its products into different categories: baby foods and cereals; milk and dairy products; breakfast cereals; desserts, snacks, and ice creams; chocolate and confectionery; convenience and prepared foods; hot and cold beverages; mineral water; and pet care. The hot and cold beverages category includes five roasted coffee products: Bonka, Hills Bros., Loumidis, MJB, and Zoégas. Additionally, Nestlé markets six brands of soluble coffee and premixed coffee beverages: Nestlé Cappuccino, Nestlé Classic, Nestlé Vending Machines, Nestlé Gold Blend, Nestlé Ice, and Taster's Choice.

While cola companies were hitting the younger generation with advertising that focused on the refreshing aspects of cola, coffee roasters were targeting the older generation with decaffeinated coffee ads. As the older generation began to reduce its coffee consumption, major coffee roasters realized that coffee product interest had declined dramatically. By 2000, coffee ranked below milk, cola, tea, fruit juices, and alcoholic beverages in popularity.

To recapture the drink market, Nestlé and other major coffee roasters are focusing on new products targeted to today's youth. In this attempt, the coffee rosters introduced flavored coffees laden with milk and sugar. For coffee roasters, are new products and new target markets the key to successfully closing the usage gap in the beverage market? Is coffee simply in the decline stage of the product life cycle, and, if so, should these coffee roasters continue to focus on the older generation?

Sources: Deogun, N. (1991). Joe Wakes Up, Smells the Soda. *Wall Street Journal*, B1; and Thompson, S. (2002). Nescafé's Assault Grinds to a U.S. Halt. *Advertising Age*, 4; Nestlé (2020). Our brand. ► <https://www.nestle.com/stories#/category/featured-stories/1>. Accessed 2 July 2020

Again, the internet may help reduce the distribution gap in many industries. Internet users are now quite comfortable with the idea of ordering goods over the web. As a result, the music industry, for instance, is raising the stakes. The big companies sell music directly to their global consumers and instantly transmit the product to the consumers' mobile devices once the transaction is completed online. For example, Apple Music and Spotify directly sell music worldwide to their customers via internet-enhanced e-commerce platform, which helps them to address their distribution gap. The same applies to other retailers who sell through different e-commerce platforms. It is an intriguing vision. Fans would not have to wait in line at a music store for the latest release from hit makers such as Backstreet Boys, Elton John, Madonna, Whitney Houston, Will Smith, or Britney Spears. Consumers could just click the right buttons on their PCs or mobile devices, wait about few minutes for the download, and boogie. The music companies further pushed ahead with a potentially important announcement: Universal Music, Warner Music, Sony, BMG, and the former EMI—and their partner, IBM—unveiled a technology that makes it easier for companies to track and control music and sales over the web. Indeed, the distribution gap is disappearing in the music industry [8] (see Web Exercise ► 9.1).

Web Exercise 9.1

The internet has created a distribution advantage for new products in many industries, including the live music industry. For their 1994 Voodoo Lounge Tour, The Rolling Stones (► www.rollingstones.com) broadcast the first five songs of a Texas concert over the internet. Users with the correct software were able to hear new songs by the Stones and preview the concert. Future broadcasts of this type could eliminate the need for a record company and perhaps aid bands in their fight against promoters such as Ticketmaster (► www.ticketmaster.com). What are the bands you like doing online to introduce new products and online services? Check out a few popular bands' sites and see what they're doing.



■ (Source: ► pexels.com/royalty-free-images/)

9.2.3 Product Gap

The product gap, which could also be described as the “segment” or “positioning” gap, represents that part of the market from which the individual organization is excluded because of product or service characteristics. This gap may have come about because the market has been segmented and the organization does not have offerings in some segments. Alternatively, the positioning of the organization’s offering effectively excludes it from certain groups of potential consumers because competitive offerings are much better placed in relation to these groups.

This segmentation may well be the result of deliberate policy. As we have already seen, segmentation and positioning are very powerful marketing techniques, but the trade-off is that some parts of the market may effectively be put beyond reach. On the other hand, this outcome may frequently be by default: The organization has not thought about its positioning and has simply let its offerings drift to where they are now. Because of this product gap, for example, General Motors and Ford still have difficulty competing in the high-end luxury car segment with Mercedes and Toyota’s Lexus division.

The product gap is probably the main element of the planning gap in which the organization can have a productive input—hence, the emphasis on the importance of correct positioning in ► Chap. 7, “Market Segmentation, Positioning, and Branding.”

9

9.2.4 Competitive Gap

The competitive gap refers to the differences in effectiveness of a firm’s marketing strategy relative to its competitors in the same product market. Again, consider the luxury car segment in the United States. Some 30 years ago, Toyota launched its Lexus models in this segment once dominated by Mercedes-Benz; Lexus now outsells Mercedes by a large margin. Obviously, Toyota has been more effective in executing its marketing strategy than Mercedes. Manager’s Corner ► 9.1 illustrates the changing concept of Japanese product quality that could widen the competitive gap between Japanese and US automakers.

The competitive gap represents the effects of factors such as price and promotion in terms of the effectiveness of its messages. It is what marketing is popularly supposed to be about. As we have already seen, the product or service itself will still be the prime focus of marketing activity. Needless to say, the competitive gap is not a factor in the case of the monopoly provision of services by the public sector.

Gap analysis is a tool to help you examine as thoroughly and objectively as possible your current marketing position and the strategies that you could follow to improve them in line with overall company strategies. It may direct you to fresh product or market strategies and to the need to develop new and improved products.



Manager's Corner 9.1

*Changing Concept
of Product
Quality—from Body
to Soul as from
“Engineering”
Quality to “Feeling”
Quality*

Some 30 years ago, Japanese companies were reeling from the dramatic appreciation of the yen and thus were having tremendous difficulty pricing their products competitively in the US market. Consequently—and hastily, however—US business executives as well as MBA students began to believe in the end of the “Japan era” in global competition. Can we really relax? Uh oh, Detroit, watch out. Once again, something extraordinary happened in Japan. Just as US carmakers improved their product quality, the Japanese were redefining and expanding the term. The new concept is called *miryokuteki hinshitsu*—making cars that are more than reliable, cars that fascinate, bewitch, and delight. In plain English, this expression translates into “things gone right.” It signaled a campaign by the Japanese to engineer unprecedented measures of look, sound, and “feel” into everything from family sedans to luxury models, at the same time that they continued to improve reliability.

As Mark Twain once wrote, “if you stand still on the road, you will get run over.” You can never relax in an era of global competition. When the Big Three—GM, Ford, and Chrysler—narrow their competitive gap vis-à-vis their Japanese rivals, they should move on relentlessly to look for a next generation of competitive advantage. That is the only known means of survival in a competitive world.

To pursue the next generation of competitive advantage, the Japanese companies intertwined their engineering capacities well with their global customers’ needs and feelings. It is not just mechanically developing a car engine or its interior, but to reflect on the customers’ preferences and feelings as the soul of the body of a car. “The soul leaves the body” is a common euphemism for death, but what about “when the soul leaves business”? This is increasingly the case, as business managers care more about the bottom line than about decency and curative behavior. As a recent study explores in “qualitative marketing research,” business must change: the soul must come back home.

Wrestling for the soul of business is nothing new. Each year we are reminded about just how far some companies are falling short. In 2015 Volkswagen cheated emissions regulators. More recently, United Airlines bloodied a passenger while dragging him from a plane the company had overbooked. Most stunning to it is that not a single United employee—pilot, ground crew, or flight attendant—interceded to say, “This is wrong.”

The traditional pillars of business—risk, competition, product or service decision, subsequent profit, and ownership—are insufficient for the modern age. Companies focus too much on hedging risks, ousting their competitors, maximizing profits, and expanding assets, and forget the cardinal rule of human decency: reverence for others. Product or service decision without soul takes on a sinister character, which charges exorbitant rates for inflight pillows or hotel mini-bar snacks. In a true sense, business is meant to create value through its product or service decision, for itself and the customer, not leach off others.

There was a time when managers cared about all these things. Years ago, a Japanese firm was dissatisfied with 5 product failures in a 12,000-item shipment. The company demanded that the supplier conduct an investigation into its production process to prevent future product problems. Their supplier was dismissive, offering instead 20 free units as compensation. The company stood firm, demanding a commitment to flawless excellence or their contract would be cancelled. The investigation took place, and the product continues to be superior. Perhaps *Profiles in Courage*, the 1956 book by John F Kennedy, needs to be reread today.

Furthermore, the old pillars need a refurbishing, placing a seat on top of all decision-making related to product or service design and delivery to give the customers their rightful priority. New pillars should be truthfulness, simplicity, expanded participation, and personal responsibility. When problems arise, managers often obfuscate, develop complicated excuses, or disengage by claiming “I didn’t know, I just work here.” Managers must take responsibility for the effects of their businesses, consequences from the flaws of their product design and delivery decisions, and initiate curative action for past damage and to prevent future harm. Not all conditions can be presented in an employee handbook; however, the acid test question is: “Does your mother know and approve of what you do?”

How to instill these new pillars in business, and in particular product decisions? One solution is to promote mindfulness in corporate life. It is easy to lose sight of what is important, spending each day laboring in an office far from the impacts of work. Practicing mindfulness can help overcome this.

Another is to specifically focus on how to bring the soul back into business operation. For this, we can look to the tenets of the Jesuits, whose vigorous promotion of honor and service deserves our praise and emulation.

If businesses are to thrive in this era, they must rediscover their soul. We need companies like the old GM—a car company of car people. Passion and commitment to excellence must drive business and its product design, delivery, and evaluation decisions. This is the soul of business that should be reflected in product/service decision-making, and just as the body dies without its soul, so does the business or its products/services as market offerings. Therefore, intertwining the technical aspects of product development with soft skills like understanding customers' voices and feelings is imperative to bring the soul back into new product development, in order to deal with the competitive gap(s) of the product.

Sources: “A New Era for Auto Quality,” *Business Week* (October 22, 1990): 83; Bowonder, B., & Miyake, T. (1994). Creating and Sustaining Competitiveness: An Analysis of the Japanese Robotics Industry. *International Journal of Technology Management*, 9, 575–601; and Unknown (2003, June 12). Birthday Blues. *Economist*; Czinkota, M.R. (2018). *In Search for the Soul of International Business*. New York, NY: Business Expert Press

9.2.5 Market Gap Analysis

In the types of analysis described in ► Sects. 9.2.1, 9.2.2, 0, and 9.2.4, gaps in the product range are looked for. Another perspective—essentially taking the product gap to its logical conclusion—is to look for gaps in the *market* that the company could profitably address, regardless of where its current products stand.

Many proactive marketers would, indeed, question the worth of the theoretical gap analysis described in ► Sect. 9.2, “Gap Analysis for Scanning and Idea Generation.” Instead, they would immediately start to pursue a search for a competitive advantage.

9.2.6 Broader Objectives

Gap analysis largely focuses on incremental changes of existing products in existing markets. Even within this most important quadrant, however, the list of possible innovations can be expanded. Peter Drucker [9], for example, suggests five possibilities:

1. New products or services that are needed to attain marketing objectives
2. New products or services that will be needed because of technological change that may make present products obsolete
3. Product improvements needed both to attain market objectives and to anticipate expected technological changes
4. New processes and improvements in old processes needed to satisfy market goals—for instance, manufacturing improvements to make possible the attainment of pricing objectives
5. Innovations and improvements in major areas of activity—in accounting or design, office management, or labor relations—so as to keep up with advances in knowledge or skill

Despite being 70 years old, this list offers sound advice. The last two categories, and in particular the emphasis on innovations in other areas of activity, are often neglected in the “new product” development process. The focus is on the product itself, where changes in the way it is manufactured, delivered, or supported may, in fact, be the main areas where “competitive advantage” can be gained.

Innovation is important, indeed essential, to the future of most organizations. However, it must be kept in context. Tom J. Peters and Robert H. Waterman, Jr.’s well-known exhortation [10] still offers sound advice:

- » Stick to the knitting.... While there were a few exceptions, the odds for excellent performance seem strongly to favor those companies that stay reasonably close to the businesses they know.

Focus, as it is now more fashionably known, is a sound policy. More important, perhaps, is a keen awareness that the future usually also depends on the existing products (albeit so—incrementally—changed over time that they would be unrecognizable to today’s customers!). In this context, it is worth noting the 5 new product strategy scenarios, identified based on a study of 140 companies in Canada [11]:

- *Technologically driven strategy* (26% of firms)—This strategy is based on technological sophistication but lacks marketing orientation and product fit/focus. New products tend to end up in unattractive, low-synergy markets. The strategy has moderate results: high impact on firms but a low success rate.
- *Balanced, focused strategy* (16% of firms)—This winning strategy features a balance between technological sophistication, orientation, and innovation and a strong marketing orientation. The program is highly focused, and new products are targeted at very attractive markets, with by far the strongest performance.
- *Technologically deficient strategy* (16% of firms)—This “nonstrategy” has weak technology, a low technological synergy, yet it involves new markets and new market needs. Results tend to be very poor.
- *Low-budget, conservative strategy* (24% of firms)—This strategy represents a low level of R&D spending, involving “me-too” products, but with a “stay-close-to-home” approach; it involves a high technological synergy and high product fit/focus. This safe, efficient, but undramatic program offers moderate results: good success rate and profitability but low impact.
- *High-budget, diverse strategy* (19% of firms)—This strategy represents a high level of R&D spending but is poorly targeted; it offers new (highly competitive) markets to the firm but no program focus. Results tend to be very poor.

9.2.7 Beyond the Trends

Even the broader perspective described in ► Sect. 9.2.6 does not, however, cover the major developments in markets that result in quantum leaps and that overturn the long-standing positions in those markets. For example, the first steam engine

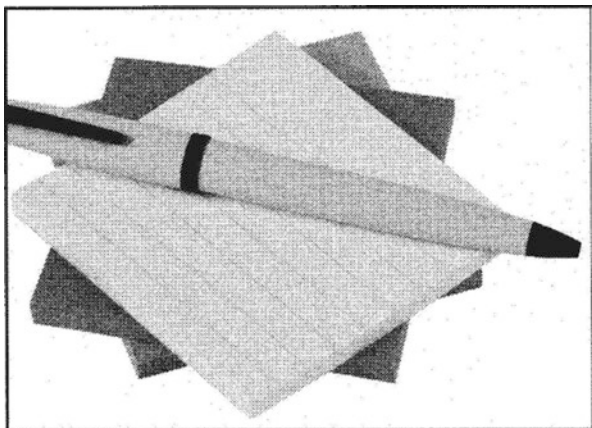
was built in 1705, but perfecting and dramatically improving manufacturing efficiency took more than a century, likewise with electricity: Though it was demonstrated in 1876 that small electrical generators could light a lamp, decades more of development were required before electric power generators delivered major productivity gains in factories. And the computer revolution really has been an evolution, with clunky and expensive mainframes of the 1950s leading to the midsize but still pricey minicomputers of the 1970s and, in turn, to the small, cheap, but far more powerful PCs of the 1990s [12] into the twenty-first century.

The path of innovation is rarely smooth or predictable. A random discovery can start the whole process. It may run into numerous blind alleys. Yet a built-in urge—driven by scientific curiosity or commercial gain—can give it momentum. Eventually, one technique spawns an array of unexpected ones. Indeed, even after an idea has emerged, it often cannot be adequately explored by market research because the general public has no understanding (based on previous experience) of what it may mean. Educating the customer is frequently the first objective of such product or service launches.

For instance, consider what happened after 3M's laboratory technician, Spencer Silver, discovered the glue now used on Post-it Notes, and his colleague, Arthur Fry, made the intellectual leap of applying this to the notes themselves [13]:

- » Conventional **test marketing** still failed, however, until the two executives took a hand. Enthusiasts themselves for the product, they realized its potential indispensability would only be appreciated if it got physically into the hands of potential customers. They gave away wads of little notepads to secretaries, receptionists, bank clerks, and businessmen, saying “Here, try this,” and watched people becoming literally addicted to the product.

Test marketing—The technique of replicating everything—from promotion to distribution—as well as “product” but on a smaller scale to extrapolate national and international results.



The role of the product champion, the executive who drives the development of the product (often against the odds), is frequently a critical element of new product success.

Dramatically innovative “products” have had major impacts on a number of markets. Although such products are few and far between, their influence on our lifestyle has been vastly greater than that of the evolving products or services. Think about the notebook computers with a built-in wireless modem that became popular in the past decades. As a result, we now can work at home or even while vacationing in the mountains of Colorado without going to our offices in Chicago. Similarly, virtual reality, such as “morphing,” has changed the excitement of going to see movies forever.

What is more, as we have seen, innovations follow few of the rules of conventional marketing. Even market research is of little use in the basic decisions (although it still is of considerable use in helping to determine the exact details of the launch) [14]. The main requirement is for confidence in the new development. The most successful organizations try to create the sort of environment in which such creativity is nurtured. They also foster the attitude of mind that will quickly recognize the merits of such outstanding innovations.

As a result of the lack of conventional marketing input to these important new developments, a number of practitioners, as well as some academics, have tended to play down the importance of conventional marketing. That is a mistake. With the distorting benefit of hindsight, we tend to notice the few major developments. We do not see the many hundreds of failures, which their creators believed in just as sincerely.

Booz Allen Hamilton Inc.’s seminal research [15] offers a useful classification of new products, based on the newness of the product and its impact on the market. Although many products are considered *new*, the level of their newness varies, and their relative proportions are also indicated, as follows:

- *New-to-the-world products* (entirely new markets), 10%
- *New product lines* (new products in existing markets), 20%
- *Additions to existing lines*, 26%
- *Improvements/inrevisions to existing products*, 26%
- *Repositioning* (existing products in new segments/markets), 7%
- *Cost reductions* (similar performance at lower cost), 11%

Above all, we should remember that, despite the glamour of the new product development process, it is the regenerated “cash cow” that continues to dominate even the “development” process in most markets.

9.3 Product Modification

In practice, most “new” products are modified existing ones. How many times have you seen a television commercial that tells you “New Brand X now has added Y!”? Such changes are incremental, often barely even that, and they follow somewhat different rules from genuine new products. Typical modifications may include:

- *Feature modification*—Sometimes called “functional modification,” this approach makes changes (usually minor ones) to what the product or service does. Manufacturers of compact disk players added “programming” and remote control to these basic devices to make them marginally more attractive to users (but with a margin that gave them a competitive advantage). Frequently, the main element of the modification is simply a change in packaging color and design and even the change in package size. It may, though, be expanded into the major message needed to rejuvenate a jaded advertising campaign.
- *Quality modification*—As consumers grow more discriminating, many suppliers (often led by their Japanese competitors) have gradually increased the quality of the basic product. Conveying this message to consumers may be more difficult, particularly if the product already has a bad image. However, it can be very powerful if successful—as the Jaguar car company, now owned by Ford Motor Company, demonstrated by continually improving its luxury sedan’s reliability in the 1990s. Similarly, the Chinese car manufacturers have been attempting to improve the safety and environmentally friendly qualities of their cars, with an aim to enter into the international markets in large scale.
- *Style modification*—This is perhaps the most frequent modification, at least in style-conscious industries. An “old-fashioned” product may be unsaleable in some markets, but it may find a niche in more conservative ones. An annual model change in automobiles is a good example. In the apparel industry, we see that newly designed dresses replace the existing designs. Such style modifications of an existing brand could also be implemented by replacing the existing brand ambassador with a new one. For example, we see that many prominent brands across different industries including the nonprofit ones (e.g., UNESCO) change their global brand ambassador from time to time to synchronize with the style and appeals of their new brand ambassador among their target audiences who follow the new brand ambassador more passionately than the previous ambassador.
- *Image modification*—This may also be associated with style modification (or “perceived quality” changes), but in essence the core product or service itself remains unchanged; and some image modifications may actually stress style modification. “Image modification” concentrates on changing the “nonproduct attributes” so that consumers feel that the “total package” has changed. Image is often the most important element of that package. For example, Pepsi modified the image of its can by making it look more futuristic and “space age.”

Another good example is national beer producers, who have been battered by the enormous popularity of microbreweries in recent decades. In an attempt to keep up with finicky consumers, the national beer companies have undertaken a practice labeled “phantom branding” to lure consumers to their products. Miller Brewing Company sells its Icehouse beer as a product of the fictitious Plank Road Brewery. Similarly, Coors Brewing in Golden, Colorado, produces Killian’s Irish Red and positions it as an import [16].

9.4 New Product Development

In the 1960s and 1970s, when marketing was a relatively young profession, marketers often claimed that the best new products were bound to be those that were specifically created to meet the needs of the marketplace [17]. Ideally, such products originated with the market researcher discovering unsatisfied wants. A principle still held to be true is that new product ideas, once they have emerged, should be rigorously tested against the needs of the market before the organization's full resources are committed.

However, marketing practice has since shown that the really creative ideas can rarely be turned on like a faucet, to meet the market researcher's specifications. They come, instead, from every direction, sometimes emerging from the least likely of places. They may come from technical developments in the laboratories (e.g., Akio Morita, Sony's former chairman, conceived the Sony Walkman for his own fun), they may come from the salesforce, or they may come from practice in other countries or other industries (e.g., think about 100% alcohol-powered automobiles that Ford and Volkswagen market in Argentina and Brazil).

Think about Procter & Gamble's Liquid Tide laundry detergent. It was an innovative product developed in an innovative way by taking advantage of both the company's technical capabilities and various market requirements in the key markets around the world. Germans were extremely concerned about polluting rivers with phosphate, a key whitening ingredient in the traditional detergent. To meet the German customer demand, Procter & Gamble in Germany developed fatty acid to replace phosphate in the detergent. Similarly, Procter & Gamble Japan developed surfactant to effectively remove the grease in the tepid water that Japanese use in washing their clothes. In Cincinnati, Ohio, Procter & Gamble independently developed a builder to keep dirt from settling on clothes. Putting all these three innovations together, the company introduced Liquid Tide and its sister products around the world [18].

The secret of finding new products is not to specify them but simply to recognize them. Keep in mind, "Necessity is the mother of invention." For example, since the COVID-19 pandemic has started to spread across the world, we have been washing our hands much more than ever before, knowing that washing hands frequently is necessary to protect ourselves from the virus. And once the hand sanitizers and soaps all disappeared from the shelves of the supermarkets during the initial weeks of COVID-19 outbreak, many households started producing soapy water with normal household ingredients, which they never thought before that such normal household items could be used to produce soap. The need to survive from the virus enabled mass people to think about alternative options to fulfill their everyday needs in a different way than before that could possibly protect them from the virus. In this essence, the ultimate necessity of marketers is to survive and prosper in market competition, which drives product/service innovation. This means, then, that the marketers of new products must be constantly scanning the sources

available to them, particularly the literature, to find new ideas. The need is, therefore, for an open mind. The **Not Invented Here (NIH) syndrome** is the worst enemy of new product development.

Not Invented Here (NIH) syndrome—The phenomenon in which the manager does not scan the sources available to him or her, particularly the literature, to find ideas for new products.

Perhaps the most common means of building an outstanding brand is being first into a market. This does not mean being technologically first, but rather being first in the mind of the consumer. IBM, Kleenex, Casio, Boeing, McDonald's, and Apple did not invent their respective products, but they were first to build major brands out of them and bring them into the mass market [19].

9.4.1 Customers

By far, the greatest sources of new product ideas are customers. After all, they are the users of the product or service; and the new uses they make of it, or the changes in specification they demand, are both the most potent and latent forces on the product development process and its richest source of ideas.

This customer “information” is normally received from the salesforce (or even through correspondence). It may be in the form of descriptions of what the customer is actually doing with the “product” (which may indicate new uses for it) or requests from the customer for specific new products or services.

Eric von Hippel's research [20] reported that in 81% of all the innovation cases studied, it was the user who perceived that an advance in instrumentation was required, amended the instrument, built a prototype, improved the prototype's value by applying it, and diffused detailed information on the value of the invention. He found that the pattern was repeated in the process equipment industry, but this pattern was not universal (two of his students found that the reverse was true in parts of the polymers industry, where it would have been difficult for users to undertake the development). He continued to make a plea for separating all users into “routine users” and “innovative users.”

As for marketers, understanding customers would be similar to an actor's attempt to become familiar with his character as much as the actor on-screen would seem more like the on-screen character than the actor himself in real life. Similarly, marketers should put their feet into the customers' shoes to understand their customers. For example, if you are a marketer of coffee products, try to think about how many different ways you and the people you may know would prefer to drink a cup of coffee.

9.4.2 Innovative Imitation

Nothing is wrong with imitating competitors' products as long as the imitation complies with the relevant business laws and regulations and the ethical standard. In fact, most so-called innovation in the field of product development is actually imitation. A simple look around us quickly shows that imitation is not only more abundant than innovation, but actually a much more prevalent road to growth and profits. Even in the United States, most successful companies began as imitators. Boeing got into jet aircraft as an imitator of British and German inventions; Texas Instruments and Sony got into transistors as an imitator of Bell Lab's technology; Holiday Inn got into the motel business as an imitator [21].

Peter Drucker [22] explains the advantages of this principle, as follows:

- » Like being “Fustest with the Mostest,” creative imitation is a strategy aimed at market or industry dominance. But it is much less risky. By the time the creative imitator moves, the market has been established and the new venture has been accepted. Indeed there is usually more demand for it than the original innovator can easily supply. The market segmentations are known or at least knowable. By then, too, market research can find out what customers buy, how they buy, what constitutes value for them, and so on. Most of the uncertainties that abound when the first innovator appears have been dispelled or can at least be analyzed and studied.

Many Japanese companies are perhaps the most successful exponents of this technique. For instance, Panasonic Corporations (formerly known as Matsushita), a global electronics manufacturer of Panasonics, Quasar, Technics, and National brands, deliberately adopts a policy of “followership” [23] as part of their innovative innovation strategy.

Sony learned an important lesson in defense from this experience. Only 6 months after it launched its revolutionary palm-sized camcorder, Panasonic launched an even lighter look-alike. Within weeks, on this later occasion, Sony hit back by launching two new models: one even lighter still and the other with new features. The company was able to do this because it had invested in *parallel development*—it had been developing the next generation of product even while it was still introducing the previous one. Succinctly stated, Japanese marketing revolves around the management of product market evolution. Japanese manufacturers manage not only the product life cycle of individual products, but the evolution of a complex of product lines and items. They carefully choose and sequence the markets they enter, the products they produce, and the marketing tactics they adopt [24]. We can find another example of innovative imitation in the smartphone industry. However, Apple first created the popularity of the smartphone concept; the concept was first introduced by Canova and IBM in 1992. Since the introduction of the smartphone concept, the competitive smartphone brands (including iPhone and Samsung Galaxy) have been actually imitating the ideas of the different smartphone features (e.g., communication and navigation features) among them, in order to upgrade their next version.

An alternative approach, still based on “imitation,” is to find the major problems associated with existing products in a market and to develop a product that resolves them (or at least resolves those that consumers see as having the highest priority). However, this approach will not work against the majority of brand leaders unless marketing managers are alert and informed about their product’s performance.

9.5 Corporate Response

Assuming that the gap analysis has shown the need for a specific new product or service, or for some marketing activity to improve performance in some other area, the next stage will be to determine whether such a product or service, or activities, can be “profitably” developed.

The first consideration will be how the product or service “meshes” with the existing activities undertaken by the organization. The context for this examination should be that of the formal “corporate strategy”—the statement of where the organization has decided it is going.

Some of the internal corporate factors that may need to be taken into account in further investigations will be (1) production capabilities, (2) financial performance, (3) investment potential, (4) human factors, (5) materials supply, (6) cannibalism, and (7) time.

9.5.1 Production Capabilities

Whether the new product or service can actually be produced will depend on what is available within the organization, in terms of the organizational capabilities and resources. Adding extra demand onto equipment that is already being run close to full capacity may either place impossible demands on production or lead to a disproportionately large investment. The existing plant may be unsuitable or may not be ready to handle the expanded demand. General Motors launched a new division, Saturn, with huge fanfare in 1991. Despite its prelaunch promotional success, however, the Saturn division was not able to deliver enough cars to meet a sudden increase in demand because of various engineering and production snafus. As a result, many potential customers were wooed away by competitors such as Honda and Toyota in the first years.

The limitations in service sectors might, at first sight, appear to be less serious, although the expansion of local branch premises, if needed, may not be a trivial matter. However, the constraints imposed by the availability of human resources, especially those involving specialist skills, may prove to be just as severe as in manufacturing sectors.

9.5.2 Financial Performance

Financial performance is, in large part, what the Boston Consulting Group (BCG) Product Portfolio Matrix is about. The question to be asked is whether the organization can afford the proposed changes. The answer is not just a matter of potential profits, but of cash flow. The extra investments in stock and debt, let alone in plant or promotion, may be too much for a strained cash flow or departmental budget to support.

9.5.3 Investment Potential

The BCG Matrix relates to cash generation for investment, from internal cash flows. This represents the usual form of investment for most larger organizations: The stock market has declined in importance as a primary source of investment funds. On the other hand, in some situations external finance (now more usually obtained from banks rather than the stock market) will be needed. The standing of the organization with the financial community then becomes an important factor.

This financing of investment is particularly problematic for those medium-sized businesses that are still too small to challenge the major players effectively but have grown to have overheads that mean that they can no longer survive as small “niche” players. New product policy is particularly important in this situation, as are mergers and acquisitions—which may (at least in theory, but not always in practice) offer a more immediate solution.

9.5.4 Human Factors

The availability of human resources may be an important factor and will become an increasingly significant one with the demographic changes that are taking place. The chances are that new developments will require skilled personnel, who are becoming increasingly difficult to recruit and keep. Sometimes the existing workforce can be retrained, but doing so requires that the marketing plans take into account the organization’s training capabilities. Such capabilities are in part a function of corporate and societal culture. For example, large Japanese companies, with their custom of lifetime employment for many of their employees, can receive long-term benefits from training them. These Japanese businesses can undertake expensive training programs without fearing that the workers will leave the company. Employees generally remain loyal to the company in anticipation of lifetime employment, and, by custom, employees who leave a company are generally not considered for hire by other Japanese companies [25].

9.5.5 Materials Supply

The availability of raw materials or components, or subcontracted services, may be critical. Producers increasingly depend on outside suppliers for the greater part of the final product or service that they are assembling. Even the insurance broker depends on the underwriters who will do business with him or her, and the fast-food outlet has a whole range of suppliers—from the wholesale butchers who provide the meat to the employment agencies that constantly cope with the high staff turnover. If suppliers are scarce or erratic, they will pose major problems. This is the primary reason that many Japanese automakers encouraged their Japanese suppliers to follow them to the United States when they located production facilities here. The close relationship between the principal Japanese company and its suppliers is known as a vertical *keiretsu* and is increasingly practiced by US firms.

9.5.6 Cannibalism

One often-neglected factor is how much of the new brand's business will come from those of existing brands. It is important for marketers to determine whether a new product in the existing product line will negatively affect the sales of the existing products of that particular product line. Similarly, marketers need to be cautious whether any of the existing products of a product line will negatively affect the projected sales of a new product of that particular product line. Such *cannibalism* must be taken into account when there is any degree of overlap. If the organization is building on its strengths, there often will be (and should be) significant overlap [26]. For example, Procter & Gamble, a company with multibrand strategy, minimizes cannibalism by positioning its laundry detergents, Tide and Cheer, as “dirt fighter” and “effective at any temperature,” respectively.

9.5.7 Time

One of the factors often overlooked in any process of innovation is just how long it may take, e.g., the total duration of product or service development and delivery. For instance, IBM may be able to develop a new feature for an existing product and bring it to the market in a few months, but the process of developing and testing even the simplest complete mainframe computer is likely to take between 3 and 5 years; and bringing in a new technology (a new “generation” of computers) is likely to require a development period nearer to a decade. Intel normally takes from 3 to 5 years from the start of design work on a new microprocessor until its formal introduction [27].

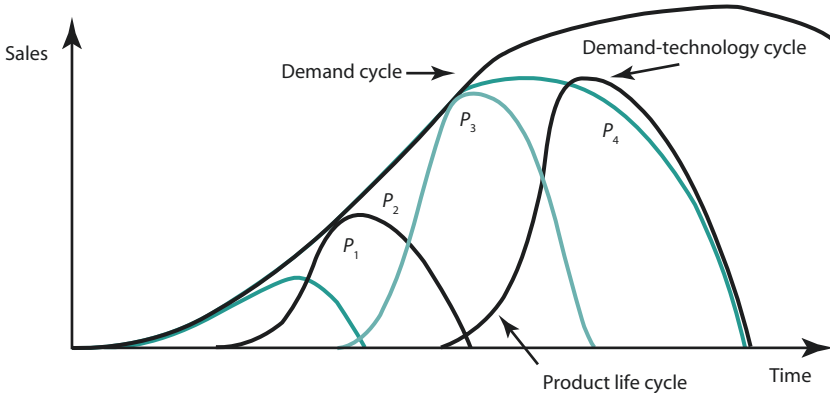


Fig. 9.4 Demand–technology–product life cycle. (Source: Ansoff, A.I. (1984). *Implementing Strategic Management*, p. 41. Reprinted by permission of the Ansoff Family Trust and the Estate of H. Igor Ansoff)

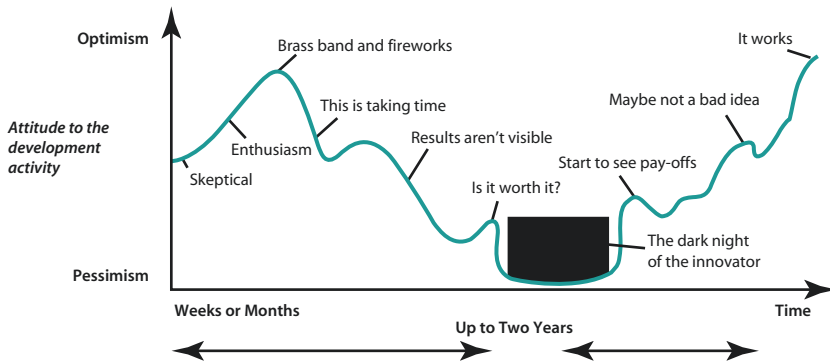


Fig. 9.5 A map of the organization energy during any major transition. (Source: Nolan, A.V. (1989). *The Innovator's Handbook*. London: Sphere Books. 8. Reprinted by permission of Vincent Nolan)

These development timescales are, however, decreasing rapidly. The challenges caused by this progressive acceleration in the pace of development are illustrated in **Fig. 9.4**. Despite an ongoing demand for new products, however, marketers in charge of product development tend to go through a spate of “psychological” problems inherent in this process, as illustrated in **Fig. 9.5**.

9.6 Marketing Response

At a more detailed level, the *fit* with the existing marketing factors and capabilities must be considered. Elements that affect the marketing response include (1) match with existing ranges, (2) price and quality, (3) distribution patterns and capabilities, and (4) seasonality.

9.6.1 Match with Existing Product Lines

“New products” will be easier to sell if they complement the existing product lines. Then they will be able to build on existing distribution patterns and may even be able to capitalize on existing awareness and favorable consumer attitudes. The “new products” may help sell more of the existing ones because they make the product line more comprehensive. A product line of diet foods will benefit from new additions if these products offer a wider choice for the consumer, who may have become bored by the narrower selection previously available. They may also obtain a larger display (shelf space) at the point of sale, up to the point beyond which the retailer will not stock additional items. Such efforts of keeping consistency with the existing product line should make sure that the new product should offer complementary value in comparison to the value offered by the other products in the same product line. Otherwise, if the new product offers competitive value in comparison to the existing products of that particular product line, in that case there is a likely threat of cannibalism as described in ► Sect. 9.5.6, Cannibalism.

9.6.2 Price and Quality

Some consistency is needed with the existing products or services, in terms of consumer perceptions of what price (and quality) range the organization lies in. This is particularly true of introducing a cheaper product into a high-quality product line. The buyers of the existing product line may see this product as reflecting a reduction in quality of their normal products, and the introduction may have a disastrous effect overall. It may not even help the new product because consumers in general may assume that, in line with the price, quality has been abandoned. In the 1970s, following a merger, the then very successful line of Rover cars was drowned in the overall mediocrity of the rest of the British Leyland product line—without any noticeable increase in sales of the cheaper product lines.

At the other extreme, adding a higher-priced product to a cheap product line will probably not be a successful strategy, either—for the obvious reason that it is out of line with the overall strategy and is unlikely to meet the needs of the existing customers who are, presumably, interested in price. In the 1980s, Honda, Nissan, and Toyota all entered a high-end luxury model segment historically dominated by Mercedes and BMW in the United States. Instead of selling their luxury models as Hondas, Nissans, and Toyotas, the Japanese automakers launched new divisions—Acura, Infiniti, and Lexus, respectively. Indeed, the Japanese luxury models have successfully taken a market share away from Mercedes and BMW without cannibalizing from their own Hondas, Nissans, and Toyotas.

9.6.3 Distribution Patterns and Capabilities

Clearly, as we have already seen, if existing distribution channels can be used, costs will be minimized, and the product or service can build on existing strengths. If

new channels are needed, the development of these channels may pose significant costs and will lead to a learning curve in the handling of those channels, a factor that management does not necessarily understand.

When a business launches a new product, particularly in an unfamiliar foreign market such as Japan, use of the existing local distribution channel can be crucial. For example, General Foods has successfully penetrated into the Japanese market with its instant coffee products by piggybacking on the well-established distribution channel for seasonings owned by Ajinomoto of Japan. Similarly, Volkswagen has Nissan assemble and distribute its German cars through the Japanese partner's distribution channel.

9.6.4 Seasonality

The ideal organizational trading pattern is an even one, with no seasonal variation, so that resources may be most efficiently utilized, without the unproductive problems posed by having to meet peaks and troughs of sales. Ideally, a new product or service will, therefore, not be seasonal or be one that complements existing seasonal patterns—making its peak sales when the others are in a trough, and vice versa. It was reportedly for this reason that, many years ago, Walls, a British company, decided to complement its range of ice creams, with its summer peaks, by starting a hot dog business, with its peaks in winter. Seasonality is also the reason that many refrigeration service firms have added air conditioning and heating services to their offerings.

9

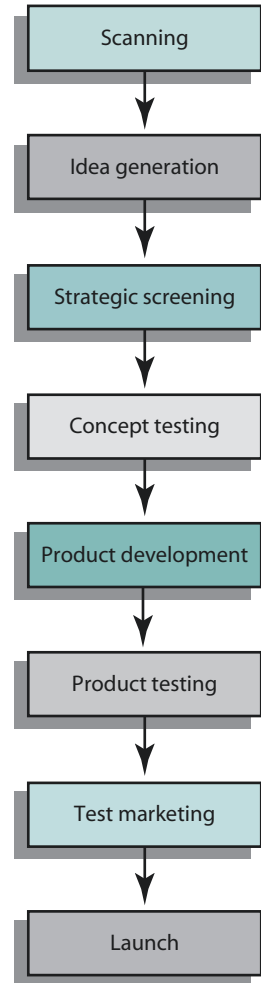
9.7 Product Development Process

The complete development process can be conveniently split into a number of stages, as shown in the simplified schematic diagram in ■ Fig. 9.6. We have already discussed the first two activities, scanning and idea generation, in the context of gap analysis. Much of the subsequent process comprises steps that are designed to minimize risk. These steps are strategic screening, concept testing, product development, **product testing**, test marketing, and product launch.

9.7.1 Strategic Screening

Much of the subsequent product development process comprises steps that are designed to minimize risk. Indeed, the next stage is that of the initial screening of these ideas. The contexts for this screening process are the corporate and marketing strategies. We examined the requirements imposed by these strategies in some detail in ► Sects. 9.5, “Corporate Response,” and ► 9.6, “Marketing Response.” The potential new “products” that have been found are now simply matched against these requirements. This process can be handled in two stages, namely, qualitative screening and financial analysis.

■ **Fig. 9.6** A typical product development process



Qualitative Screening Qualitative screening simply involves qualitative study of the ideas to examine, at the broadest level, whether they conflict with the overall corporate or marketing strategies. This type of screening need not demand major effort because the key characteristics of the new “product” will usually be obvious, as will those of the relevant parts of the strategies—always assuming that the organization takes notice of its own planning documents. A match or mismatch should be fairly obvious.

Make or Buy The decision either to “make” or “buy out” is likely to be determined at this stage. Traditionally, organizations offered only the products or services that they themselves “manufactured.” In recent years, many organizations have adopted a wider perspective by marketing products made by other organizations. The reason is that those other organizations had the special expertise necessary or simply that their costs were lower.

Financial Analysis If the qualitative screening reveals no significant problems, the acid test—at this early stage of new product development process—is to forecast the financial performance of the new brand. The best way to achieve this is to prepare a pro forma income statement, together with the associated balance sheet and the traditional further analyses, such as cash flow. With the advent of digital calculation tools and software, this process should now be relatively simple.

Sensitivity Analysis The great potential benefit of such digital calculation tools, e.g., the simplest spreadsheets, but one that is rarely capitalized on, is the ability to carry out “What if?” tests (sensitivity analyses) very easily. This means that there should no longer be any excuse for not examining all the alternatives. For example, a 10% change in price will result in a considerably greater than 10% change in **net profit**, and a 10% change in volume will also have a disproportionate effect. In a sensitivity analysis, each of the main variables is, say, altered by 10% and the resulting change in profit noted. The value of the sensitivity analysis is to see to which of the factor’s net profit is most sensitive so that the manager can focus on these variables and perhaps think twice before embarking on a low-price strategy.

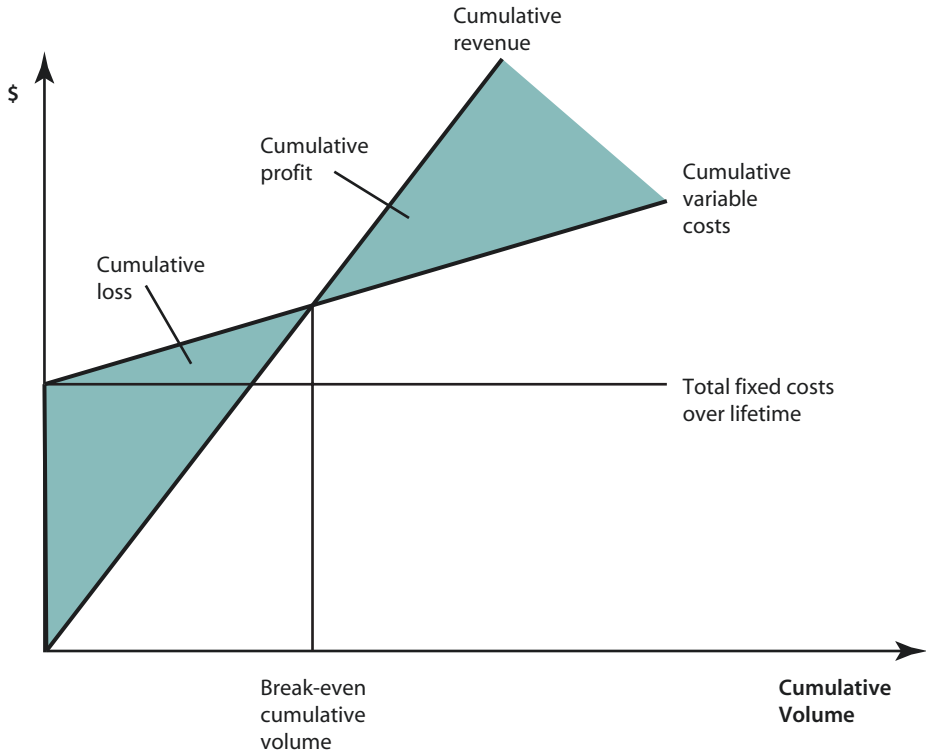
Product testing—A consumer filter that is much like concept testing but is more detailed and may lead to modification of the product itself to match consumers’ needs.

Net profit—The optimal point at which the marginal costs of the products, services, or activities added are exactly matched by the marginal revenues they generate.

The one critical requirement of such a financial analysis is that it must be honest; indeed, because most managers are justifiably enthusiastic about their new “products,” the financial analysis should probably aim to be on the pessimistic side. This means that the forecast sales volume, in particular, should be realistic and that *all* the costs should be included. Ideally, worst-case scenarios should also be prepared, even if they do not have as wide a distribution.

The danger of building in overly optimistic forecasts can be seen in the experience of the Concorde airliner because the same team that developed it also carried out this evaluation. It is not surprising that, in their optimistic commitment to the new product, they considerably underestimated the cost of development and overstated its sales potential.

Break-Even Point Analysis The essential requirement is that the new product should at least “break even,” so that the investors of new product could survive as a minimum at the first instance, in order to gradually make profit over time. In other words, the net operating profit, after deduction of both variable and fixed costs, over the projected life of the product or service should at least recover the initial investment. This is demonstrated, and practically calculated, by the use of a simple diagram, as shown in ■ Fig. 9.7. The revenue will typically be drawn as a straight line starting at



■ Fig. 9.7 A break-even analysis

the origin, and this will probably reflect the real situation in which the price is unchanged. The **variable costs** will also be shown as a straight line, but this is more of a simplification because, in practice, steps may appear in the line as new plant capacity has to be added. More importantly, this cost line will start at a height above the origin, which allows for the fixed costs that will occur even if no product is sold, including all the development and launch investments. Assuming that the product does break even, this point will be shown where the two lines cross (and the cumulative revenue covers all the cumulative costs). The (shaded) area between the lines above this point represents the overall profit. The diagram is a simple way of demonstrating what volumes (i.e., number of units of the new product) are needed to produce and sale, in order to recover all the costs and initial investments.

Variable costs—Any additional or marginal costs incurred by a firm.

Marginal Costing One key concept that is widely used in marketing and particularly for new “products” is that of *marginal costing*. This concept says that, when an organization is considering future plans, any additional (and hence “marginal”) business

should bear only the *variable costs* incurred. The existing **overhead costs**, which are normally allocated (by a variety of possible methods but typically by “absorption costing”) to the products or services, are *not* included in this case because it is reasoned that they will be unchanged by the new activity. The aim is to maximize net profit, to reach the “optimal” point at which the additional (marginal) costs of the products, services, or activities added are exactly matched by the marginal revenues they generate. Sensible marketers will, however, draw the line somewhat below this point, recognizing that costs are frequently underestimated.

Overhead costs—Any fixed costs, which are normally allocated via “absorption costing” to a firm’s products or services.

Marginal costing can thus prove to be a particularly valuable accounting technique, which favors growing marketing organizations. However, it should not be allowed to hide the fact that the overhead eventually must be picked up by someone. If all the new brands bear no overhead, and the old brands eventually die (perhaps hastened to their grave by the high overhead they have to bear), the marginal profit (conventionally called the **net contribution**) will look excellent; however, the overall organization, with no cover for the overhead, may be making a loss.

Net contribution—A firm’s marginal profit from its products, services, or activities.

Marginal costing can also be risky when a company exports its products abroad. A relatively small Korean company manufacturing a certain precision instrument once received an unexpected purchase order from an American importer. Expecting just a short-term business relationship with its US importer, the Korean company set a selling price based on marginal costs plus a reasonable mark-up because its overhead cost had been allocated across domestic sales. To the Korean company’s surprise, however, US competitors in the precision instrument industry filed an antidumping charge with the International Trade Commission against this company, alleging that its product was sold at “less than fair value.” In other words, the Korean company’s overhead cost was not added on to its selling price. Although the Korean company’s marginal costing would have made a great deal of marketing sense if sales had occurred in its home market, such pricing might have proved to be politically unacceptable for its exports due to antidumping laws in the United States [28]. The same could be said for US firms exporting abroad.

9.7.2 Concept Testing

Booz Allen Hamilton Inc.’s research has shown that more than 80% of new product ideas fail. The proportion that never makes it into development is probably at

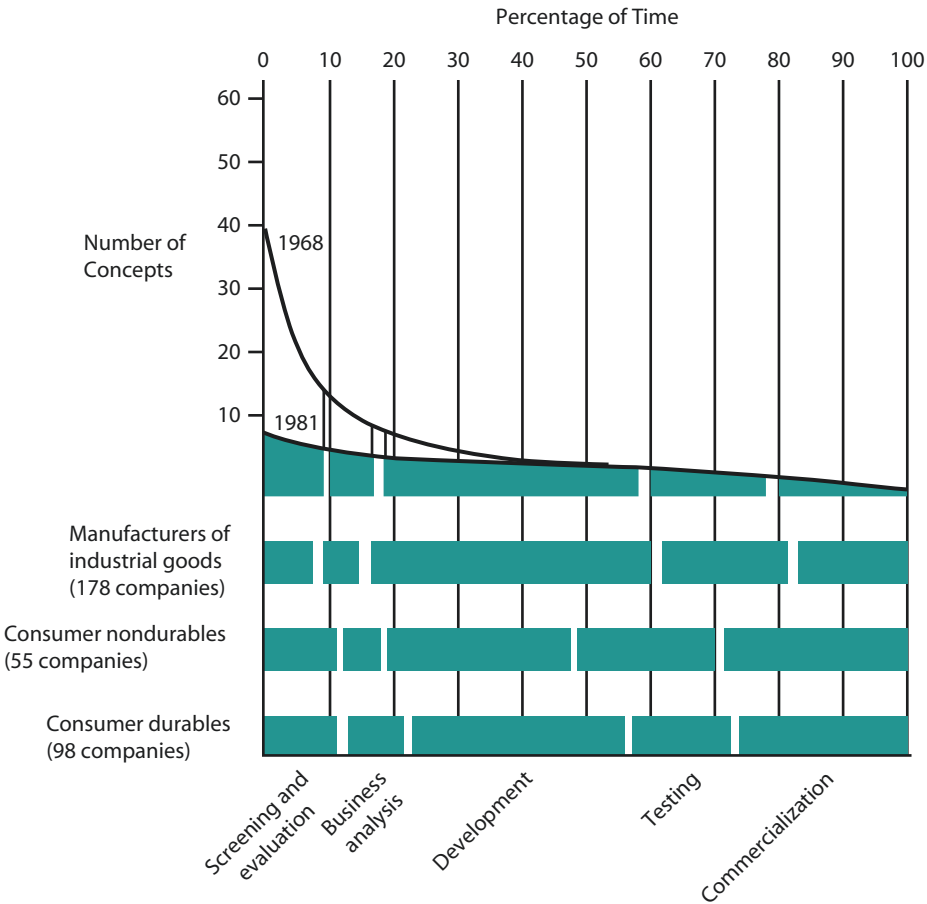


Fig. 9.8 The mortality rate at various stages of the new product process. (Source: Booz, Allen, & Hamilton (1982). *New Products Management for the 1980s*, p. 14. © 1982 Booz-Allen Hamilton, Inc. Reprinted with permission)

least as high; so, overall, possibly less than 5% of new product ideas are successful. Therefore, it is important that the 95% of failures are culled as early as possible, before large sums are invested in them [15].

The “mortality” rate at various stages of the new product process is presented in **Fig. 9.8**. This diagram shows that only one in seven new product ideas resulted in a successful new product introduction. What is perhaps even more interesting is that this was a dramatic improvement on an equivalent survey taken in 1968, when the success rate was only 1 in 58.

This dramatic improvement may have come about because of the improvement in screening procedures at the earliest stage of the new product process—an improvement that may, in part, have been stimulated by that earlier report. Indeed, the later report noted that the success rate of new products once launched had not varied (at 65%). Beyond this, Booz Allen Hamilton Inc.’s research showed a num-

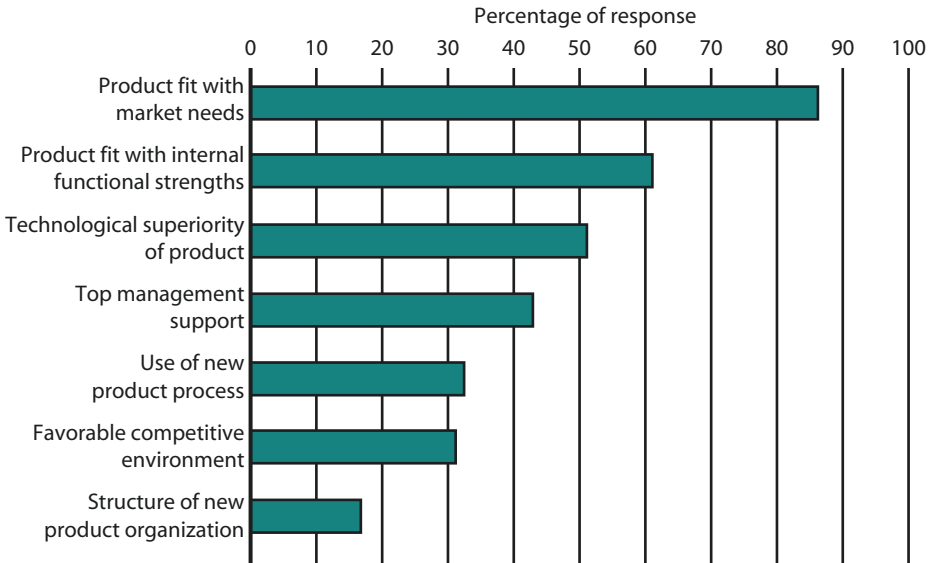


Fig. 9.9 Factors contributing to the success of new products. (Source: Booz, Allen, & Hamilton (1982). *New Products Management for the 1980s*, p. 16. © 1982 Booz-Allen Hamilton, Inc. Reprinted with permission)

9

ber of factors contributing to the success of new products (see ■ Fig. 9.9). It also found a significant “learning curve” (“experience effect”), in which each doubling of the number of new products introduced apparently led to a decline in the cost of introduction by 29%.

The **concept test** is the first true consumer filter to be applied. At least in theory, it should be applied before any significant amount of product development is undertaken, particularly because such development can be very expensive (e.g., perhaps hundreds of millions of dollars for a new pharmaceutical). The test is usually undertaken by conventional market research. The aim is simply to find out from consumers what their attitudes to the new “product” would be and (the acid test) whether they would be likely to buy it. Such research is easier said than done because consumers will not usually be able to draw on existing experiences. They have enough difficulty communicating how they feel about brands that they have actually purchased.

Concept test—The first true consumer filter applied in testing a new product in which the aim is to find out what consumers’ attitudes will be and whether they would be likely to purchase it.

Market researchers use a battery of different techniques to try to overcome the problem. They may produce dummy versions of the product. More likely, they may produce a rough commercial, perhaps just in “storyboard” form, because this also

reflects the difficulty of conveying the concept to the consumers—always a major consideration for a really innovative product. The better finished the vehicle used to carry the concept, the more useful are the responses from the consumers involved likely to be.

Despite the lack of precision in any of these techniques, they are useful in weeding out products or services that have little chance of success. This is potentially very valuable because their creators, who have probably fought many hard battles to reach even this stage, usually can no longer be considered to be objective.

9.7.3 Product Development

Coming up with a viable concept is one thing, but developing a product is quite another. Between the two may lie a number of years and millions of dollars of research expenditure. Ideally, such development should be driven by the product parameters that were determined by the earlier market research (and, in particular, by the outcome of the concept tests). The reality, though, is that product development is often more of a creative art rather than a scientific certainty, and what emerges may be only the best possible approximation to what is needed. Indeed, it is probably true to say that the majority of new products are developed (on the basis of creative inspiration) *before* any market research is undertaken, and the subsequent market research is carried out only to test their viability (and probably to “justify” their launch) [29].

Most organizations in the service sector do not have the equivalent of new product development departments. The lack of such departments may be understandable in view of the less tangible and more transitory nature of their “products.” It may, however, also represent an inherent weakness in their marketing armory that leaves them exposed to the developments being explored by their more sophisticated competitors, who are learning all the lessons of conventional marketing [30]. One service company that has been very successful with its new product development is the discount brokerage company Charles Schwab. Among the major innovations Charles Schwab has brought to its industry include 24-hour, 7-days-a-week order entry for stock trades, an automated telephone order entry system, no-fee mutual funds, no annual fee IRAs, alerts for its most active traders through the traditional and contemporary communication channels, a no-fee dividend reinvestment plan, and online trading for its customers to trade via a PC. Now the company wants to get into the banking business. Charles Schwab has constantly offered new services to stay ahead of its competition. However, competitors such as E*TRADE and Merrill are not standing still [31].

9.7.4 Product Testing

With luck, the product development team will deliver a workable new product or service. However, there still remains the investment to be made in the launch itself. To reduce the risk, the new product or service is tested on potential consumers, in

much the same way as the concept was tested earlier. The testing may, however, be more detailed now because the output of this research can be used to modify the “product” itself to best match the consumers’ needs. An example of product testing as part of the development strategy is described in Marketing in Action ► 9.2.

Once more, product testing must be taken seriously and must be comprehensive: Products that are not accepted by consumers and cannot be made acceptable must be discarded. Even though considerable sums may have been spent on development, such amounts will pale in significance against the losses that might be incurred at later stages. Realism is a precious consideration in the product development business.

Ideally, however, this testing process should not be limited to determining the outcome of a single purchase. To recoup development and launch costs (and only then to make a profit), products usually need to benefit from repeat purchasing over an extended period. In this context, the researcher needs to estimate four variables—*trial*, *first repeat*, *adoption*, and *purchase frequency*—to be certain that the product will have a life beyond the first purchase.

The technique suggested to establish this information is **sales-wave research**, in which those testing the new product are offered a choice between the product or its competitors (at reduced prices to provide an incentive to purchase at a future time, using their own money). This process may be repeated on up to five occasions, over a period of time, to check the repeat-purchase pattern.

Sales-wave research—A technique used to analyze consumers’ trial, first repeat, adoption, and purchase frequency behavior to ensure that the product will have a life beyond the first purchase.

The “simulated store technique” attempts to achieve a similar end, by exposing the “testers” to the “promotional material” on test (amid other material) and allowing them to select products from a “store”—again asking them to demonstrate, by “spending their money,” the likely trial purchase rate. The testers can also be interviewed again later to obtain a measure of their intention to repurchase over time.

Marketing in Action 9.2

Procter & Gamble Speeds New Product Introduction

Procter & Gamble (P&G, ► www.pg.com) has been offering quality products to consumers since 1837. Entering the twenty-first century, P&G has operations in about 80 countries, with its consumer products meeting the needs of 5 billion people in more than 140 countries. The company employs 97,000 people as of 2019 in its global operations.

P&G manufactures products in five major categories: beauty care, food/beverage, health care, laundry/cleaning, and paper. Recently, the company introduced two new products, Dryel and Swifter, into its laundry/cleaning product line. Popular products within this category include Dawn, Ivory, and Cascade dishwashing products; Comet and Mr. Clean surface cleaners; and Bold, Bounce, Cheer, Ivory Snow, and Tide laundry products.

Historically, P&G has spent years test marketing new products. However, the company brought Dryel and Swifter into the worldwide market after only 18 months of test marketing. Dryel is a home dry-cleaning kit that responds to consumer frustration with the time and money spent on dry-clean-only clothes. Swifter is a sweeper system with an electrostatic charge that attracts dust, lint, and hair instead of just stirring them up like traditional brooms, vacuum cleaners, dust mops, and rags.

Implementing its new speed-to-market strategy, P&G rolled out the two new products with a worldwide brand name, packaging, and advertising. The company felt that consumer desire for the two products was consistent worldwide, so the company did not need to customize the products for each country's market. The impetus behind P&G's new product strategy is the goal of doubling its annual worldwide sales.

Will speeding new products to market help P&G attain its sales goals?
What are the risks associated with such a strategy?

Sources: ► www.pg.com; Vranica, S. (1999). P&G Puts Two Cleaning Products on Its Marketing Fast Track. *Wall Street Journal*, B6; and Neff, J. (2003, May 12). Brands in Trouble. *Advertising Age*, p.18; P&G. (nd). Global operations. ► https://www.pg.com/en_US/downloads/media/Fact_Sheets_Operate.pdf. Accessed 6 July 2020; Statista (2019). Total number of employees of Procter & Gamble worldwide from 2007 to 2019. Accessed 6 July 2020 ► <https://www.statista.com/statistics/244037/total-number-of-employees-of-procter-and-gamble-worldwide/#:~:text=The%20number%20of%20employees%20of,97%20thousand%20as%20of%202019.&text=Procter%20%26%20Gamble%2C%20founded%20in%201837,an%20American%20consumer%20goods%20company>

On the other hand, the most usual form of “product testing” still remains that of the single test of acceptability (almost inevitably in comparison with the alternatives, including the existing product and its competitors). It has to be recognized, however, that this may not be a good measure of longer-term performance. In introducing New Coke, Coca-Cola reportedly conducted some 200,000 taste tests before settling on its new formula, which was subsequently rejected by many consumers—and the old Coke Classic had to be reinstated.

Service companies have a much more difficult, if not impossible, task in simulating or pretesting a service. Prototyping a service is often not a practical proposition, and, in any case, side-by-side comparisons with competitive services are typically not feasible. Some of the difficulties found in service development are:

- *Patenting difficulty*—This reduces incentives for large R&D investment and places more focus on “me-too” services. The tendency is toward improvement rather than innovation. Ease of competitive entry influences viability of new service concepts.
- *Standardization difficulty*—This makes it difficult to develop accurate concept descriptions and concept testing.



Such difficulties indicate that incremental development might be more widespread in the service sector, resulting in fewer “breakthroughs” but possibly leading to better and more profitable development in general.

9.7.5 Test Marketing

The test marketing ideally aims to duplicate *everything*—promotion and distribution as well as “product”—on a smaller scale. The technique replicates, typically in one area, what is planned to occur in a national and international launch. The results are carefully monitored so that they can be extrapolated to projected national and international results. The “area” may be any one of the following:

- *Television viewing area*—In this case, the complete campaign, including television commercials and the use of distribution channels, is tested. Sometimes a local radio station may be used in the same way, at a lower cost but, obviously,

without the TV commercials. Also, the contemporary digital media (e.g., social media) can be used for test marketing, which would be more cost-effective if a test marketing campaign through social media is able to reach to a sufficient number of target audience.

- *Test city*—Duplicating most of the activities in a particular test city, rather than a complete TV region, may be possible at considerably less cost. Clearly, television cannot be used, and the local press will have different characteristics than those of the national press. Typically, the press carries less authority, and its readership patterns are different. However, such a test can be much cheaper to run, and, if the test is a final test of the product's viability rather than one of the promotional support, it may still provide most of the information needed. Many Japanese consumer electronics companies use the Akihabara district in downtown Tokyo to test their new products.
- *Residential neighborhoods*—Sometimes just a local area, served by one supermarket perhaps, can be selected. Here, the promotional coverage must be almost exclusively restricted to door-to-door, although this may be supplemented by some local press. As a result, such tests move even further away from the realities of a national launch. They can, however, prove to be a useful vehicle for very sophisticated “product” tests, or for workable tests of promotion or pricing alternatives.
- *Test sites*—In the industrial sales (i.e., capital goods) environment, the test may consist of recruiting pilot installations with individual large-scale industrial customers. Such tests are sometimes referred to as “field trials.” This technique is probably the most suspect of all, in terms of grossing the results up to national projections, because it is likely in practice that these will be the best customers, who are unlikely to be typical of the range of customers and prospects as a whole. Even so, this type of testing is a useful device for “debugging” some of the potential problems in advance of the launch. Japanese computer companies, such as NEC, are well-known to “lease free of charge” their developmental computers to their *keiretsu* member companies to solve all technical problems in time before national and international launch.
- *Lead countries*—Many multinational companies today are rolling out new products almost simultaneously in all *triad regions*, including North America (the United States and Canada), Western Europe, and Japan [32]. Those companies identify a set of small *lead countries* in which to test market their new products. If new products prove successful in lead countries, the companies will roll them out globally. Lead countries preferably should represent a miniature image of the global markets. Singapore, Taiwan, Belgium, Britain, and Australia are some favored lead countries.

A number of decisions have to be made about any test market:

- *Which test market?* Where will the test be run? Is it to be, economically, in a test city or, more comprehensively, in a television area? Which area will be most suitable for the specific needs of the test? Specialist facilities such as retail audits and promotional discounts may be available to support tests, but then are the consumers in these test areas exposed to more new product launches than elsewhere, and are they still typical of consumers across the whole market?

- *What will be tested?* The tendency is to view test markets as just a “mini national launch.” This aspect has to be taken into account, of course, but each “product” has certain factors that are most critical to its success. Special emphasis will need to be placed on measuring these factors.
- *How long a test?* A major decision is how long the test will need to run before the “repeat-purchase” patterns can be observed and the all-important long-term future of the product predicted.
- *What success criteria?* What are the levels of performance to be achieved before the test is judged a success and the product deemed suitable for national launch? Part of the design of the test should include “controls” (similar markets that are not exposed to the test “stimuli”) to ensure that other factors are not responsible for the results observed.

The decision so far has revolved around a simple go or no-go decision; and this, together with the reduction of risk, is normally the main justification for the expense of test markets. At the same time, however, such test markets can be used to test specific elements of a new product’s marketing mix—possibly the version of the product itself, the promotional message and media expenditure, the distribution channels, and the price. In this case, several “matched” test markets (usually small ones) may be used, each testing different marketing mixes. For example, Hollywood movie studios test their new movies with different endings to see audience reaction and decide on final, distributed versions.

Clearly, all test markets provide additional information in advance of a launch and may ensure that the launch is successful. It is reported that, even at such a late stage, half the products entering test markets do not justify a subsequent national launch. However, all test markets suffer from a number of disadvantages:

- *Replicability*—Even the largest test market is not totally representative of the national market, and the smaller ones may introduce gross distortions. Test market results therefore have to be treated with reservations, in exactly the same way as other market research. See the New Coke fiasco indicated in ► Sect. 9.7.4, “Product Testing.”
- *Competitor warning*—All test markets give competitors advance warning of their intentions and the time to react. They may even be able to go national with their own product before your own test is complete. They may also interfere with your test, by changing their promotional activities (usually by massively increasing them) to the extent that your results are meaningless. In developing its very successful disk camera, for example, Kodak chose to forgo most of the advantages of test marketing so as not to alert its competitors to the development. From the “defender’s” point of view, incidentally, investing to destroy a competitor’s test market may represent a sound use of money because it can mean that the competitor’s full-scale launch has to be undertaken blind—without the lessons learned in a test market (and not a few manufacturers have balked at the prospect of this and pulled out).
- *Cost*—Although the main objective of test markets is to reduce the amount of investment put at risk, they may still involve significant costs. It is likely that

such costs could easily exceed \$1 million. The costs may be much higher when the initial capital demands for the launch cannot be scaled down—for example, when a minimum size of production plant is required, which will also meet national levels of demand. Under these circumstances the costs of a test market may not be too different from those of the national launch, and, as mentioned previously in this section, there is therefore no justification for it (except that it might still optimize the marketing mix and might just avoid a very costly mistake in terms of image).

9.8 Product Launch

Companies must recognize that the development and launch of almost any new product or service carries a considerable element of risk. Indeed, in view of the ongoing dominance of the existing brands, companies must question whether the risk involved in most major launches is justifiable. In a survey of 700 consumer and industrial companies, Booz Allen Hamilton Inc. reported an average new product success rate (after launch) of 65%, although only 10% of these were totally new products and only 20% were new product lines—but these 2, highest-risk, categories also dominated the “most successful” new product list (accounting for 60%) [15].

New product development therefore has to be something of a numbers game. A large number of ideas have to be created and developed for even one to emerge. There is safety in numbers, which once more confers an advantage to the larger organizations.

9.8.1 Product Replacement

One form of “new product launch” that is rarely discussed but is probably the most prevalent—and hence most important—of all is that of replacing one product with a new one, usually an “improved” version. The risk levels may be greatly reduced because the existing user base can underwrite sales (as long as the new product does not alienate these users—as New Coke did in the United States and New Persil, a German brand of laundry detergent, did in the United Kingdom). Such an introduction will be complicated by the fact that, at least for some time, two forms of the product will be in the pipeline. Some firms may opt for a straight cut-over: One day the old product will come off the production line and, the next day, the new product. Most will favor parallel runs for a period of time, even if only because this approach is forced on them by their distribution chains. This strategy ensures that the new product really does, eventually, replace the old, and it may reveal that both can run together. One successful example is the sequential improvement of Intel’s microprocessors from 286 to 386 to 486 and then on to Pentium in a course of 10 years.

9.8.2 Risk Versus Time

Most of the testing stages, which are the key parts of the new “product” process, are designed to reduce risk to ensure that the new product or service will be a success. However, all of them take time.

In some markets, such as fashion, time is a luxury that is not available. The greatest risk here is not having the “product” available at the right time and ahead of the competitors. These markets consequently obtain less benefit from the more sophisticated new product processes and typically do not make use of them at all.

When to enter a market with a new product should, in any case, be a conscious decision. In relation to competitors, there are two main alternatives:

- **Pioneer**—Being first into a market carries considerable risks. On the other hand, the first brand is likely to gain a major, leading, and ongoing share of that market in the long term. Pioneering is often the province of the smaller organizations, on a small scale, because their investment can be that much less than that of the majors.
- **Follower**—This alternative offers the reverse strategy. The risk is minimized because the pioneer has already demonstrated the viability of the market. On the other hand, the related reward, that of becoming the market leader, may also be missed. The solution to this—as practiced by Samsung with its smartphones, for instance—may be to move into a market as soon as it is proven and then to invest heavily to wrest leadership from the pioneer before it becomes impregnable. This solution is not cheap because all the development work has to be undertaken anyway, and the battle for the command of the new market may be very expensive.

9.8.3 Japanese-Style Product Development

The new product development approach described in this chapter has generally been successful in Western Europe and North America, where there may be heavy penalties to brand or corporate image, in particular, in backing failures. Japanese companies have challenged this conventional product development approach and taken the reverse tack.

The most important change to the product development process over recent decades, led by the Japanese, has been *speed* [33]. Japanese companies have reportedly achieved this result with a highly trained workforce, a willingness to build from off-the-shelf components, a persistent effort to develop interchangeable components across product lines and across product generations, a close relationship with their suppliers, as well as approaches such as joint development teams and parallel development [34]. Whatever the reasons, this competitive advantage poses a major challenge to their Western counterparts.

Furthermore, rather than screening out potential failures, Japanese companies launch many new products (e.g., as many as 1000 new soft drinks a year). Those

new products are either dropped from the store shelf or improved upon very frequently—say, on a monthly basis—based on input from retailers and customers. Over time, Japanese companies can identify “winning” formulas for a wide range of products. This incrementalist approach to new product development, often called *product churning*, apparently works well in Japan, because the country’s corporations develop new products in a half to a third of the time, and at a quarter to a tenth of the cost, of their Western counterparts [35]. In addition, the Japanese consumers have been persuaded to accept, indeed to want, new developments at this breakneck pace.

Japanese corporations have led the way in reducing development time dramatically, and even to halving it in the very mature car industry. The effects of this time-based advantage have been devastating. US automakers have lost leadership of technology and innovation to Japanese competitors. This has led the US government to successfully get the Japanese car companies to agree to slow down their product development cycles. Nonetheless, unless US automakers reduce their product development and introduction cycles from 36–48 months to 12–18 months, Toyota, Honda, and Nissan, among others, will out-innovate and outperform them [36].

Accordingly, the choice to pioneer or to follow no longer exists in a number of industries. The only way for an organization even to survive may be to shorten new product development times below those of its competitors. For example, Hewlett-Packard now practices Japanese-style product churning by incessantly improving its laser printer lines even ahead of its Japanese competitor, Canon, and has captured a dominant market position [37].

Summary

The theory of new products or new services starts with a *gap analysis*, which looks to the following: (1) usage gap, (2) distribution gap, (3) product gap, and (4) competitive gap. In practice, much organizational development effort is devoted to modification of existing successful products or services by feature modification, quality modification, style modification, and image modification. Potential new products need to be screened against a number of strategic dimensions, including production capabilities, financial performance, investment potential, human factors, materials supply, cannibalism, and time. Market factors, such as matching with existing product lines, price and quality, distribution patterns, and seasonality, also need to be considered.

Sources for generating new product ideas include customers and innovative imitation. In the Western approach, the product development process then is supposed to follow a number of formal steps, including gap analysis (for scanning and idea generation), strategic screening, concept testing, product development, product testing, test marketing, and product launch. A test market may take place in a television-viewing area, a test city, or a residential neighborhood. In industrial markets in particular, it may be restricted to test sites. All these approaches pose problems of effectiveness and cost while possibly offering competitors advance warning.

It is worth remembering the major caveats mentioned in ► Sect. 9.1, “Introduction.” Brand stability implies that there should be more emphasis on the further development of existing brands than on totally new ones, contrary to conventional teaching. The Japanese approach is to launch many new products without following any of the stages of testing described here.

Key Terms

Break-even point

Competitive gap

Concept test

Distribution gap

Gap analysis

Latent needs

Net contribution

Net profit

Not Invented Here (NIH) syndrome

Overhead costs

Planning gap

Product gap

Product testing

Sales-wave research

Test marketing

Usage gap

Variable costs

? Review Questions

1. What are the elements of gap analysis? How are they related to each other?
2. What modifications can be made to existing products or services? Why are such modifications important?
3. What dimensions may be incorporated in a strategic screen? Why is each of these important?
4. What market factors need to be screened for? What is the relevance of each?
5. What practical sources of new product are available?
6. What are the various stages of new product development? What happens at each stage?
7. What types of test market may be employed? What are the advantages and disadvantages of each?
8. How do some Japanese product development processes differ from those in the West?

? Discussion Questions

1. Record labels were horrified when a small company in San Jose, California, came out with the Rio, a \$199.95 mobile music player in late 1998. As the first widely available portable player of music downloaded from the internet, the Rio frees people from having to sit at their computer terminals to listen to free tunes. Today, Apple's iPod leads the digital music player market, and the \$299.00 MiniPod can hold up to 10,000 songs. And that threatens to turn the nagging problem of internet music piracy into serious financial losses for record companies.

At stake for the technology industry is a lucrative, ground-floor position in the next wave of e-commerce: the digital delivery of media products—music, e-books, and movies—via the internet. Apple's iTunes and Microsoft's MSN Music are among websites offering legal downloading of music for a small fee per song. These songs can then be downloaded to a digital music player, like the iPod mini.

What will the new products in the music industry look like in a few decades? Will we see a few large firms or several smaller firms credited for new products?

2. In the United States, two-thirds of consumers who can subscribe to cable do so. Meanwhile, in England, only 20% of the consumers do so, and in some areas, the percentage is decreasing. What factors could lead to cable's lower success in England than in the United States?
3. In the smartphone industry, the global market leaders (i.e., Apple iPhone and Samsung Galaxy) have settled their "seven-year-long patent fight over copying the iPhone" [38]. Following the sue of Apple against Samsung, the court initially announced its decision in favor of Apple. However, following extensive negotiations between the two global giants in this industry, "Apple and Samsung have finally put an end to their long-running patent battle whose central question was whether Samsung copied the iPhone. In a court filing...(in 2018) Judge Lucy Koh said the two companies had informed her that they had reached a settlement. Terms of the settlement were not disclosed" [38]. Similar to this competition between Apple and Samsung, we saw another battle between Toshiba and Sony/Philips in the past. Toshiba's double-sided digital video disk (DVD-ROM) and the rival system proposed by Sony/Philips competed for the global industry standard. In 1995, Toshiba and Sony/Philips decided to reach an agreement on the digital read-only (ROM) video disk format. Toshiba, Hitachi, and Matsushita—the three main Japanese promoters of the rewritable digital video disk (DVD-RAM) format—held a press conference in Tokyo in September 1997 to stress the broad industry support that their proposed standard enjoys. The move followed the surprising announcement late in August 1997 that Sony and NEC would promote their own standard for high-capacity rewritable storage.

The battles for industry leadership between Apple and Samsung and between Toshiba and Sony/Philips are similar to some extent. In what ways are both competitions similar? Dissimilar?

4. To be successful, what percentage of a firm's annual revenues should come from products less than 4 years old? If you were told that 3M (sales \$15.1 billion, profits \$1.3 billion) had 30% of its sales from products less than 4 years old, what would be your answer? What if 3M's figure were 10%?

Given these new product sales goals, what would be a reasonable return on investment (ROI) target? If 3M's is 20%, what would be your answer? What if 3M's figure is 10%? Which is more reasonable?

The goal of 3M is to have 30% of sales from products less than 4 years old and a target ROI of 20%.

5. You compete in the high end of the market for precision scientific equipment. You increasingly rely on one of your suppliers, who competes in the low end of your market (not in direct competition with your firm), for a few key components. You find that you need this supplier to make your next generation of products competitive, yet you are concerned that the supplier plans to enter your market. Assuming that this supplier's products are superior and technologically complex, how do you respond?
6. Support/dispute the merits of focusing on "new-to-the-world products" versus "additions to existing lines" in high-tech industries. How would segmentation and customer types in particular affect your argument?

9

? Practice Quiz

- All the following are elements of the planning gap EXCEPT
 - Usage gap
 - Distribution gap
 - Product gap
 - Collaborative gap
- All the following are new product strategies EXCEPT
 - Technology-driven
 - Broad
 - Low-budget
 - Balanced
- Which of the following is NOT a type of product modification?
 - Feature
 - Value
 - Style
 - Image
- Perceived quality changes are also known as which of the following type of modification?
 - Feature
 - Quality
 - Style
 - Image

5. A firm's greatest source of new product ideas is its _____.
 - (a) Marketing managers
 - (b) Product engineers
 - (c) Customers
 - (d) Test field
6. The first consideration in determining a new product's profitability is examining its fit with the firm's
 - (a) Strategy
 - (b) Capital resources
 - (c) Human resources
 - (d) Supply
7. All the following affect a firm's marketing response to a new product EXCEPT
 - (a) Match with existing product lines
 - (b) Price
 - (c) Quantity
 - (d) Seasonality
8. The aim of the product development process is to
 - (a) Minimize risk
 - (b) Maximize profit
 - (c) Maximize efficiency
 - (d) Minimize production lags
9. According to Booz Allen Hamilton Inc.'s research, _____ percent of all new product ideas fail.
 - (a) 20
 - (b) 40
 - (c) 60
 - (d) 80
10. Which "area" of test marketing is known as field trials and serves as a useful device for debugging some of the potential problems in advance of the new product launch?
 - (a) Test sites
 - (b) Residential neighborhoods
 - (c) Test city
 - (d) Lead countries
11. Which of the following has been the most important change to the product development process over recent decades?
 - (a) Cost
 - (b) Speed
 - (c) Supplier networks
 - (d) Distribution systems

(You can find the correct answers to these questions by taking the quiz and then comparing your answers with the answers that are provided at the end of the book, under the “Practice Quiz Answers” part of the book.)

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Pricing Decisions

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■ Price Transparency on the Internet



■ (Source: ► pexels.com/royalty-free-images/)

Conventional theories suggest that the internet will drive down prices and lead to perfectly competitive prices. However, there is contradictory evidence indicating that online prices are not lower than offline stores. Regardless, the internet gives rise to many opportunities for leveraging pricing strategies, in research and testing capabilities, customer segmentation, dynamic pricing, product differentiation, developing brand loyalty, including shipping and handling in the profitability analysis, offering multiple versions, and creating or participating in electronic market spaces.

One of the common examples of dynamic pricing strategy in support of the internet is synchronizing gasoline retail price with competitors. Today, a gasoline retailer can monitor the day-to-day gasoline price of competitive retailers via the internet, and based on the ongoing competition, the retailer can adjust her or his gasoline price, without leaving the retail store. It offers the retailer to remain transparent as well as competitive to the target market with her or his pricing strategy. However, before the launch of the internet, the gasoline retailers or their representatives needed to physically visit the competitive retailing stores to monitor the competitors' price.

A whole new world of buying and selling via the internet is taking shape. Venture capitalists, entrepreneurs, and purveyors of technology have all jumped into the e-commerce fray. The upshot is that many goods and services are cheaper on the web than off it. It is cheaper to buy and sell stocks. It is cheaper to buy books from ► Amazon.com, and it is cheaper to buy a camera or a household item from ► ebay.com, although shipping costs can gobble up much of the savings. Many newspapers are cheaper on the internet than in print—about 72% cheaper in the case of *The Wall Street Journal*. Also, internet coupon sites distribute rebate offerings for a variety of products.

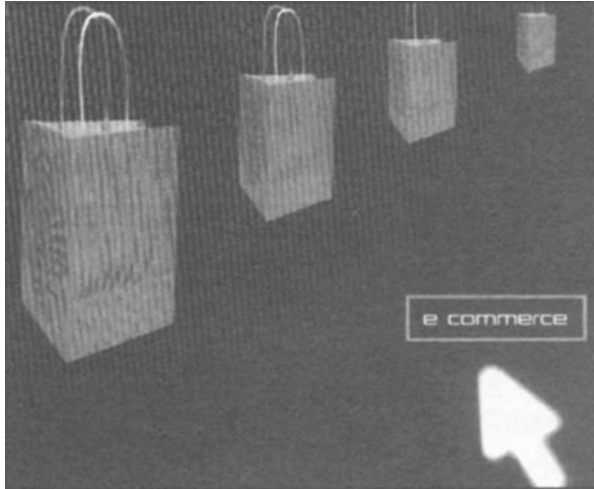
The story of the internet's role in pricing goods and services is yet at the early stage to unfold. More than a new way to take orders or delivery, the internet is emerging as a paradise for comparison shoppers. The past couple of decades have brought a slew of websites and online services that put more information about prices into the hands of buyers. With vastly better data on prices of golf clubs, airline tickets, and cars, consumers are cutting better deals.

Not only the buyers are taking advantage of price comparison shopping. The sellers also are exploiting vast amounts of information, now readily available on the internet, about who is buying what at how much and when and under what conditions. The internet will make obsolete much of what remains of “list price” convention, developed a century ago for networks of real-world stores that were required to generate some predictable level of sales. Now the sellers can offer flexible situational pricing, known as *yield management*, on the internet.

10

The idea behind yield management on the internet is that things are worth such different amounts at different times or in different circumstances that price tags need to find their own levels. We have seen such a synchronized pricing example based on the gasoline retailers' day-to-day pricing strategy. In perfectly competitive markets, people are willing to pay what a product is worth to them. The reason this does not work in the retail world is that the people who set prices are not present at the point of sale to accept or decline an offer. Set prices usually must be honored, and when too-high prices make sales suffer, the price must be lowered in an across-the-board action. This is how books end up on cut-racks and massive discounts take place after Christmas. This process is expensive and messy, particularly when, as in many cases, every product item must be handled to modify its price.

The internet changes almost everything; already, e-commerce software vendors are trying to capitalize on the growing interest in situational pricing by boasting how many kinds of auctions they support. In the future, you may visit a product page at an e-retailer store a few times without buying, and the price will drop. Try to lower the price in this fashion too often, and the site may suspect you are a chiseler and stand its ground. Offer electronic cash, and the site may cut you a break on shipping. Post frequently in a users-helping-users support forum, and get special just-for-you pricing. If nobody buys a particular product, the price will drop across the board.



The notion of a base price may actually vanish. This will infuriate some consumers, and businesses in particular may demand that fixed prices stay in place to aid them in determining expenses, forcing contracts, as many do already, to lock in commodity prices. Elsewhere, such a development will prove revolutionary, especially when a product is inherently scarce. Merchants who see this change coming will be able to establish competency in these highly complex economic models and will have a significant advantage in putting things up for sale. The ticket seller who understands how to alter prices as curtain time approaches may fill the house at the most profitable level. Sellers of packaged vacations already offer a break on pre-booked packages; now they may offer a break as well to last-minute buyers when not all berths are filled, as airlines do on the web.

In the postpandemic era, similar to many other strategies, the internet would play a vital role in pricing strategy as well. It is a fact that “the way you respond to market changes can make or break your business.” Therefore, as an entrepreneurial marketer, you need to be vigilant with the socioeconomic and environmental changes in your target market, in order to proactively respond to the changes both offline and online.

Sources: Andrews, W. (1998). Net’s a Breeding Ground for Free-Market Pricing. *Internet World*; Mui, K., Monroe, K.B., & Cox, J.L. (2002). Pricing on the Internet. *Journal of Product & Brand Management*, 11(4), 274–287; and Marmorstein, H., Rossomme, J., & Sarel, D. (2003). Unleashing the Power of Yield Management in the Internet Era. *California Management Review*, 45, 147–167; FBC (2020). How to price your products in a pandemic. ► <https://www.fbc.ca/blog/how-price-your-products-pandemic>. 10 July 2020

10.1 Introduction

The traditional theory of pricing, that of supply versus demand, is developed from economics. As such, it offers a useful intellectual framework for the consideration of pricing issues. Unfortunately, most of the parameters needed to apply this theory have been extremely difficult to measure in practice. Customer needs and market factors tend to dominate the more “practical” marketing theory.

New product pricing, whether to “skim” profits or to “penetrate” the market, is a particular form of pricing and poses rather different challenges. However, much of this chapter describes the various practical pricing policies adopted from cost-plus and market-based strategies to selective ones. Discounts and competitive pricing are also investigated.

Although fundamentals of pricing remain the same, the proliferation of e-commerce on the internet is also revolutionizing the relationships between buyers and sellers in the market. Both parties have clearer pictures of the cost and price structures in their market exchange. As presented in the vignette at the beginning of this chapter, in the age of the internet, buyers will probably benefit from lower prices, and sellers will also benefit from more fluid pricing to meet the consumer demand more accurately.

10.2 Price

Probably the single most important decision in marketing is price—partly because price is generally believed to have an impact on sales volumes. If the price is too high, and the market is competitive, sales may be correspondingly reduced. Indeed, many economists would see price as the main determinant of sales volume. On the other hand, many of the more sophisticated marketers have found ways to reduce the impact of price and sometimes have even managed to increase sales by raising the price. Examples of reducing the impact of price in marketing strategy include finding a less price-sensitive niche market, establishing and sustaining a consumer-centered transparent reputation, and positioning a product or service based on the value of its overall application, among others.

In practice, the main reason for the importance of price is that it is one of the three main variables that determine the profit. Thus, the profit per unit is equal to the price less the total cost of producing that unit:

$$\text{Profit} = \text{Price} - \text{Cost}$$

Another important factor is the volume of sales because the organization’s net profit is equal to the number of “units” sold multiplied by the net profit obtained on each of those units. At this level the mathematics are very simple but also very important.

Thus, the higher the price can be raised, always assuming that unit costs and sales volume do not change, the greater the profit the organization makes. Many of

the most powerful marketing techniques have, therefore, been designed to maximize the price that can be achieved. In practice, the calculation of profit is much more complicated than this simple explanation allows for. Yet the basic principle still holds—even if implementing it is not necessarily easy! For example, one of the most basic dilemmas every marketing manager in the beverage industry faces is the fundamental choice between a price cut to stimulate sales or a price increase to improve margins. Although both choices are viable depending on the circumstances, too many managers today choose a price cut with little analysis. Even more troubling is that many sales managers rarely give serious consideration to increasing prices, despite tolerating and complaining about pressure on margins. Pricing decisions should be driven by channel strategy. The channel strategy should assess overall sales trends for each channel by package and brand. It will also define the competitive strategy and identify how the company responds to competitive pricing activity [1].

10.2.1 Service Prices

Most pricing theory is described in terms of products, but for services the potential added complication is that some service providers tend to have different terms for price (admission, tuition, cover charge, interest, fee, point, types of service, and so on). However, the result is exactly the same. The consumer has to pay a price, and the mechanisms for determining that price are much the same, with only marginal differences:

- *Negotiation*—In view of the variability of the service being offered, there may be more scope for individual negotiation.
- *Discounts*—Owing to the “perishability” of the service, there may be incentives to use it at unpopular times (off-season fares, matinee prices for movie theaters, selling ice creams in winter, and so on).
- *Quality*—Higher pricing, to demonstrate quality (which is usually much more intangible in a service), may be more prevalent.

In the early 1990s, for example, restaurateurs were not convinced that the charge volume brought in by the American Express card justified the discount rates that often were nearly double the 2% average rate charged by Visa and Mastercard acquirers. American Express countered those concerns by reducing merchant fees in selected industries. However, American Express’s average worldwide discount rate is around 2.73%. American Express discount rates are still about 25–100 basis points higher than those charged by Visa and Mastercard acquirers. Although American Express’s rates are higher, this card is still perceived as more upscale and can command a somewhat higher discount rate. Because American Express continues to charge higher rates than Visa and Mastercard, it has to reinforce to its merchant base the value it is bringing: that its card members traditionally spend 20–21% more per transaction [2].

10.2.2 Price and Nonprofit Organizations

Price is an element of the marketing mix that seems, at least on first inspection, largely irrelevant to nonprofit organizations. Even so, a number of such organizations (while having charitable status and, accordingly, not allowed to make a profit) still charge for their services. It is frequently the case that the term *surplus* is interchangeable in these organizations with profit, and they behave in exactly the same way as profit-making organizations.

In a large number of organizations (typically in the government sector), however, no money changes hands. There simply is no price. Allocation of the service to the consumer is by other means, such as need (e.g., determined by a doctor) or queuing (such as in organ transplant waiting lists). Many aspects of pricing are, therefore, not fully applicable. On the other hand, some of the principles can still be applied if “price” is replaced by the “perceived value” of the consumer (discussed in ► Sects. 10.3.3, “Organization-Controlled Factors,” and 10.3.4, “Customer Factors”). Thus, the consumer still places a value (often a high value) on the service, and this can be dealt with much as “price” itself. Certainly, if the service providers are to best match their consumers’ needs, they should have a good appreciation of the value the consumers place on the service.

10.3 Demand and Supply

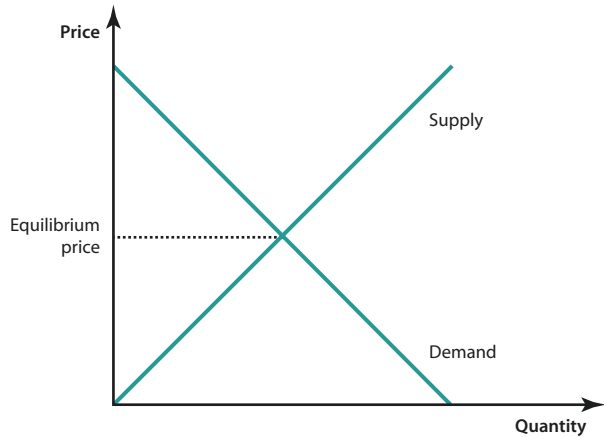
Much of pricing theory has derived from economics. The basic idea, according to such theories, is that “demand” will be different at each possible price. Demand is normally assumed to fall as price increases. Similarly, supply is expected to increase as price increases (the reverse of demand). A downward-sloping *demand curve* and an upward sloping *supply curve* are represented in ■ Fig. 10.1.

The problem posed by this traditional economic approach is that the demand curve is usually almost impossible to determine in practice. However, if we assume that the demand curve is known, we can determine the **equilibrium price** at which the quantity demanded by consumers matches the quantity supplied by sellers. There will be nothing left to sell, nor will there be any shortage—and it is said that the market has “cleared.” This is the price that will, therefore, be set by the market.

Equilibrium price—The point at which the quantity demanded by consumers matches the quality supplied by sellers; thus, the market sets the price.

In economics, therefore, the basis of price is this balance between supply and demand, and price itself is most often seen as the prime determinant of both supply and demand.

Fig. 10.1 Typical demand and supply curves determining a market-clearing equilibrium price



The body of this theory was largely developed in the nineteenth century, when the economic wealth of nations was still developing. At that time, most of the markets were still almost pure commodity markets, supplying basic essentials, which were undifferentiated. The consumers' choice was accordingly based on price alone. Their purchasing strategy was to use their very limited funds to obtain the maximum amounts of these basic essentials. This simple approach may still work in commodity markets, where professional buyers purchase identical commodities, such as corn and wheat, solely on the basis of price. In addition, this economic model assumes that buyers have near-perfect information about the alternatives available to them in the market. It further assumes that competing brands are reasonably close substitutes [3]. Indeed, some of these assumptions are becoming realities as a result of the information revolution in recent years. Now, buyers are able to obtain much more information at a much faster pace and much more cheaply than ever before.

In recent decades, however, the majority of the inhabitants of the developed nations have moved into a period of affluence, and the basis for their purchasing patterns and the associated economics have changed drastically. Even the purchasing power of the consumers in the least developed and developing countries also has been increased significantly in the last 20 years [4]. For example, undertaking an annual holiday or traveling via airplane was limited only among the elite groups in many developing countries in the past; however, the middle class of such developing countries are now able to afford these services after fulfilling their basic needs. In essence, a new view of economics is that most purchasers are no longer restricted to buying essentials, but can indulge in luxuries. The suppliers of these products and services differentiate them, to the extent that some suppliers can achieve almost monopoly powers over their markets. The resulting price theory is, therefore, much more complex. It is in this area of business that most marketing activities take place.

10.3.1 Price Elasticity of Demand

The degree to which demand is sensitive to price is called **price elasticity of demand**. This expression is often shortened to *elasticity of demand*, although strictly it is difficult to analyze and predict the actual elasticity of demand because economists recognize that demand may also depend on other factors, such as income. The price elasticity of demand refers to the percentage change in the quantity of a good demanded as a result of the percentage change in its price, or

$$\text{Price elasticity of demand} = \frac{\text{Percentage change in demand}}{\text{Percentage change in price}}$$

Price elasticity of demand—The degree to which demand is sensitive to price changes.

This principle simply recognizes that some products or services are more sensitive to price than others. In the commodities market, for example, the demand for your product will depend on the price you ask. If you set the price above that which prevails in the market, you will be very unlikely to sell anything because the buyers well know that they can buy exactly the same goods elsewhere at lower prices. The demand, or even sometimes price itself, here is said to be *elastic*.

10

At the other end of the spectrum are those products whose demand is very insensitive to price change. For example, Apple has so differentiated its MacBook line of laptop computers with its user-friendliness that it has long enjoyed a virtual monopoly of its segment and has been able to set almost whatever price the company wanted, within limits. This situation is often called *inelastic demand*.

In recent years, however, Microsoft Windows, with its user-friendly features that almost match that of MacBook, has encroached on Apple's turf. Now that consumers have alternative Windows-based laptop computers to switch to, the consumer demand for Mac has now become less inelastic (or more elastic); that is, consumers have become more sensitive to price changes. Knowing this demand situation, Apple has lowered its MacBook prices to increase sales or keep consumers from switching to Windows-based laptop computers.

The theory just presented assumes perfect markets, in which all consumers and suppliers come equipped with perfect knowledge of all the prices available for products (commodities) that are identical to each other. In addition, the market always clears; that is, all the demand is exactly matched by supply, and vice versa. This may be true of a few money markets and the pure commodity markets, although even in these cases other factors are often also at work.

It clearly is *not* true of most markets in which marketers are plying their trade. Indeed, it is almost impossible, by definition, for a marketer to have any effect in a "perfect market." For example, the US natural gas industry has incredible difficulty in predicting prices from year to year. Executives in this industry are accus-

tomed to sudden reversals. Causes of the unexpected increases in natural gas prices in the past have been attributed to unusually hot summers, which increased the need for air conditioning and boosted natural gas use by electric utilities. In economics, this unwelcome intrusion of real life is the subject of extensions to the basic theory, to cover “monopolies and imperfect competition”—these extensions are generally rather esoteric.

Even so, an understanding of the basic theories of supply and demand does offer the marketer a useful insight into some of the key factors that may affect the prices that he or she is able to obtain. In particular, the concept of elasticity of demand is one that is widely discussed and plays a major role in pricing decisions. In some markets, such as the car market, in which a long sales history is available and the behavior of the participants has been reasonably consistent and rational, it may even be possible to use “regression analysis” (described in Sect. 6.5.2, “Quantitative Methods”) to establish what the curves of supply and demand actually are. As always, though, this is a historical process, and the future behavior may not be so consistent.

10.3.2 Estimation of the Demand Curve and Price Elasticity

Three main ways of measuring the demand curve (and the related price elasticity of demand) are suggested by theorists:

- *Statistical analysis of historical data*—This approach, at least in theory, uses historical data to “plot” the curve. Unfortunately, this type of analysis can be carried out directly in very few situations because there are too many variables in the normal complex market situation and the “environmental” factors, in particular, change over time. Even the use of regression analysis, as mentioned in ► Sect. 10.3.1, “Price Elasticity of Demand,” may not be able to remove the effects of those other factors.
- *Survey research*—It might seem that market research should be able to find out what consumers would buy at various prices, allowing the curve to be plotted. In practice, the results from such research are generally so inaccurate that the curves cannot be plotted with any certainty.
- *Experiment*—The one successful device is to test prices in a test market. For many companies this approach may be of questionable value: The costs of the test are significant, and the price effect measured may be relevant for just a short time. Retailers themselves, with the luxury of many branches, are much better positioned to run such trials. Also, the online stores are in a fairly better position to run such trials in particular test markets, which could be distinguished with the total market based on geographical location, or even based on other segmentation variables such as age, income, occupation, etc., considering that computer software can permit or prohibit to display particular contents to particular audience based on the already stored information and data about different target audiences.

Table 10.1 Factors affecting the elasticity of demand

Organization factors	Customer factors	Market factors
Product life cycle	Demand	Competition
Product portfolio	Benefits	Economic and regulatory environment
Product line pricing	Value	Exchange rate
Segmentation and positioning Branding	Distribution channel	Geography

The practical reality is that these techniques are rarely used. The pricing for New York City’s Manhattan apartments illustrates the point (see Manager’s Corner ► 10.1). Let us, therefore, look at the factors that can influence elasticity of demand and thus affect price. As presented in ► Table 10.1, the main factors can be grouped into those that are almost totally under the control of the organization and those that are out of its control or can only be partially controlled.

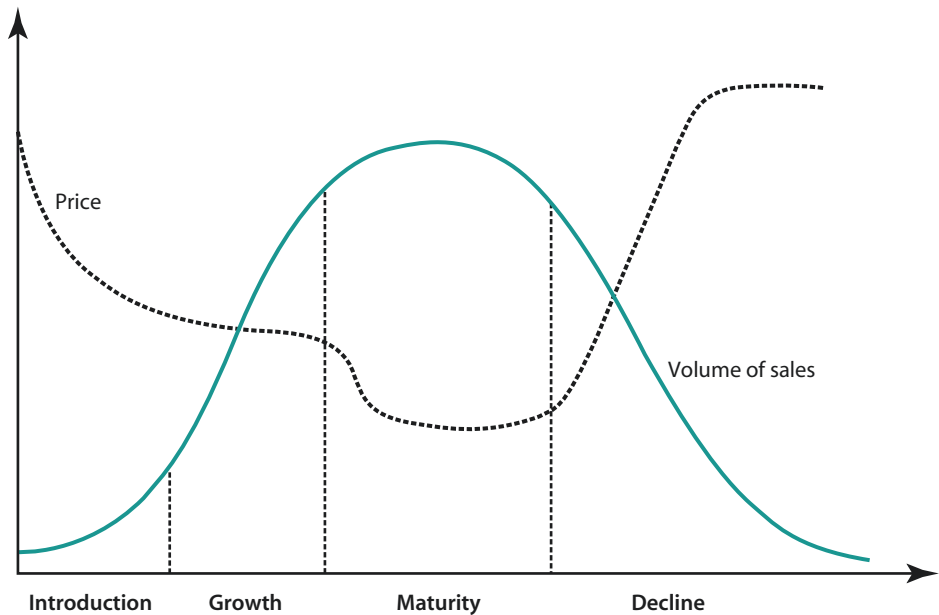
10

10.3.3 Organization-Controlled Factors

Even in a very competitive market, at least some of the factors affecting prices may be under the direct control of the organizations involved.

Product Life Cycle We saw in ► Chap. 8, “Product and Service Decisions,” that the stage of the life cycle through which the “product” is currently passing may in theory have an impact on price (see ► Fig. 10.2). At the product’s introduction stage, the price may be set high to capitalize on its uniqueness (**skimming**), as the first video recorders or the first iPhone were priced. This high price may be carried through to maturity or later, taking skimming to its logical conclusion—as a niche player, such as Mercedes-Benz in the automobile industry, might do. More likely, as we will see in ► Sect. 10.4.1, “Alternative Pricing Strategies,” the price might be reduced to maximize *penetration*. It is only at the end of maturity stage of a product, when the market moves into saturation that, according to this theory, price competition should break out in earnest. Even then, as products decline, prices should rise again as they are milked.

Skimming—The alternative pricing strategy in which the initial price is set high to maximize profit and the image of “quality.”



■ Fig. 10.2 A product life cycle

The theory also requires that, to be under the control of the organization, the product has a life cycle that is separate from that of the overall market. That only happens if the organization develops a segment, or “niche,” of its own.

For nonprofit services the life cycle is also important, in that the perceived value of the service will vary in much the same way over the life cycle (and service producers need to recognize this fact). The concept of “product” portfolio may also be used, based on value, to ensure that the “offering” to consumers balances the “range” of their needs. For example, a national health service may need to maintain support for a wide range of services, including some old-fashioned treatments (which patients still demand), at the same time as bringing in new and exciting services.

Product Portfolio If the organization has a portfolio of products, it can follow different pricing policies on each, balancing them against each other so that the overall impact is optimized. In any case, such pricing may be forced upon it. A “problem child” may fail to become a “star,” and if it is not immediately discontinued, its price will probably need to be raised so that it can be “milked” to retrieve some profit cover from the situation.

Manager's Corner 10.1

*The Dynamics
of Determining
Optimal
Pricing*

In Manhattan's residential market, pricing has always been used as a strategy to find what the market will accept. But developers of high-end condominiums, capitalizing on the strength of the market, are raising prices more quickly and more frequently than even in the mid-1980s' boom. The increases vary among the apartments offered, with price tags on some units increasing several times during the sales period, with other units remaining at their opening prices. For example, at 2 new East Side condominiums, the Knickerbocker and the Siena, average sales prices for the 147 apartments rose by 10% over the sales period. The primary reasons for the frenzy of the activity are the lack of product, pent-up demand for large units of two bedrooms or more, and the lack of competition. In Manhattan, three quarters of all apartments are co-ops, with shareholders rather than outright owners, in which would-be buyers must be approved by the co-op board, further making the market price inflexible.



Pricing newly built apartments is an intricate balancing act. Developers set their starting prices based on market conditions, resales, competition, and features offered in their buildings and apartments, coming close to what they think is the "market value." As buyers react, prices are adjusted upward, at different levels and times and by apartment style. As a result, the difference between the opening and final prices in condominiums seems to be, on average, 10–15%, with price increases ranging from none at all to 30–50%.

Sources: Garbarine, R. (1997, May 9). Market's Strength Enables Bigger, More Rapid Price Increases for New Condos. *New York Times*, Late Edition, B10; and "Location, Location, Location," *Economist* (May 31, 2003): 7

Looking at the portfolio in more general terms, the organization may even be able to run two or more similar product brands with different pricing policies. Thus, one can be in the mainstream of the market and at a reasonably high price, as is Toyota's Lexus models, whereas another is quite specifically targeted at a lower price to cover those price-sensitive customers, such as Toyota Camry and Corolla models. This pricing strategy has also been pursued by General Motors for years, as evidenced by its models ranging from those produced by Cadillac down to Chevrolet.

The portfolio approach is a powerful one, not least because it can “underwrite” any attempts to set a high-price policy by differentiation, balancing the risk of such experiments against the security offered by the brand remaining in the lower price position. Such a higher-price policy often succeeds, not infrequently against the expectations of most of those involved. The portfolio approach, however, is available only to those who have the financial resources and the position in the market to make it worthwhile.

Product Line Pricing The pricing of one product or service may affect others supplied by the organization in one or both of the following ways:

- *Interrelated demand*—The price of one product may affect the demand for another. They may be complementary (e.g., the computer and the software that runs on it) so that an increase in one part of the “package” results in demand for both falling. They could, however, be alternatives; for example, Procter & Gamble has a range of detergents, and increasing the price of one may switch demand to another.
- *Interrelated costs*—Sometimes the products use the same facilities (the same car assembly line may produce a range of models) or may be derivations of the same process (gasoline and heating oil are different “fractions” of crude oil, and one cannot be produced without the other). In these circumstances, changing sales volumes can obviously have pass-through effects on other costs.

Pricing strategies under these circumstances can be complex and are usually a matter of judgment.

Segmentation and Product Positioning The classic techniques for obtaining higher prices are those of positioning and segmentation (or niche marketing). By creating a distinct segment or market niche that the brand can dominate, the producer hopes that the price can be controlled. Indeed, experience shows that this can often be achieved in practice (Apple, with its own special niche, was able to stay away from the cutthroat pricing that infected the rest of the PC market).

Most of the techniques involved in this kind of pricing strategy were covered in some detail in ► Chap. 7, “Market Segmentation, Positioning, and Branding.” All that need be said at this stage is that a prime benefit of such segmentation and positioning is the reduction in price pressures. If price competition is severe, therefore, the first action should be to see whether segmentation can offer a degree of protection.

Creating a Brand “Monopoly” As explained in ► Sect. 10.3.1, “Price Elasticity of Demand,” most of the economic thinking that lies behind the theory of price elasticity of demand revolves around “perfect competition” (which, in the economic context, usually means exclusively price-based competition). On the other hand, it can be argued that one of the main objectives of the marketer, as exemplified by the brand manager, is to create a monopoly for the brands that he or she manages.

The ideal outcome would be that the brand was so differentiated from its competitors that the customer would not choose these other brands, even if the first-choice brand was not available. The marketer wants to see the consumer enter the supermarket determined to buy Heinz Baked Beans, not just a suitable variety of ordinary baked beans.

A variation of this process, in the industrial purchasing sector, is the fact that most supplier selection decisions involve choosing from a limited set of potential vendors. Potential suppliers in this set are “in,” whereas all other potential suppliers are “out.” Constraints on the set of possible suppliers can be imposed by any member of the buying organization that has the necessary power. Inertia is the major determinant of buying behavior and stresses habitual behavior. Indeed, buyers are motivated by a desire to reduce the amount of perceived risk in the buying situation to some acceptable level [5]. Something approaching this view surely led to the famous motto “No one ever got fired for buying IBM.”

10

10.3.4 Customer Factors

The major determinant of prices, of course, will be what the consumer is prepared to pay, which is in turn related to a number of other factors, including benefits, value, and distribution channel.

Customer Demand Following from the earlier economic theory, and assuming a steady supply—as is often the case—variations in customer demand should result in changes in price. This is most obvious in the commodity markets, such as that in oil. Consumers reduced their demand for oil to such an extent following the massive 1973 price increases that there was eventually a glut and prices were forced down again. This situation is also evident in other markets, such as that for housing, which have often seasonally related alternating periods of boom or bust. Holiday markets are closely tied to the seasons, in particular to the school holidays, and the prices reflect this fact. Telephone companies operate a similar approach, but on a daily basis, with high “peak” prices during normal work hours but “off-peak” bargains during evenings and weekends.

Similarly, big companies are installing “software meters” to help cut the cost of their skyrocketing software costs. New technology allows company offices to share software licenses. Instead of having to purchase 100 copies of a particular software package, the company may need to purchase only 25. If an office in the United States needs the software, it can “borrow” that software from its European offices. Likewise, when the Asian office is running short on a particular package, it can borrow that package from the US office while the staff sleep [6].

In the nonprofit sector, such surges in demand may be controlled, at least to some extent, by allowing waiting queues to lengthen (as happens for cosmetic surgery and museums).

Customer Benefits The more important or desirable the benefits, the more the consumer will be prepared to pay. Thus, as we have seen, there is the basic “commodity price” that would be paid for any product of an identical type, assuming that there was perfect competition. Beyond this, there is the “premium price” that consumers will pay for the additional benefits they believe the specific brand will give them. This type of pricing emphasizes, yet again, the importance of understanding which are the most important benefits in the eyes of the consumers because they are the ones who will justify a premium price.

Customer Value Benefits are conceptualized as the “value” that the customer sees in the product. In theory, a balance should exist between this value and the price asked.

This “perceived value” can then be matched against the price on offer, to see whether the purchase is worth making. This theory does at least recognize that different buyers, or groups of buyers, may have different motivations. The Volvo buyer probably places a higher value on personal safety than does the buyer of a Porsche. The latter will likely consider the car’s value as a status symbol to a greater degree than the buyer of a Hyundai.

Perceived value—The difference between the expected value of a product and its actual value to satisfy consumers’ needs, wants, and expectations. The more the actual value exceeds the initially expected value, the more the possibility for satisfactory perceived value of a product or service, and vice versa.

Paradoxically, price itself is often seen as a measure of quality: The higher the price, the higher the quality is presumed to be. Thus, higher-priced cars are perceived to possess (often unwarranted) high quality. High-quality cars are likewise perceived to be higher-priced than they actually are [7].

Distribution Channel In many situations the producer simply *cannot* determine the final price to the end user or consumer. The intermediaries in the distribution channel will apply their own pricing strategies, which may be totally unrelated to those of the producer and may even be contradictory. Thus, the distributor may even choose to absorb any price increases that the producer imposes. On the other hand, the distributor may equally ignore a price decrease that the producer has introduced (to improve penetration of the product, say) to increase his or her own profit, again with the result that the consumer sees no difference. For example, let’s think about the automotive parts industry, where a company distributes auto parts from manufacturers to auto mechanics. Since the new car models are manufactured each year, the auto mechanics need to determine which auto parts are compatible and which ones are not with the new models. In order to adjust with this situation, “the prices that this dis-

tributor charges to the retailers (the mechanics) are not only determined by how much they bought the parts from the manufacturer for, but also what the retailer wants to sell it for along with the basic” [8] economies of scale. Therefore, based on the ongoing dynamics of economies of scale, distributors and even the retailers determine their own price, which is known as the distributors’ mark-up price. Manufacturers need to estimate (as little as 3% to as much as 60%, e.g., depending on the product/service type and the target market) the distributor mark-up price in order to avoid any prospective price war that could be originated from the manufacturers’ own supply chains (e.g., from the distributors or retailers).

10.3.5 Market Factors

Competition and environment in the market may also have an important impact and may often be the ultimate determinant of prices.

Competition Apart from the competence of the supplier, in terms of the ability to match price to the consumers’ perceived value, the major factor affecting price is probably competition. What the direct competitors, in particular, charge for their comparable products is bound to be taken into consideration by the consumers, if not by the producers. The situation observed by US air carriers illustrates this situation. Few US carriers regularly are profitable, but competition often leads to fare wars that ensure additional years of profitless results [9].

The framework for the analysis of and response to competition, in general as well as price terms, was covered in Sect. 3.4, “Competition.” This chapter has shown that there are means of managing competition, even price competition, so that its impact on profits can be minimized.

Another response to price competition, therefore, should be to examine whether there are ways of “managing” it to reduce its impact and to signal to competitors that your response is not aggressive.

Direct competition may be rare in the nonprofit sectors, but indirect competition is not; and many of the same techniques can be applied. If, say, you are trying to attract people to fitness classes, you may have to persuade them that the “value” of these classes is greater than that of an alternative, which may be a session of bingo.

Economic and Regulatory Environment Whether the economy is booming or in recession may have a direct impact on what consumers can afford to spend. In recent decades this effect often seems to have been very selective, mainly hitting those supplying capital goods to industry, whereas consumer sales have continued to rise.

The various aspects of legislation also constrain freedom to move prices. At the very least, there is often the veiled threat of interest from those agencies that are responsible for monitoring “fair trading” and monopolies hanging over those who are especially effective in managing their price competition. The possibility of such regulatory intervention should never be discounted. Think, for example, about the Trump administration’s decision in 2019 to impose a hefty punitive tariff on a broad range of products from China. Although it was a politically motivated retaliatory

action against China's increased trade surplus with the United States, it could increase the prices of imported goods from China on the US market, hurting US consumers and US manufactures relying on materials imported from China [10, 11].

The US court struck down the last “peak pricing” scheme by the Massachusetts Port Authority (MPA) to ration traffic at Logan Airport. Declared discriminatory, MPA halved charges for jumbo jets while boosting fees for commuters, regional airlines, and nonscheduled flights by a factor of eight. Although MPA's peak pricing was rational given the airlines' demands for facility use, state and federal regulations could intervene in the market mechanism [12].

Exchange Rate In the recent decades or so, the exchange rates of major currencies, including the US dollar, the Japanese yen, the European Union's euro, and the British pound, have fluctuated significantly, and so have the prices of imports and exports. For example, as the US dollar has depreciated approximately 50% vis-à-vis the Japanese yen and the EU's euro in just a few years (i.e., the same dollar can buy half as much from Japan and the European Union), any components and finished products from Japan and the EU now cost twice as much in dollars. This can be a serious problem for US-based companies, such as Dell and HP, which rely heavily on components for further manufacture and finished products for sale in the United States. A pricing issue is to what extent those companies *pass through* cost increases to their customers. As presented in Manager's Corner ► 10.2, successful companies are usually willing to absorb part of the cost increase by reducing their profit margins to maintain their market share position.

On the other hand, as a result of the dollar depreciation, US exports are cheaper now in terms of foreign currencies. However, many US companies also import components for further manufacture in the United States and then export finished products abroad [13]. In other words, the dollar depreciation does not usually help US firms reduce foreign sales prices nearly as much as you might think. Furthermore, a sudden price reduction in foreign markets may even erode the brand image of the US product. For example, while Budweiser beer was considered a premium, or at least high-priced, beer in Japan until a few years ago, it is now one of the cheapest beers in Japan as a result of the steep depreciation of the dollar against the Japanese yen.



Geographical Pricing When transport costs are important, and particularly when there are widely separated populations, as in the United States, geographical location may become a factor in pricing. A range of strategies is available to cope with this:

- **Uniform pricing**—The same price is offered at all locations, regardless of delivery costs. This is the most widely applied policy in consumer goods markets, not least because it is easiest to apply, in terms of the paperwork created.
- **FOB (free on board) pricing**—The cost of all transport is charged to the customer (this strategy is more likely to be found in industrial markets).
- **Zone pricing**—The price is different for each geographical region, or “zone,” to incorporate the average transport costs incurred in shipping to that region. For example, it is used in the automobile industry.

Uniform pricing—The pricing strategy in which the same price is offered at all locations, regardless of delivery costs.

Free on board (FOB) pricing—The pricing strategy in which the cost of all transportation is charged to the customer.

Zone pricing—The pricing strategy in which the price is different for each geographical region, or “zone,” to incorporate the average transport costs incurred in shipping to that region.

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Other regional pricing policies are possible, of course—not least of these are regional variations to allow for the strengths of local or regional competitors.

10.4 Pricing New Products

An organization is most free to determine the price of its products or services when they are launched. After the price has been set, so has a precedent. In the event of any future changes, consumers will have not only the competitive prices as a comparison, but they will also have the previous prices as a *very* direct point of reference. Therefore, making substantial changes to the prices of existing products or services is very difficult. Consumer reactions may be severe if they think the organization is taking advantage of them.

If the new product is entering an existing market, price will be just one of the positioning variables. On this basis, the price will be carefully calculated to position the brand exactly where it will make the most impact—and profit. At a less sophisticated level, the producer of a new brand will decide which of the existing price ranges—cheap or expensive—the product or service should address. A supplier entering a mass consumer market can simply go to the local

supermarket or specialty store and see what prices are already accepted for similar products. In industrial markets, obtaining competitive prices may be much more difficult, even where published price lists are available, because these prices are often only the starting point for negotiations that result in heavy discounts.

In the case of a totally new product or service, the pricing exercise will be that much more difficult because no precedents indicate how the consumer might behave, and market research is notoriously inaccurate in this area. In the end, what “perceived value” the consumer will put on the offering will have to be a judgmental decision.

Manager's Corner 10.2

Companies—Even Domestic Companies—Should Be Aware of How the Foreign Exchange Rates Affect Their Pricing Strategy

The dramatic swings in the value of the dollar since the early 1980s have made it clear that foreign companies charge different prices in the United States than in other markets. When the dollar appreciated against the Japanese yen and the German mark in the 1980s, Japanese cars were priced fairly low in the United States, justified by the cheaper yen, whereas German cars became far more expensive in the United States than in Europe. In the 1990s, when the dollar began depreciating against the yen and the mark, Japanese and German automakers had to increase their dollar prices in the United States. Japanese automakers did not raise their prices nearly as much as German competitors. Obviously, they “price to market.” As a result, Japanese carmakers have not decreased their US market share as much as German carmakers.

One of the success factors for many Japanese companies in the US markets seems to be in the way they used dollar–yen exchange rates to their advantage, known as the *target exchange rate*. Japanese companies, in particular, are known to employ a very unfavorable target exchange rate (i.e., hypothetically appreciated yen environment) for their costing strategy to make sure that they will not be adversely affected should the yen appreciate. Therefore, despite an upward of twofold appreciation of the yen vis-à-vis the dollar from 240 yen/\$ to 85 yen/\$ in a decade or so, the dollar prices of Japanese products have not increased nearly as much. Although accurately estimating the average increase in dollar prices of Japanese products is almost impossible, our estimate suggests about 30% price increase over the same period. If this estimate is accurate, Japanese companies must have somehow absorbed more than 70% of the price increase! This cost absorption could result from smaller profit margins, cost reductions, or both. According to some estimates, Toyota is capable of breaking even at 80 yen to the dollar. In other words, as long as the Japanese currency does not appreciate all the way to 80 yen to the dollar, Toyota is still expected to earn windfall operating profits.

Source: Kotabe, M., & Helsen, K. (2004). *Global Marketing Management* (3rd ed.). Hoboken, NJ: John Wiley & Sons, Chapter 3

10.4.1 Alternative Pricing Strategies

Within the limits described in ► Sect. 10.4, “Pricing New Products,” however, two main approaches are possible for a new product’s pricing strategy, and to a lesser extent for an existing one: skimming and penetration pricing.

Skimming One pricing approach is to set the initial price high, to “skim” as much profit as possible, even in the early stages of the product life cycle. This approach is particularly applicable to new products that, at least for some time, have a monopoly of the market because the competitors have not yet emerged or at least the quality of the newly launched product is much better than the existing alternative products and is a pattern often seen in the *introduction* of new technology. For example, when telephone companies entered Russia with cellular phones, they were priced very high at \$2500 for sign-up because they had no competition and appealed to just a handful of wealthy people. Within 2 years, however, the average price of those cellular phones returned to \$200 for sign-up due to a demand much larger than expected and threats of eventual competition. Similarly, the price of a mobile phone was much higher when it was first launched in the mid-1990s, in comparison to the price of mobile phones today.

The price is usually reduced, possibly in stages, by the first entrants to gradually expand demand, until it reaches a competitive level just before the competitors enter the market. However, it is interesting to note that in the case of video recorders, latecomers such as Panasonic and Toshiba, with improved technology and competitive prices, actually swept the market originally created by Philips and Sony.

The rationale behind *skimming* (sometimes called *rapid payback*) is normally quite simply that of maximizing profit. But there may occasionally be another motive—that of maximizing the image of “quality.” This is a policy that holds in consumer markets such as the upper end of the perfume trade; for example, sales of Chanel No. 5 would probably not increase dramatically if the price were reduced. But this policy can just as easily apply in industrial markets. It is the foolish consultant who asks for a low price, because the client will probably think that the quality is comparably low.

As just indicated, the danger of a skimming policy is that a high price encourages other competitors to enter the market because they see that sales revenue can quickly cover the expense of developing a rival product. Even if your prices are not exorbitant, you may still need, therefore, to plan for a steady reduction in price as competitors appear and you recover some of your launch costs. Such a price reduction will normally be helped by economies of scale. For example, Dell began selling sub-\$1000 home PCs and plans to have much more presence and aggressiveness in the lower-priced product segment. Although hardly groundbreaking in an era of \$599 machines, Dell’s most recent embrace of under-\$1000 PCs continues the balancing act of avoiding first-time PC buyers without alienating them from its own line of PCs in its strategy of “skimming the cream” in the low end of the market [14].

Penetration Pricing A manufacturer could choose the opposite tactic by adopting a penetration pricing policy. Indeed, this has been the very successful policy behind the move of Japanese corporations into a number of existing markets. Here, an initial low price might make imitating innovations less attractive for would-be competitors, particularly when the technology is expensive; and it encourages more customers to buy the product soon after its introduction, which hastens the growth of demand and earlier economies of scale. The main value of this policy is that it helps to secure a relatively large market share and increase turnover while reducing unit costs; consequently, the price domination can be maintained and extended. Its major disadvantage lies in lost opportunities for higher profit margins.

In recent decades, many software companies have been literally giving away their product in order to build market share and to entice buyers to buy other products [15]. Giving away the product to consumers is common in consumer goods companies. Companies such as Gillette often give away razors to later make huge profits on the blades [16].

Under this broad category, however, there are a number of more specific policies:

- *Maximizing brand/product share*—This justification is sometimes made in terms of maximizing sales growth, particularly in new markets where competitive activity is less evident.
- *Maximizing current revenue*—The assumption is that higher sales automatically lead to higher profits, although in practice most products are more sensitive, in terms of profit, to price than to volume.
- *Survival*—For some organizations, maximizing revenue by price-cutting may be seen as the only way to survive. This is the philosophy of despair.

The circumstances generally favoring the skimming and penetration pricing are summarized in ■ Table 10.2.

■ Table 10.2 Conditions for skimming versus penetration pricing strategy	
Skimming	Penetration
Prices are likely to be inelastic	Prices are likely to be elastic
The product or service is new and unique	Competitors are likely to enter the market quickly
There are distinct segments	There are no distinct segments
Quality is important	Products will be undifferentiated
Competitive costs are unknown	Economies of scale apply

10.4.2 Practical Pricing Policies

Although the pricing theory that has been described provides managerial insight, it has limited value in practical pricing. Essentially, limitations indicated by Alfred R. Oxenfeldt [17] four decades ago apply to this day:

- » The current pricing literature has produced few new insights or exciting approaches that would interest most businessmen enough to change their present methods. Those executives who follow the business literature have no doubt broadened their viewpoint and become more explicit and systematic about their pricing decisions; however, few, if any, actually employ new and different goals, concepts or techniques.... Most authors deal with pricing problems unidimensionally, whereas most businessmen must generally deal with price as one element in a multidimensional marketing program.

Thus, despite the theory described so far, prices are often set by one of a number of more pragmatic “rules of thumb.”

Cost-Plus Pricing The starting point for most pricing exercises is an examination of the cost of the product or service. In practice, such “cost-plus pricing” is probably the most common approach and may be understandable when the price list contains hundreds of items, although, under those circumstances, it is highly debatable whether the “cost” for each item represents anything more than an estimate.

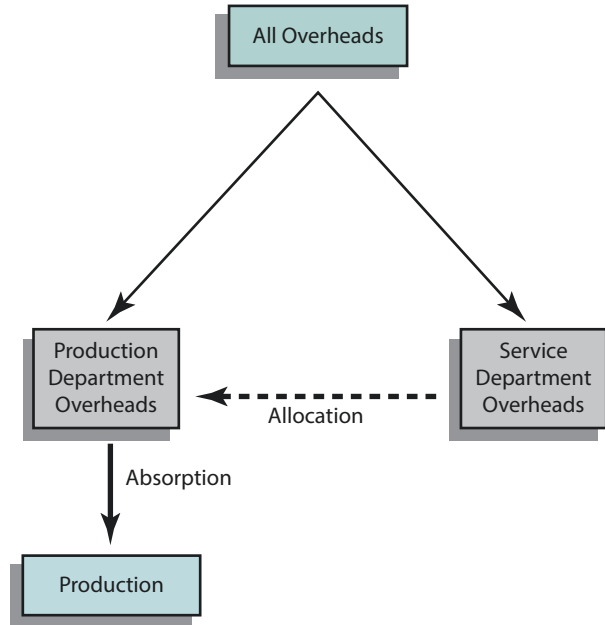
Paradoxically, cost-plus pricing seems to suggest that inefficiency (which would lead to a higher unit cost) should be rewarded.

The one area in which cost-plus pricing is possibly justifiable is where the supplier has a long-term relationship, almost a partnership, with a customer (often the government and perhaps in the case of industrial buyer). In these circumstances it is sometimes agreed that a certain level of profit, as a percentage of cost, is acceptable. But even here a question has to be asked as to the efficiency of such a pricing policy, for the customer as well as for the supplier, because profit is supposed to be the main incentive. The legal actions taken by government to recover unwarranted profits made by some defense contractors operating under these pricing policies seem to argue for some dissatisfaction.

Exactly what “cost” should be chosen is a matter of debate, although few producers actually do conduct such a debate, often selecting as their “cost”—by default—the first figure thrown up by their accounting system. The act of choosing what cost to apply and, more importantly, understanding the assumptions that lie behind, it is an art, and one in which many marketers are unskilled.

The most critical element in this process is often the most arbitrary—that of the allocation of overheads. The process of “absorption” of overheads, whereby indirect overheads are allocated on the basis of “judgment” to production departments and then, combined with direct overheads, “absorbed” into the individual product costs, is often made on the basis of labor content (see ■ Fig. 10.3).

Fig. 10.3 Overhead cost allocation and absorption.
 (Source: Adapted from Oxenfeldt, A.R., & Kelly, A.O. (1986). Pricing Consumer Products and Services. In V.P. Buell (Ed.), *Handbook of Modern Marketing* (2nd ed.). Reprinted by permission of The McGraw-Hill Companies, Inc.)



Marginal or incremental costs, which avoid the problem of overhead allocation, may well be the most favorable approach for new products but may leave gaps in terms of overhead recovery as the older products die. A judgment also has to be made as to the period over which any initial investment is to be recovered.

The following are a number of fundamental errors committed by business executives in setting price: [18]

1. The tendency to think in terms of averages ... the assumption that all customers behave in the same way. This type of thinking ignores the particular and unusual circumstances under which the price move occurs and that call for the use of *marginal* or incremental costs.
2. The reluctance to “let bygones be bygones” ... letting irrevocable and irretrievable past expenditures enter into the cost computations underlying price decisions. The vital concept to apply here is *sunk costs*. These are outlays already made that cannot be revoked and about which nothing can be done. Such costs must be ignored in setting the price for new products.
3. The tendency to ignore alternatives ... businesspeople frequently charge out these elements on the basis of what was paid for them in the past (book costs) rather than what they would yield in alternative use. The concept of *opportunity costs* has been developed to help highlight the constant need to think in terms of alternatives when arriving at the decision.
4. The tendency to emphasize cost considerations over demand considerations ... this tendency reaches its pinnacle in *cost-plus pricing*, in which demand considerations are simply ignored.

Target Pricing In target pricing, the intention is not just to obtain a “profit” over costs but is to obtain a reasonable return on investment (ROI). Therefore, the price has to be based on both the variable costs (as in cost-plus) and the fixed costs. Fixed costs generally include facility, capital equipment and investment, and other overhead, including top management’s salaries. The process of trying to consider investment decisions and pricing decisions simultaneously is a complex one, requiring accurate information.

General Motors extensively used target pricing in the 1980s. Facing intense Japanese competition, General Motors was losing customers. To achieve its targeted ROI, the company had to raise prices frequently to compensate for revenues lost to the Japanese automakers and further aggravated its customer losses as a result. Thus, it is not surprising that target pricing is one of the less popular policies, except where it is used often in a theoretical rather than practical context, as part of a justification for a large capital investment program.

Historical Pricing The normal extension of cost-plus pricing is to base today’s prices on yesterday’s—thus, “historical” pricing. The annual round of price increases, for example, is based on last year’s price raised by something approximating the increase in the cost of living or the true increase in costs—whichever is higher. Also, any adjustment of the historical price should consider market environmental changes such as changes in buying power, competitors’ price, regulatory issues, and so forth.

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Product Line Pricing The pricing for a given product may be decided by the range within which it fits. There may thus appear to be an inevitable logic, derived from the rest of the product line. A 12-ounce pack, for example, is expected to have a price somewhere close to the median of the 8-ounce and 16-ounce packs. A premium price on a member of a budget-price product line would pose questions, and, at the other extreme, a budget-price entry into a luxury product line might do severe damage to the quality image of that product line.

A more specific example of product line pricing comes from retailing, where it is often called *price lining*. In this case there are a limited number of predetermined price points, and all items in a given price category are given a specific price, say \$9.99. This type of pricing also illustrates the “psychological” aspect of choosing certain price points on the basis that customers will read \$9.99 as \$9 rather than the \$10 it nearly is! However, there is debate about the effectiveness of such psychological pricing strategies.

Competitive Pricing The most usual form of pricing, which is based on evidence from the market, is that in which product prices are determined by reference to the prices of competitive products. For example, similar to many other industries, in the travel industry, we see that the travel agents regularly monitor their competitors’ pricing for the similar travel packages and synchronize their price offerings along the rises and falls in the competitors’ price. The progress of the e-commerce dynamics has also become instrumental to easily and more meaningfully monitor the competitors’ pricing. However, competitive pricing, if unchecked, could lead to price wars [19].

A sound appreciation of competitive actions, especially prices, is necessary for the most effective strategies to be formulated. The most effective marketing manager will, however, try to develop an *understanding* of the various competitive positions based on an appreciation of the customer needs. A market leader should take advantage of the power that position offers, and a niche marketer should be able to use that uniqueness of positioning to gain some control over prices.

In a “brand monopoly,” the marketer may have a significant degree of control over prices. On the other hand, in a commodity market, no control at all may be available. Once more, the marketer has to make a judgment as to the price elasticity of demand (in this case, in the context of competitors’ prices).

The position is usually more complex than participants allow for. Products or services, and in particular brands, are rarely identical. Each will have its special features, presumably developed by its management to meet some market need. Therefore, each may justify a premium, a degree of differentiation in its pricing. Setting the optimal premium is the subject of considerable skill—and not a little bravery.

The solution chosen by many suppliers is to match or preferably undercut their competitors. The problem is that all the participants can have the lowest price only if they all have the same price, and that is usually a commodity-based price, which is significantly lower than the price that should be achieved when products or services are marketed effectively.

In markets with many suppliers, the skill is in knowing what “premium” over the commodity price the chosen “marketing mix” will justify. In markets with a limited number of major products or services, it is arguable that an understanding of the psychology of the competitors is just as important.

A specific example of competitive pricing occurs in the retail sector, in which “loss-leader pricing” is sometimes employed. The prices of certain lines are deliberately set low—perhaps even making a loss, the line then becoming a “loss leader”—to attract customers into the store. The intention is that these customers will then also buy other lines, on which the real profit will be made. You should note that the practice may be invalidated by customers who realize what is happening, and ethical objections have resulted in the “loss-leader” approach being made illegal in some states [20].

Market-Based Pricing As discussed in ► Sect. 10.3, “Demand and Supply,” market-based pricing is sometimes called “perceived value pricing” because the price charged matches the value that the customer perceives the product or service offers. Clearly, this strategy is nearly ideal because it is likely to be optimal in terms of obtaining the maximum premium on the commodity price. This is also the ideal price in that it matches the “position” of the product to the customer’s perceptions. Particularly in the luxury goods markets, the price is an element of the overall “description” of the product and one that is seen as reflecting its quality. There are many examples of luxury products, such as Harley-Davidson motorcycles, that have performed badly until the price is increased in line with the quality expected.

The problem is, of course, determining just what is the perceived value, or, more basically, finding out what price consumers will be willing to pay. Even in the mass consumer markets, where extensive research is undertaken, establishing optimal prices is difficult. It is not possible to ask market research respondents how much they would be willing to pay because such research will almost invariably give wildly optimistic results [21].

Other factors to consider in actual pricing are as follows:

- **Price positioning**—In addition to determining where the “market” price lies, a further decision needs to be made—that of where the brand price is to be positioned in relation to the market price. For example, in the retail industry, ALDI positions itself as “everyday low price” [22] supermarket, with an aim to offer more competitive value to its customers for the same grocery items that can be purchased from the competitive supermarkets. Such “low pricing” positioning strategies attempts to offer a product just little under the market price offered by other competitors. As a result, “ALDI earns ‘Grocery Value Leader’ title for 10th year running” in 2020 [23].
- **Quality pricing**—On the other hand, some organizations make a conscious decision to deliberately price above the market average. This price is intended to demonstrate the quality, or even the luxury, of the product or service. Rolls-Royce is the example quoted most often, but Hilton Hotels, Apple, and many of the cosmetic and perfume companies follow the same policy.

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For these luxury products, the conventional downward-sloping demand curve illustrated in ■ Fig. 10.1 does not apply. Although the initial reduction in price may result in increased sales, beyond a critical point, any further reduction in price will lead to a *reduction in sales*. In other words, fewer consumers will buy such a luxury product because its exclusive quality image has been tarnished by lower prices. For this reason it is arguable that the problems being encountered by the Lincoln-Mercury Division of Ford have actually been exacerbated by the price cuts that were made to try to restore its competitive position.

- **Budget pricing**—The organizations with the most obvious price positioning are those deliberately choosing to price below the market because such budget prices are often the main element of their marketing mix. Bic ballpoints, Hyundai cars, Southwest Airlines, and some budget hotel brands have all endorsed this approach.

Selective Pricing Some suppliers apply different prices for the same product or service. Marketing in Action ► 10.1 shows how the internet is facilitating this strategy for natural gas suppliers.

- **Category pricing**—The supplier aims to cover the range of price categories (possibly all the way from cheap to expensive) with a “range” of “brands” based on the same “product” (repackaged and possibly with some minor changes). This strategy was particularly obvious when Bausch + Lomb marketed Sensitive Eyes 1 oz. eyedrops for \$5.65 and Sensitive Eyes 12 oz. contact lens solution for \$2.79 [24]. It may be less obvious when suppliers run high-priced brands while at the same time offering low-priced store brands.

- **Customer group pricing**—The ability of various groups to pay prices may be met by having different categories of prices: Entrance fees and fares are often lower for students and senior citizens.
- **Peak pricing**—The price is matched to the demand: High prices are demanded at peak times (the rush hours for transport, the evening performances for theaters, or resort hotel rates for off-season months), but lower prices at off-peak times (to redistribute the resource demands by offering incentives to those who can make use of the services off-peak). Crested Butte Ski resorts (► <https://www.skicb.com/>) in Colorado offer off-peak free lift tickets in one extreme example.

Marketing in Action 10.1

Southern California Gas Company Launched Energy Marketplace

Southern California Gas Company (► www.socalgas.com) is one of the largest natural gas distribution utilities in the United States. “As the nation’s largest natural gas distribution utility, we (the Southern California Gas Company) deliver clean, safe and reliable energy to 21.8 million consumers through 5.9 million meters in more than 500 communities.” The company services its customers in its 24,000-square-mile territory encompassing central and southern California. The US natural gas marketplace is composed of more than 55 million households. More than one-third of US industrial energy use is powered by natural gas. Approximately 5% of all gas delivered in the United States is delivered by the Southern California Gas Company.

In 1998, Southern California Gas Company became part of Sempra Energy (► <https://www.sempra.com/>), a global energy services holding company formed by the merger of Pacific Enterprises (parent of California Gas) and Enova Corporation (parent of San Diego Gas & Electric). A Fortune 500 company, Sempra provides integrated solutions to its energy customers’ needs through its numerous subsidiaries.

Southern California Gas Company was on the leading edge of gas delivery prior to becoming a subsidiary of Sempra Energy. In November 1997, the company launched Energy Marketplace (► www.energymarketplace.com), which is the first internet-based shopping center providing real-time access that allows industrial customers to shop for the best natural gas process. Southern California Gas Company charges a minimal fee to small- and medium-sized gas providers who want to list their gas prices on the exchange. Additionally, the companies can advertise service offerings on the site.

With real-time information on customers and suppliers, the web provides an opportunity to increase or decrease price instantaneously. As more and more products are offered via the internet, will uniform pricing give way to fluid pricing? Should Southern California Gas Company expand Energy Marketplace and offer it to household users?

Sources: Southern California Gas Company (2020). ► www.socalgas.com. Accessed 14 July 2020; Cortese, A.E., & Stepanek, M. (1998, May 4). Good-bye to Fixed Pricing? *Business Week* (p. 71) +; and Druckenmiller, G. Jr. (2001). Online Power Saver. *Engineered Systems*, 32; Company Profile (2020). ► <https://www.socalgas.com/about-us/company-profile#:~:text=About%20SoCalGas%20AE,in%20more%20than%20500%20communities>. Accessed 14 July 2020

Category pricing—The pricing strategy in which the supplier aims to cover the range of price categories with a range of brands based on the same product.

Customer group pricing—The pricing strategy in which different categories of prices are set to match various customer groups' ability to pay.

Peak pricing—The pricing strategy in which the price is matched to the demand; high prices are demanded at peak times, while lower prices are offered at off-peak times.



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- **Yield pricing**—A variant of peak pricing known as *yield management* was originally used by airlines to price each seat differently depending on the hourly fluctuating demand conditions. At the Washington National Opera (formerly Washington Opera Co.), located in the nation's capital, the ticket-services manager knew—and his computer system confirmed—that the company routinely turned away people for Friday and Saturday night performances, particularly for prime seats. Meanwhile, midweek tickets went begging. He also knew that not all seats were equal in terms of the view and the acoustics, even in the sought-after orchestra section. So the ticket manager and his staff played with ticket prices until he arrived at nine levels, up from five. In the end, the opera raised prices for its most coveted seats by as much as 50% but also dropped the prices of some 600 seats. The gamble paid off in a 9% revenue increase during the next season. Yield management emphasizes an aggressive micromarket approach to maximizing sales. It assures that companies will sell the right product to the right consumer at the right time for the right price [25].
- **Service-level pricing**—The level of service chosen may determine the price. At its simplest, the buyer may pay for immediate availability rather than having to wait (or may pay more for the guarantee of a seat). This may be extended to levels of “delivery”; the product may be available immediately, and gift wrapped, in an expensive store, or it may arrive some weeks later by mail from a cheaper

mail-order house. There may also be levels of “quality” in delivery; for instance, seats in different parts of a theater may have differing levels of access to the performance, although the basic “product” may be identical. In addition to the confirmed service (e.g., guaranteed seats in stadium as the seasonal ticket scheme), many service providers (i.e., immigration departments in many countries) offer quicker service with additional price.

Yield pricing—A variant of peak pricing in which the price of each product is matched by the benefits it provides.

Service-level pricing—The pricing strategy in which the level of service determines the price.

The last four of these selective pricing strategies are particularly prevalent in the service industries, where the supplier is in direct contact with the customer.

Above all, the main temptation to avoid is the assumption that price is the most important variable in the marketing mix. Sometimes it may be, and you will obviously need to recognize that. In *most* situations, however, it is not, and in many it may be a very minor consideration. Under these “typical” circumstances, it is important to attend to the other elements of the marketing mix first and then deal with price in this context.

10.5 Discounts

After setting the overall price, the supplier then has the option of offering different prices (usually on the basis of a discount) to cover different circumstances and, from time to time, as part of sales promotion initiatives. The types of discount most often offered are:

- **Trade discounts**—Members of the supplier’s distribution channel (e.g., retailers and wholesalers) will demand payment for their services. Trade discounts are covered in more detail in ► Chap. 11, “Distribution and Supply Chain Management.”
- **Quantity discounts**—Those who offer to buy larger quantities of the product or service (again typically as part of the distribution channel, but also the larger industrial buyers, and even for mass consumers in some cases) are frequently given incentives. In consumer markets, this is more often achieved by larger pack sizes (or by banding together smaller packs) as “family or economy” packs. Offering extra product (“30% extra free” or “13 for the price of 12”) is often deemed more cost-effective than reducing price because the extra product represents only a marginal increase in cost to the supplier and may push the user into using more (and even finding new uses).

- *Cash discounts*—Where credit is offered, suppliers sometimes decide to offer an incentive for cash payment or for prompt payment (to persuade customers to pay their bills on the due date, although too often they take the discount anyway and still pay late).
- *Allowances*—In the durable goods market, suppliers often attempt to persuade consumers to buy a new piece of equipment by offering allowances against trade-in of their old one. Generally speaking, these allowances are simply hidden discounts targeted at a group of existing “competitive” users. In general, we see such trade-ins more in the electronic product industry and the used car industry, in comparison to other industries.
- *Seasonal discounts*—Suppliers to markets that are highly seasonal (such as the holiday market, or the supplementary businesses during a mega event such as the Olympics or Soccer World Cup) will often price their product or service to match the demand, with the highest prices at peak demand.
- *Promotional pricing*—Suppliers may, from time to time, wish to use a price discount as a specific promotional device. This type of discount is discussed at more length in Sect. 13.4, “Sales Promotion.”
- *Individual pricing*—Under certain circumstances, a customer, even in a consumer market, may be able to negotiate a special price. Such haggling is the essence of sales in most Latin American and Southeast Asian countries. It may also be the basis of some industrial and business-to-business selling. Here, the pricing decision is left to the sales professional, often with disastrous effects on profit. Control of such processes will be discussed in Sect. 14.2, “Territory Management and Planning.”
- *Optional features*—The reverse of discounts may be that customers are offered a basic product to which they can add features, at extra cost (and often, unlike discounts, with much higher profit margins). Automobile purchases and insurance services are good examples.
- *Product bundling*—Alternatively, customers might be offered a “bundle” of related products—such as a package of accessories with a camera—at a reduced price, as compared with the prices of the separate items (although sometimes the separate items are not really sold apart from the special promotional “bundle”). In the tourism and hospitality industry, often we see such bundle pricing, where suppliers attempt to offer more competitive price by bundling the price of air ticket, accommodation, and local transports and even including different holiday activities.
- *Value package*—Slightly different from product bundling, a value package offers customers a product that automatically comes with a certain package of accessories. In recent decades, automakers have adopted value package pricing by selling cars equipped already with such accessories as an air conditioner, antilocking brakes, a CD player, and other advanced technologies. Value packaging enables automakers to reduce production costs by limiting option packages and pass on some savings to customers in the form of lower prices.
- *Psychological pricing*—Some suppliers deliberately set very high “recommended” prices to offer seemingly very high discounts (“massive savings”) against them. However, this policy may backfire when consumers realize what is happening—and, in any case, such tactics are now often subject to regulation and may even be illegal.



10.5.1 Price Negotiation

The most difficult area of pricing seems to be that in which the price results from a process of negotiation, typically as part of face-to-face sales activities. There are probably three main reasons why the greatest difficulty arises in this area:

- *Each is believed to be a unique situation.* The buyer and, more importantly, the seller (the salesperson) believe that each such negotiation starts afresh, without any established ground rules—no matter what the seller's policies might be.
- *Negotiation takes place under immediate pressure.* The price is set not by the leisurely processes of the office bureaucracy, but under the severe pressures of “real-time” negotiations with the customer. In this case, the salesperson has to think on his or her feet at the same time as keeping all the other sales issues under control.

- *The negotiator is less well prepared and motivated.* The negotiator is typically the salesperson, who is not well versed in the factors that should influence any pricing decision. More importantly, he or she is normally motivated partly by the whole ethos of selling and partly (often largely) by actual monetary incentives to close the sale rather than obtain the highest price.

It is no great exaggeration to state that many sales personnel (at all levels) go into a price negotiation believing that they are in an inherently weak position and, indeed, are bound to lose. Many sales courses on “negotiation” are largely designed to convince people that this is not true.

In general, then, most sellers put *themselves* in a weak bargaining position, and as a result, many, if not most, prices arrived at in such bargaining are lower than they need be. However, the seller can also have a strong position over the buyers. Sellers are in a strong position when [26]:

- Each buyer buys small quantities relative to the total sales of the sellers; the seller can afford to lose the business of individual buyers.
- The buyer lacks suitable alternative sources; the seller has a quasi-monopoly.
- The buyer faces high “switching costs”; the buyer would have significant costs and problems associated with switching to a new supplier.
- The cost of the item is a small part of the buyer’s costs; the buyer has more pressing problems.
- The cost of the product failing would be high; the buyer needs to pay for safety and cannot afford to cut corners.
- Cost savings resulting from use of the product are significant; the product more than pays for itself.
- The buyer has high-quality images; he or she cannot afford to buy “cheap” inputs.
- The buyer wants customer-designed products; the seller again has the potential of a quasi-monopoly.
- Buyers’ organizations are highly profitable; the buyer is not primarily motivated by cost savings.
- The buyer is poorly informed; lack of information always undermines a negotiation position.
- Large buyers are not necessarily the most price-conscious, although they will happily accept the gift of low prices that many sales personnel, who assume that price is always a function of quantity, hand to them.

10.6 Pricing Strategy

Whatever the rationale behind the final pricing decisions—from the most elegant of economic theories to the most pragmatic of competitive reactions—consolidating them as a pricing strategy is necessary to ensure that what is being implemented matches what the participants in the decision actually thought they were agreeing to. Too often major misunderstandings in management decision-making are

revealed only after the damage has been done. Formalizing these decisions in writing should remove the possibility of such misunderstandings, although it may not always do so.

Ensuring that the individual prices are carefully managed and that balance exists across the whole portfolio is also necessary.

10.6.1 Price Wars

Price competition is seen to be the most savage and destructive form of business warfare. It is particularly destructive because at one end of the chain it destroys the profit of the suppliers (and with it the capacity to invest in the future of the market) and at the other because it often destroys the consumers' belief in the quality of offering (and, thus, in their expectations of development of the market). Volume sales, other stimuli, and minor brands are some of the reasons for indulging in the risky pursuit of price competition.

The telecommunication market has been going through complex price wars of a sort to attract customers with a lower package price for a bundle of various services included. Bundling is becoming the byword for data, text, and voice services over upgraded networks. What has long been a confusing rate environment became even more so during the late 1990s, as a result of several developments including greater competitive pressure on nontariffed voice rates, bundling deals that reduce the ability to pit one carrier against another, and expanded “convergence,” which now includes local access as well as long-distance and data. The greatest pricing reductions were in the nontariffed voice market. Now any business paying more than 10 cents a minute for long-distance interstate traffic is considered overcharged. Even 5 cents a minute under certain circumstances is possible. Sprint, AT&T, and other major competitors in this market are scrambling to hold the pricing fort against newer competitors. These phone companies now have a new gimmick: bundled plans, which combine unlimited local and long-distance calls with options such as cell phone or high-speed internet (DSL) service, all for one monthly rate. Sprint used to offer unlimited land-phone services for \$55, and the former MCI (acquired by WorldCom in 1998) used to offer an unlimited phone service plan for \$50. Again, price competition has been heating up [27].

Volume Sales Not all price reductions are destructive. Some result in such increases in the volume of purchases that absolute profit is increased despite the relative reductions in price (and economies of scale may mean that even the relative profit per unit increases), and the whole market expands rapidly.

The key to making a success of price competition is in ensuring that it reflects a genuine cost advantage. Economies of scale, and hence the justification of lower prices to increase volumes, are one aspect. Another is that your own cost structure must offer advantages over those of the competitors. When these factors apply in your favor, price competition can be advantageous, in exactly the same way that any other “product” advantage would be.

Unfortunately, most price competition occurs between companies with similar cost structures and, thus, frequently leads to a debilitating price war (e.g., the airline price wars among the major US airlines).

Other Stimuli Apart from a price reduction to reflect a genuine cost advantage, price reductions are often stimulated by:

- *Market leadership targeting*—In an “open” market, with a number of similar size brands (or a new market that has not yet stabilized), a brand owner may decide to make an investment to achieve market leadership (a “penetration” pricing policy in new markets). Price is often the main weapon, particularly when there is a belief (often no more than an unjustified hope) that this may also lead to falling costs per unit.
- *Excess capacity*—Perhaps the most dangerous move occurs when price is reduced to use up excess capacity and hence to absorb more overhead. Unfortunately, this approach often takes place when there is spare capacity in the market as a whole and competitors are faced with similar problems—in which they will respond similarly.
- *Falling brand share*—Defense of share often involves a more aggressive price position; hence, it may be wise to watch how rapidly share is being taken from competitors by nonprice means (because too rapid erosion may stimulate a savage price war).

Minor Brands An exception to the strictures about price competition relates to minor brands in markets that are dominated by major brands. As was discussed in Sect. 3.4, “Competition,” minor brands will typically make the largest offer (usually a price reduction) *per unit* (which represents the greatest impact they can make), whereas the response of the market leaders is to promote (most economically) across the whole market, usually by advertising. This situation rarely leads to damaging price wars.

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10.6.2 Reactions to Price Challenges

The first reaction to a price reduction should always be to consider the situation carefully (and metaphorically count to ten before indulging in self-righteous retaliation). Has the competitor decided on a long-term price reduction, or is this just a short-term promotion? If it is the latter, the reaction should be purely that relating to short-term promotional activity (and the optimum response is often simply to ignore the challenge). All too often, price wars have been started because simple promotional activities were misunderstood as major strategic changes.

On the other hand, if this *is* a long-term move, a number of reactions are possible:

- *Reduce price.* The most obvious, and most popular, reaction is to match the competitor’s move. This maintains the *status quo* (but reduces profits pro rata). If this route is to be chosen, it is as well to make the move rapidly and obviously—not least to send signals to the competitor of your intention to fight.
- *Maintain price.* Another reaction is to hope that the competitor has made a mistake; however, if the competitor’s action does make inroads into your share, this can rapidly lead to a loss of confidence in the product as well as of volume.

- *Split the market.* A particularly effective tactic (most notably used by Diageo, the owner of the Smirnoff brand of vodka) is to combine a move to increase the “quality” of the main brand at the same time as launching a “fighting brand” to undermine—by further price-cutting—the competitor’s position.
- *React with other measures.* Reducing price is not the only weapon. Other tactics, such as improved quality or increased promotion (to improve the quality image, perhaps), may be used, often to great effect. Coupons may be used to attract price-sensitive customers (see Manager’s Corner ► 10.3).

Manager’s Corner 10.3

Hidden Price Discounts: Coupons Go Hi-Tech!

A 1998 study by Professors Ramaswamy and Srinivasan suggests that different segments of consumers place varying emphasis with regard to economic benefits, psychic benefits, effort costs, and substitution costs. Coupons are both a familiar and useful form of promotion that can create buying patterns and build customer loyalty. They are also an important part of a firm’s overall pricing policy because they lower the effective price of products. The researchers predict that coupon and voucher usage may be given a boost by the latest adaptations of information technology to the retail marketplace. The decline in redemption rates has continued since the mid-1990s. Overall coupon distribution rose by more than 3.4% to 336 billion coupons in 2002. However, the number of coupons redeemed by shoppers in 2002 dipped by more than 5% to 3.7 billion coupons, according to CMS, a promotions management solutions provider in Winston-Salem, North Carolina. In the recent decades, stabilized coupon circulation was partially attributed to the internet. Coupons have become available on the internet via such websites as ► <https://www.coupons.com/>, ► <https://www.groupon.com/>, and ► <https://www.savings.com/>, among others. Some of the innovations include tailor-made coupons, coupons available on request from coupon websites, coupons with a prize draw or competition, coupons with stricter expiration dates, and, significantly, barcode technology. Tailor-made coupons can be redeemed only at stores that stock that item. With the increased sophistication at coupon redemption houses, this usage can be more easily monitored. Misredemption could be largely eliminated by matching a barcode on the coupon to the barcode a retailer uses for that product. The question is who will pay to implement this technology: the manufacturer, the retailer, internet operators, or all of them. Another alternative involves vouchers. One company, Capital Incentives, introduced the Capital Card, which is a voucher credit card that has gained the participation of 80 retailers and can be used at more than 20,000 locations. Under this system, participants receive a Capital Card with a zero balance. As they make specific purchases, credit is accumulated and stored on the card. This system is convenient to use and eliminates the need for carrying or storing actual vouchers. In addition to the positive incentives created through the use of coupons and vouchers, these promotions are linked to overall pricing and brand strategies. They allow manufacturers to subtly price competitively with the in-house brands yet not appear overly aggressive. Also, coupons and vouchers do not erode brand image in the way that a price cut may. Furthermore, consumers do not see coupons as a long-term price reduction.

Sources: Ramaswamy, V., & Srinivasan, S.S. (1998). Coupon Characteristics and Redemption Intentions: A Segment-Level Analysis. *Psychology & Marketing*, 15, 59–80; “Coupon Circulation Flattens Out after 3-Year Slide,” *Supermarket Business* 54 (March 1999): 11–12; and “Do Coupons Make Cents?” *Incentive* (May 2003): 19

10.6.3 Avoiding Price Wars

Avoidance is by far the best policy in reacting to price wars, but it is an advice that may not always be taken if the benefits seem attractive (which, unfortunately, they may also be to the competitors). The dangers are summarized in a theory, titled “The Prisoner’s Dilemma,” borrowed from the ethics branch of the social sciences.

The Prisoner’s Dilemma The basic, imaginary dilemma (broadly known as the “game theory”) has two prisoners accused of a crime. If one confesses and the other does not, the one confessing will be released immediately and the other jailed for 10 years. If neither confesses, each will be held for only a few months. On the other hand, if both confess, they will each receive a sentence of 5 years. The problem for the prisoners is that they are not allowed to communicate with each other. The calculation is that self-interest will be best served for each by confessing, no matter what the other does. But, of course, this is a less satisfactory solution for them than if they both held out.

Fortunately, as we saw in ► Chap. 3, “Understanding the Environment and the Competition,” the position in the case of price competition while sharing some of the features of this dilemma—especially if the participants react without thinking—is somewhat more favorable. The “prisoners” are not held incommunicado. They can exchange “signals” that indicate their intentions. Under these circumstances, the best outcome can be achieved and often is. For example, US airlines did not waste any time in taking advantage of the federal government’s June 1, 2003, suspension of the \$2.50 per segment, \$10.00 maximum roundtrip security fee. American Airlines led the charge in implementing a \$5.00 one-way, \$10.00 roundtrip fare increase effective the same date. The next six largest US network carriers quickly matched American, as did some smaller ones such as American Trans Air (now known as ATA Airlines) and Frontier Airlines. Although intentional price signaling is prohibited, this type of price change is bound to occur [28].

10.6.4 Price Increases

What is not generally discussed, but is often quite important, is the topic of price increases. The normal reason for these increases is inflation, which these days appears to be inevitable to at least some degree. The resulting increase in cost has to be passed on if profits are not to be adversely affected. Fortunately, the widespread expectation of inflation usually means that they can be imposed without too many problems.

Price increases are also often expected (at least by economic theorists) where there is “excess demand.” Although this situation is welcome to the suppliers, it is actually a fairly rare phenomenon and even more rarely lasts for any length of time.

On the other hand, when costs rise but price increases cannot be easily imposed, the solution may be to reduce the specification—to produce smaller packs, as many confectionery manufacturers often do.

The following is a five-part practical guide to making price increases:

- Increase the prices when everyone else does. Don't hold back for the sake of competitive edge: You will have to increase eventually and the action will be more noticeable then.
- Do not increase the price too much at any one time. Incremental increases (around the level of inflation or environmental change in marketplace) are less noticeable. For example, since the COVID-19 pandemic and the initial lockdown, once the small shops are started to reopen, many local small businesses (e.g., restaurants, barbershops) incrementally increased their price, and customers have also accepted this incremental price increase.
- Do not increase the price too often. Buyers react against too frequent changes.
- Look after your key accounts. The 80/20 rule says that it is the reactions of your key accounts that are most important.
- Provide sound—and true—explanations. Customers understand that prices sometimes have to go up when costs increase.

Manager's Corner 10.4

Brexit and the United States

International trade and investment issues grow more complex and require major reconsideration by governments, firms, marketers, and individuals. No one is exempt from the new policy directions of the US government and the impending British exit (Brexit) from the European Union (EU). They are accompanied by extensive security concerns and the need to manage vast immigration flows. Many of the accompanying political and subsequent trade battles are not only driven by national options, but reflect the “because we can” principle. While US policy changes are still under construction, Britain delivers the EU separation documents consonant with Article 50 of the Treaty of Lisbon which marks the bureaucratic starting point of Brexit. Americans have typically been isolated from many events and threats by two mighty oceans. New World, New Policy affects the United States and Europe simultaneously. There are major changes in business relations within the EU, and important effects on culture on both sides of the Atlantic. Some say that rather than walking the walk of diversity, we are ominously close to a road of divisiveness. What then is necessary to avoid a dramatic deterioration of global civility, security, and economy? Understanding and preparation will not remove the thorn of separation, but may help reduce the pain of adjustment.

The British separation encourages other nations to seek acceptance of their special desires as well. But when there is a reallocation of payments and supports, who will be the beast of burden and at what price? Also, what is the role of innovation and timing? As the United States discovers, being the first with good ideas and their implementation does not always pay off. The self-inflicted British exit can weaken the economic relationship between the United States, Britain, and the European Union. A UK departure shifts the entire European unification from an outlook of optimism and growth to a fear of long-term division. Britain's significance as a business cluster is declining. Less demand for currency will keep the value of the pound and of non-Euro currencies low but also gives their governments more ability to adjust and manage their currency and trade accounts. Relative salaries, housing prices, innovation, and new ventures will become less robust. The plans of many people to establish their life in Britain will change. Inward tourism may rise but outward travel will suffer.



Fascinating on a psychological level is the fact that most people, on either side of the Atlantic, continue in a very protective phase of denial when looking at possible effects, both short and long term. Such a limited focus restrains the willingness to prepare, since “it just won’t happen here to me.” Time will tell about the wisdom of the reduced response rationale. In the interim, the signs “We are European” may help shore up a countermovement to Brexit.

Trade and investment issues already thought settled will require revisitation and new access accords. New negotiations will be harder since all participants remember how things used to be but are not bound by that. To many the cost of renegotiations seems wasteful. But not adjusting to new conditions will risk instability to which Iceland can attest. The volume of new trade diplomacy and its collateral implications will produce new forms of negotiation, particularly close links to forecasting, and new formats of standardization, robotization, and global subcontracting. American outward foreign direct investment (FDI) will change. Every day almost one million people go to work in America for British companies. More than one million people go to work in Great Britain for American companies. Under new conditions, these numbers might shrink.

Both the United States and Britain require new relationships which are less organized by tradition but more individualistic and spontaneous. Social media can play a big role here. Also, highly emphasized traditional business fundamentals such as competition, risk, profit, and ownership will have to be modified in favor of truthfulness, simplicity, expanded participation, and personal responsibility.

Friends and adversaries do not require winners and losers. With all the physical, technical, and information resources now easily available, we must search for the spiritual soul of business and make it catch up with the physical body. We all must contribute to find new paths to help others by sharing their burden. They in turn must be willing to share ours.

It used to be said that a common language only separates the United States and England. The near-term future may see more separation of the two by new negotiations. There is the opportunity to improve relations with new negotiators who are not only rear-view mirror oriented, risk averse, or restrictive. Using past configurations as milestones can help simplify future trade policy but without mandatory orientation. Bilateral discussions between the United States and the United Kingdom must focus on the building of strength. Global openness with reasonable partners, accompanied by transparency, and in support of balanced consumption is the key objective for progress toward a better human condition.

Sources: Czinkota, M.R. (2018). *In Search for the Soul of International Business*. New York, NY: Business Expert Press

10.7 Global Geopolitical Issues and Pricing Considerations

Global geopolitical issues are another ignored area in pricing literature. However, changes in global geopolitical alliances and strategies would have impact on both domestic and international pricing, especially for existing products. For example, changes in international trade policy between countries would increase export tariff, which can result in increasing international price of an existing product. On the other hand, the price of imported raw materials of a long-standing and successful domestic product would be increased because of the changes in global geopolitical settings. Because of the increased raw materials costs, the production cost of that product would also be increased, which can result in price increase even in the domestic market.

In the opposite case to the aforementioned contexts of the global geopolitical environment, the domestic and international prices of an existing product would be decreased; the price would be more competitive, for example, if the export tariff is reduced between the exporting and importing countries, or if there is a new intergovernment treaty between countries that enable the producers to source raw materials of an existing product more cost-effectively. Therefore, proactive marketers keep a close eye on the local and global environments that could impact on their target market(s), so that marketers would have foreseeable advantage to synchronize their marketing mix, including the pricing strategy with the changes in market environment. Centered on Brexit, Manager's Corner ► 10.4 presents such a change in the global geopolitical environment and its prospective impact on trade and the United States.

Summary

Much of pricing theory is derived from economics, especially from supply and demand theory. This information is encapsulated in the famous demand and supply curves. The price is set by the point where the curves intersect. The degree to which demand is susceptible to price changes (price elasticity of demand) is another concept borrowed from economics but very useful to marketers.

Again in theory, but rarely in practice, these curves can be obtained from statistical analysis of historical data, survey research, and experimentation. Rather less theoretically, factors affecting the pricing policies of a specific organization include organization factors, product life cycle, product portfolio, product line pricing, segmentation and positioning, and branding. Factors derived from customers are demand, benefits, value, and distribution channels. Of these, *perceived value* is especially important because it defines what the customer should be prepared to pay.

Pricing new products offers a different set of challenges. In general, the two main opposing strategies are:

- *Skimming*—High price, to skim off the short-term profit
- *Penetration*—Low price, to maximize long-term market share

Practical pricing policies for existing brands may include cost-plus pricing, target pricing, historical pricing, product line pricing, competitive pricing, market-based pricing, and selective pricing. The price can also be a major factor in determining a product's or service's *image*, ranging from *quality price* to *budget price*.

A wide range of *discounts* may be offered: trade, quantity, cash, allowances, seasonal, promotional, and individual.

Prices may also be set at levels that are judged to be “psychologically” appropriate (\$9.95, for instance). Other ways of achieving a price effect may lie with other parts of the offer, such as *product bundling*, at one extreme, and charging separately for “options,” at the other. Alternatively, price may be *negotiated*, as it often is in capital goods markets.

Organizations may resort to *price competition* for several reasons, including volume sales, other stimuli, and minor brands. On the other hand, the dangers of initiating a price war include low-quality image, temporary advantage, and profit loss.

Key Terms

Category pricing

Customer group pricing

Equilibrium price

Free on board (FOB) pricing

Peak pricing

Price elasticity of demand

Service-level pricing

Skimming

Uniform pricing

Yield pricing

Zone pricing

? Review Questions

1. How does the equilibrium price come about? What is the price elasticity of demand?
2. How may supply and demand curves be established in practice?
3. What organizational factors, derived from related marketing theory, might influence price? How may positioning or branding be used to raise prices?
4. What customer-related factors might, in theory, affect price? Why may perceived value be important?
5. What opposing pricing policies may be applied to new products, and how do they work?
6. List the pricing policies used in practice. What are the drawbacks of cost-plus pricing?
7. How is competitive pricing different from market-based pricing? What selective pricing policies may be employed?
8. What discounts may be offered? What is psychological pricing? What are the differences between product bundling and charging for options?
9. Why might price competition be employed? When can it be justified in terms of volume sales? What are the dangers posed by price wars?

10. What responses to price competition may be available? How may they be successfully employed?

? Discussion Questions

1. If a new airline began operating in your area and offered everyday fares that were only 90% the price of its nearest competitor, how likely would you be to fly on that airline regularly? What if fares were 50% the price? What if they were 10% the price?
2. What would you think about a car manufacturer that placed coupons in the paper to be cut out and brought into a local car dealership for redemption? Compare your reaction to a situation in which a breakfast cereal manufacturer placed coupons in the paper to be brought into your local grocery store for redemption. In which case are you more likely to value the coupon? Why?
3. The dollar depreciated about 20% against the Japanese yen in a few months. How much could or would Dell Computer be willing to lower the yen prices of its US-assembled PCs in Japan? Consider the company's reliance on Japan for computer chips, motors, and flat-panel displays. Also, consider two marketing objectives: profit maximization and market share.
4. Your firm's position is third in a durable goods market, and the number two competitor has initiated a 9% price cut. You find that you must announce or decide your prices before knowing what the market leader's reaction will be. What factors would cause you to raise, lower, or maintain prices?
5. Many firms enter a market as price leaders, but their strategy changes as they dominate the lower end of the market. What are some of the challenges these firms face? What strategies have and have not been successful?
6. Most Westerners see Russia as a lucrative new territory. Indeed, Russians smoke 250 billion cigarettes a year, and there are few restrictions on smoking. Whereas Russian companies sell their cigarettes for 2–3 rubles a pack—10–13 cents—the cheapest local brands made by Western manufacturers sell for 6–7 rubles, while these companies' import brands sell for 20–30 rubles. Evaluate the commercial and the ethical aspects of marketing Western cigarettes in Russia. Why is the pricing different for imported and locally produced cigarettes?
7. ► Buy.com Inc., among other internet retail websites, is offering bargain-basement prices on computer products. Some small and midsize resellers say they find it disconcerting that customers can buy certain products from web-based retailers at a lower cost than these same value-added retailers (VARs) can secure them from many distributors. Other VARs say the existence of this new retail channel reaffirms that they must offer quality services to effectively compete in a climate of cutthroat hardware pricing. ► Buy.com scans the web on a daily basis in an effort to beat the competition by at least a dollar. Although ► Buy.com is positioned mostly as a site for consumers, small and midsize businesses account for more than 80% of sales. Ingram Micro provides much of the back office for ► Buy.com. Can you paint a scenario a few decades from now when e-commerce is expected to dominate the mode of market transaction? How will the prices in product groups such as grocery be affected? Will certain product groups be immune to such changes? If so, why?

8. Some PC resellers that have lost corporate accounts to direct marketer Dell Computer are battling to win back business through an assortment of pricing, marketing, and service tactics. Among the strategies resellers are deploying include dispatching their salespeople regularly to Dell accounts to keep customers informed of current product pricing from Compaq Computer, HP, and IBM. Although Dell often wins large accounts based on the pricing of its products, resellers are arguing to customers that Dell's contract pricing is not as competitive in the long term because the agreements do not accurately predict industry price drops. Although Dell admits that resellers sometimes do win business back, the company contends that its pricing policies are not the reason. How does the cost structure of a direct marketer differ from that of a reseller? Can the resellers, through their assortment of pricing, marketing, and service tactics, compete with the direct marketer who, in most cases, adopts pricing alone as its focus?

? Practice Quiz

- The most important decision in marketing is _____.
 - Price
 - Product
 - Place
 - Promotion
- What is a major problem posed by the traditional economic approach to pricing?
 - Supply is difficult to determine.
 - Demand is difficult to determine.
 - Supply is inelastic to price.
 - Demand is inelastic to price.
- Inelastic demand is characterized by
 - Demand sensitive to price change
 - Demand insensitive to supply change
 - Demand sensitive to supply change
 - Demand insensitive to price change
- All the following are theoretical ways to measure the demand curve EXCEPT
 - Regression analysis
 - Survey research
 - Experiment
 - Product life cycle analysis
- All the following are factors that affect prices and are under direct control of the organization EXCEPT
 - Product life cycle
 - Product portfolio
 - Product line pricing
 - Product competition

6. If price competition is severe, the firm should undertake which of the following to offer a degree of protection?
 - (a) Segmentation
 - (b) Differentiation
 - (c) Penetration
 - (d) Collaboration
7. Which of the following is NOT a strategy to cope with geographical pricing?
 - (a) Uniform
 - (b) FOB
 - (c) Zone
 - (d) Peak
8. Which of the following is NOT a benefit of penetration pricing?
 - (a) Growth of demand
 - (b) Earlier economies of scale
 - (c) Increased market share
 - (d) Higher profit margins
9. Market-based pricing is also called _____.
 - (a) Quality pricing
 - (b) Customer group pricing
 - (c) Perceived value pricing
 - (d) Competitive pricing
10. All the following are dangers of initiating a price war EXCEPT
 - (a) Low-quality image
 - (b) Temporary advantage
 - (c) Decreased profitability
 - (d) Excess capacity

(You can find the correct answers to these questions by taking the quiz and then comparing your answers with the answers that are provided at the end of the book, under the “Practice Quiz Answers” part of the book.)

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Distribution and Supply Chain Management

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■ Volatile, Uncertain, Complex, and Ambiguous Global Supply Chains in the Postpandemic World



■ (Source: ► [pexels.com/royalty-free-images/](https://www.pexels.com/royalty-free-images/))

By early-April 2020, 94% of the Fortune 1000 companies have started experiencing serious disruptions to operate because of the COVID-19 pandemic. Along with large multinational enterprises (MNEs), small- and medium-sized enterprises (SMEs) struggle to support their local, national, regional, and international supply chains. Both these large MNEs and many SMEs (as micro-multinationals) play an imperative role in the global supply chains (GSCs). The pandemic “has illuminated (the pre-existing) underlying fragilities in the global value chains.” Also, “its (the pandemic’s) long-term impact may not be fully realized until years later.” As a consequence, business firms are propelled to compete in a more volatile, uncertain, complex, and ambiguous (VUCA)-attributed GSCs in the postpandemic world.

Since the launch of various e-commerce platforms, communication, business meetings, purchase orders, and transactions are increasingly placed, monitored, and executed via different internet-enhanced business platforms worldwide for both national and international business operations. On the one hand, different e-logistics platforms have contributed significant value to underpin the GSCs, in order to plan, monitor, and evaluate the distribution channels; the e-logistics platforms cannot replace the traditional supply chain system completely to transport goods from origin to destination. On the other hand, the pandemic-specific disruptions caused, almost, instantaneous halt in GSCs, which has added yet additional complexities to GSCs while accelerating the need for addressing the rising challenges to establish a new normal in the GSCs. However, in comparison to our knowledge on public crisis management, we have “a significant lack of comparable approaches for the commercial domain which could support a disaster-affected company (e.g. because of the pandemic) in dealing with logistical decision problems.”

In this context, based on the extant distribution and supply chain management knowledge, marketers need to explore alternative frameworks and strategies for traditional and contemporary e-logistics systems to address the existing and

embryonic challenges, associated with the pre- and postpandemic VUCA-attributed complexities in the disruptive GSCs.

Sources: Schätter, F., Hansen, O., Wiens, M., & Schultmann, F. (2019). A decision support methodology for a disaster-caused business continuity management. *Decision Support Systems*, 118, 10–20; Silverthorne, S. (2020). *Has COVID-19 broken the global value chain?* Harvard Business School. ► <https://hbswk.hbs.edu/item/has-covid-19-broken-the-global-value-chain>. Accessed 27 May 2020; Xie, B., He, D., Mercer, T., Wang, Y., Wu, D., Fleischmann, K. R., Zhang, Y., Yoder, L. H., Stephens, K. K., Macker, M., & Lee, M. K. (2020). Global health crises are also information crises: A call to action. *Journal of the Association of Information Systems*. ► <https://doi.org/10.1002/asi.24357>; KPMG. (2020). *The impact of COVID-19 on businesses*. ► <https://home.kpmg/tn/en/home/insights/2020/04/the-business-implications-of-coronavirus.html>. Accessed 22 April 2020.

11.1 Introduction

This chapter covers the “place” element of the marketing mix by addressing the location and movement of goods. In doing so, we will examine the institutional linkages between suppliers, known as supply chain, which comprise retailers, wholesalers, and distributors as well as manufacturers. The discussion of supply chain management will then address the processes underlying these linkages, such as warehousing, transportation, and inventory management. Both areas are of a fundamental strategic nature for the firm, both because they have a long-lasting impact and because decisions, once made, are difficult to change. At the same time, market-driven channels and supply chain management will determine the level of customer service, which is crucial to a firm’s success. Customer service in distribution and supply chain management is therefore also addressed in ► Sect. 11.9.

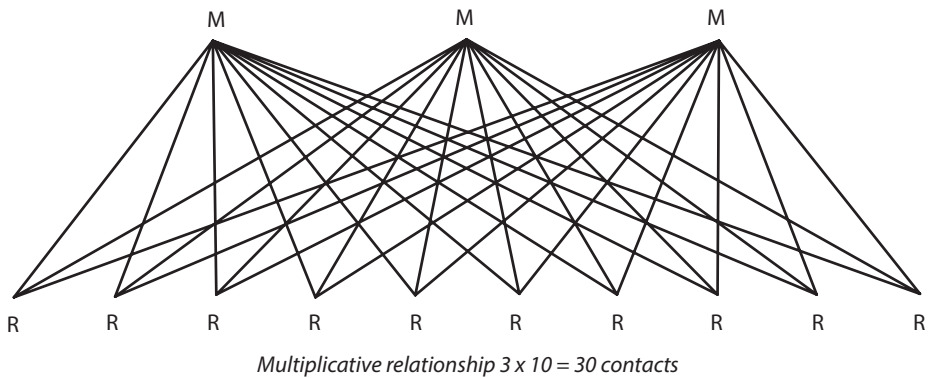
11.2 The Distribution Channel



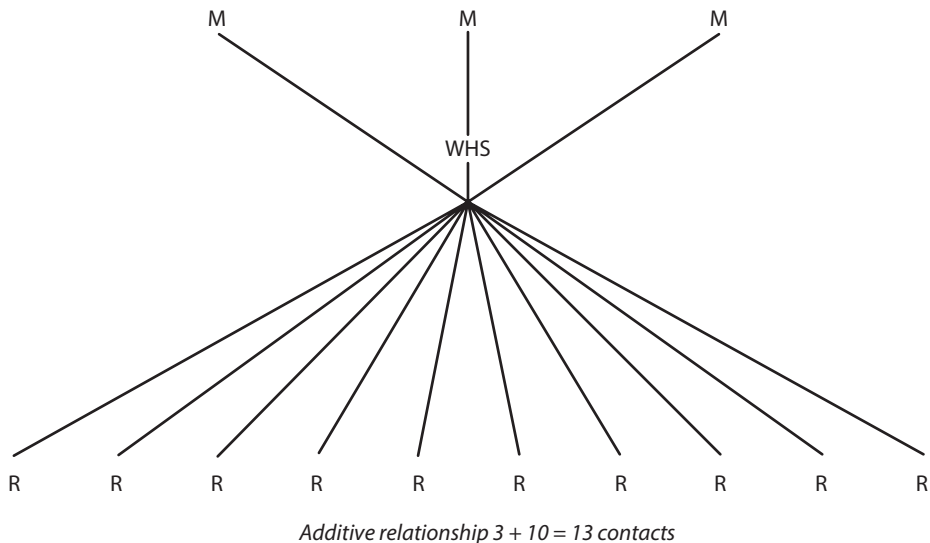
■ (Source: ► pexels.com/royalty-free-images/)

In the ideal sales situation, the supplier and the customer meet face to face for a dialogue. However, for many goods and services, the value of the individual sale does not justify such an approach. Imagine if each toothpaste producer tried to sell directly to consumers—the result would be a cost and relationship nightmare. With intermediaries, marketing activities can be consolidated and costs spread across a range of products. ■ Figure 11.1 illustrates the beneficial effects of channel geometry. Even with only a few producers and retailers, the number of contacts grows very quickly. By introducing an intermediary—a wholesaler, for example—the

Direct delivery by manufacturers (3 manufacturers, 10 retailers)



Delivery via wholesale intermediary



■ **Fig. 11.1** Channel geometry effects on the distribution system. (Source: Czinkota, M. R., & Woronoff, J. (1993). *Unlocking Japan's markets* (2nd ed.). Reprinted by permission of The McGraw-Hill Companies, Inc.)

Table 11.1 An example of function performance in the channel system

Manufacturer	Cosmetic industry channel members	
	Intermediary	Retail
Production	Order taking	Selling
Advertising	Inventory maintenance	Organizing consumers
National sales promotion	Space control at the retail level	In-store promotion
Dealer aids	Product assortment	
Education (training) of dealers	Dispatching of sales transport personnel	
Financing	Area of marketing Financing	

Source: Czinkota, M. R., & Woronoff, J. (1993). *Unlocking Japan's markets* (2nd ed.). Reprinted by permission of The McGraw-Hill Companies, Inc.

number of contacts is much smaller between the producer and the consumers, and the distribution task becomes more manageable. The most obvious examples of such intermediaries are the retailers from whom we buy our consumer goods.

Before a product reaches the consumer or end user, it must frequently go through a chain of intermediaries (e.g., wholesalers, retailers), each one passing the product down to the next organization (e.g., from wholesalers to retailers). This process is known as the *distribution channel or supply chain*. Channels are important because “consumption is a function of availability ... one can only consume products that are available” [1]. Each element in the distribution channel has specific needs and performs different functions, which the producer must take into account, along with the requirements of the all-important end user. Table 11.1 gives an example of the functions performed by the channel of Japan’s cosmetic industry, with each member concentrating on a different set of activities.

11.2.1 Channel Members and Levels

Distribution channels include retailers, wholesalers, and agents, or direct distribution via a salesforce or mail order. Channels are not restricted to physical products; they may be just as important for moving a service from the producer to the consumer. Hotels, for example, may sell their services directly or through travel agents, tour operators, airlines, or centralized reservation systems.

Distribution channels have a number of levels. The simplest is the zero-level channel, in which the contact between the manufacturer and the end user is direct and no intermediaries are involved. Traditionally, this type of channel is most frequently encountered in an industrial or business-to-business setting where a few

customers acquire big-ticket items. For consumer goods, channels typically have two levels, leading from producer to wholesaler and retailers. At the extreme end of the spectrum are the very elaborate distribution systems in Japan, with many levels of channels even for the simplest of consumer goods. Such differences in channels are typically the result of tradition, geography, culture, and consumer purchasing patterns. For example, during the feudal period of Japan, the country consisted of many small provinces that were largely self-contained. As a result, each province developed its own distribution system. Because Japan consisted of about 500 regions, many manufacturers needed to develop wholesalers for each territory, some of which survive today.

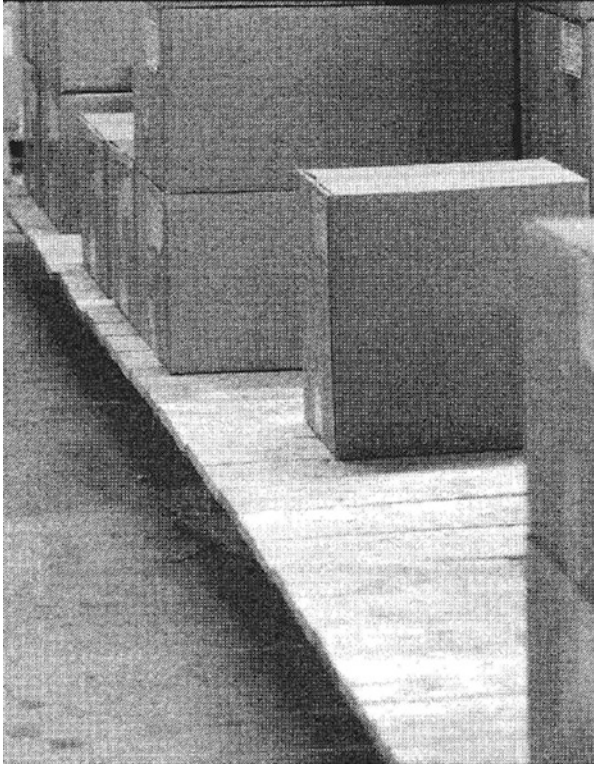
In recent years, the channel picture has been complicated by rapid changes driven by technological capabilities and the emergence of new power structures. The traditional channels of distribution have become scrambled. Some distribution processes, so essential when information and quality control were poor, are being bypassed and eventually eliminated. The increasing ubiquitousness of internet websites is instrumental to significantly alter the way large parts of our distribution system are managed [2] (see ► Web Exercise 11.1). Internet merchants such as ► Amazon.com are engaging in head-to-head battles with conventional retailers and seem to be gaining in advantage. They are unencumbered by the overhead of physical stores, have larger trading areas, carry less inventory, work closely with producers, and can offer an almost unlimited selection of alternative merchandises. Internet merchants are also increasingly sophisticated in leveraging customer information. As a result, products and promotions can be targeted much more efficiently than through conventional media [3]. In many ways, the internet empowers firms, often through automation, to regain the one-on-one relationship with their customer, without having to bear prohibitive cost. In addition, internet merchants can offer the benefit of speed, which increasingly differentiates firms. As stated by Larry Carter, the former chief financial officer of Cisco Systems, a company that sells routers that power the internet, “It’s no longer about the big beating the small, it’s about the fast beating the slow” [4].

Web Exercise 11.1

- Bluefly.com is an online department store with no other outlets or channels.
- Bluefly.com has been a successful e-tailer in the internet retailing market. By using what has now become a standard personalization format, ► Bluefly.com allows its customers to create a profile that helps generate a personalized catalogue of new offerings every time a user connects to the site. This kind of electronic customization has become the hallmark of many e-tailers and may be how they leverage the unique position of the internet as a distribution channel. Visit ► Bluefly.com at ► www.bluefly.com to see how this customization works. Other sites now do this as well, especially ► Amazon.com (► www.amazon.com) and eBay (► <https://www.ebay.com/>), where you can select recommendation settings and be guided to products that fit with your profile. How have these features shaped your own online shopping experiences?

Both in industrial and consumer marketing, electronic business is accepted with great speed in the United States and across the world, which underpins the traditional distribution channels.

11.2.2 Channel Decisions



In evaluating the various levels of distribution, the firm must consider the relationship between channel members [5] (e.g., between wholesalers, retailers, and agents). These relationships can be conventional, in which a range of intermediaries passes the goods on to the end user. They can also be geared to a single transaction, in which case a temporary channel is set up for one transaction only, such as the sale of property or a specific civil engineering project that can directly be supplied to the ultimate user. Channels can also be integrated, in that different intermediaries work closely together.

Choosing the right channel (and the appropriate channel members) traditionally is a major decision for most organizations, because after an option is selected

(e.g., selecting a particular wholesaler), making major changes becomes very difficult and expensive. If the firm chooses to use intermediaries, the amount of control that the firm as a producer has over the relationship with the end user can be significantly reduced. The factors determining the decision are corporate strategy, product cost, and consumer location. The characteristics of the channel must be in line with the overall requirements of the marketing strategy; for example, packaged food products are unlikely to be offered in banks. At the same time, the existence of new channels can offer new distribution opportunities. For example, the retail giant Walmart offers limited banking services in its stores, such as ATMs, electronic bill payment, and money transfers. In the future, it could expand the scope of financial services offered by using its existing “branch” advantage and its available cash quantities together with the cash management capabilities to carry out banking tasks.

For the channel decision, the characteristics of the product itself also come into play; for example, if the product needs to be kept refrigerated, a very specialized distribution chain is required. Where the end users themselves are located and where they do their shopping have a major influence. Also, the comparative cost of the alternative channels is an important criterion. ► Marketing in Action 11.1 provides an example of the challenges facing companies needing to rethink their channel strategy.

11.2.3 Channel Compensation

The various members of the distribution chain take over some of the producer’s responsibilities. For example, wholesalers or retailers promote different branded products from time to time in order to promote themselves. In general, their primary value-added activity is the wider distribution that they offer, as well as their on-location inventory, which may increase the overall penetration of the brand. Based on their higher customer interactions and wider market knowledge, these intermediaries also provide service support and may act as information gatherers and business consultants to the producer. The exact relationship depends in part on the contractual conditions. For example, a dealer may be totally independent of the producer, whereas an agent acts on behalf of that producer. In return for their services, the members of the distribution chains receive payments, mostly in the form of various discounts:

- *Trade discounts.* These discounts are usually of a fixed percentage. However, the percentage may vary according to the priority category into which the producer places the intermediary. Textiles and apparel as well as books are examples of industries using trade discounts.
- *Quantity discounts.* By offering higher discount levels as the volume increases, this discount offers an incentive for all intermediaries to try to sell the maximum volume. Electronic and white goods such as refrigerators, washers, and dryers are often distributed with such discounts.

Marketing in Action 11.1

The Body Shop Foresees Changes in Its Retail Store Concept

The Body Shop International Limited (► www.thebodyshop.com) has established a worldwide reputation with its naturally based organic skin and hair care products. In 2003, the company operated more than 1900 retail outlets in 50 countries. The company reported a 1998 loss of \$25 million on sales of \$497 million. In a move to improve the bottom line, the company decided to focus on becoming a brand retailer. Historically, the company operated as manufacturer, distributor, and retailer. Although the company will continue developing new products, it will outsource manufacturing.

Early efforts at implementing the brand retail strategy have resulted in considerable changes. One major change is the flagship store concept. The Body Shop will open two flagship stores in the United States. These flagship stores will be twice as big as the average The Body Shop store. Additionally, the company refurbished 400 stores in 28 markets by the mid of the first decade of this current century. Along with the refurbishing, the company began streamlining the number of stockkeeping units in each store. The streamlining, combined with an effort to have 40% new products each year, resulted in the company opening its first outlet store as a way of disposing of discontinued inventory.

To facilitate the expansion, the company had to focus on its operations to make sure they were as efficient as possible. It also had to tighten its processes for product development, marketing, and supply chain systems. However, after these improvements were realized, the company experienced higher sales, reduced costs, and higher customer conversion rates.

The company also has expanded The Body Shop outlets along with its online retail operations. By 2019, The Body Shop offers around 800 products in their 3000 stores in 69 countries worldwide and generates higher revenue as a much more profitable company in comparison to its position around two decades ago. The company's long-term plan is to transform more of their 1000 physical outlets worldwide to a new model of retail experience that will be more customer-focused and eco-friendly. What do you think of The Body Shop's changes in its traditional store format? Are large flagship stores in conflict with the company's move to reduce its stockkeeping units? Will outlet stores further reduce the company's in-store sales? What about the strategies still under consideration?

Sources: ► www.thebodyshop.com. Accessed 19 June 2003; Naughton, J. (1999, June 18). Body shop digs in. *Women's Wear Daily*, p. 10; Danziger, P. N. (2019). Natural beauty pioneer the Body Shop is making a comeback by going back to its roots. *Forbes*. ► <https://www.forbes.com/sites/pamdanziger/2019/12/11/natural-the-body-shop-is-bringing-it-to-bath-and-body-works-where-its-most-vulnerable-natural-organic-sustainable-personal-care/#5cecc9bd3da6>. Accessed 28 July 2020; Smith, R. (2019). Body Shop gets greener with refillable shower gel and activism zone. *The Guardian*. ► <https://www.theguardian.com/business/2019/sep/17/the-body-shop-goes-green-again-with-refill-stations-and-activist-zones>. Accessed 28 July 2020.

- *Promotional discounts.* The producer may also attempt to “push” the goods or service by offering promotional discounts, which are designed to persuade the intermediary to substitute the brand in question for another. Alternatively, the intention may be to persuade the retailer to overstock, thus creating inventory pressure, which forces additional display space for the brand. Canned goods in supermarkets are typically associated with promotional discounts.
- *Cash discounts.* Most producers normally offer trade intermediaries payment terms that require settlement in 30 days or later. This is of considerable value to some retailers who have managed to reduce their inventory to less than 5 days. The extra 25 days’ credit can in effect be used as a free loan. However, the producer may want to provide an incentive for retailers or wholesalers to pay earlier by offering a discount for immediate or prompt payment.

Other, more hidden discount offers are available as well. For example, wholesalers may offer special financing to their retailers with promissory notes that require payment only in 120 days. This way, retailers are encouraged to take on more, and often new, items. Extended return privileges act as indirect discounts and again encourage a greater willingness for experimentation within the channel. Other discounts can come in the form of bonuses when sales thresholds are surpassed or channel members have been particularly loyal to a producer. The key aim of all discounts or bonuses is to motivate channel members to carry out actions supportive of the producer’s strategy, which they might not otherwise have done.

One major difficulty with these kinds of discounts lies in their timing. Because they are typically granted retroactively (as a result of specific performance), forecasting their size and impact is problematic. Particularly in low-margin businesses such as food retailing, the discounts can be decisive in determining the level of profitability. Some firms have run into major difficulties by estimating future possible discounts and then applying them to their bottom line before they have been received. For example, Royal Ahold, the Dutch food chain, and its US subsidiary Giant had to restate earnings in a major way—a change that did not sit well with stockholders and regulatory agencies.

11.3 Channel Management

Channel management refers to the different degrees of control and association that channel members can exercise among themselves. However, channel control can be expensive and time-consuming. Therefore, a firm needs to decide how much control is necessary. For example, when the producer is large, the product is expensive, the customers are few, and linkage to the customer is very important, then intermediaries may be eliminated. That is why airplanes are typically sold directly by manufacturers. Sometimes, the ease of switching is so great that manufacturers decide to own or otherwise tie down the retail level to ensure that there will be no switching away from their product. That accounts for so many pubs being owned or financed by beer-brewing companies. Similarly, so many soccer arenas are owned or managed by soccer clubs, and theaters are owned or managed by theater groups.

Lack of control can be highly detrimental to business strategy. Exporters often discover that a lack of channel control means that exchange rate-based price changes are never passed through to customers abroad—and therefore their distribution strategies are not successful. In many instances, however, control is less important, and companies use multiple intermediaries.

The internet's ability to fundamentally change the reach of firms has empowered companies small and large to achieve high levels of accessibility and to establish two-way information flows directly with end users almost immediately and at low cost. This is why, in the recent decades, many born-global (small and large) firms are originated, who started operating international distribution channels since their inauguration. As firms deal more directly with their customers, they are placing major pressure on their intermediaries. Because of e-commerce, companies can now sell directly and more conveniently without the salesforce than before and offer technical support on a one-on-one basis [6].

The internet also allows suppliers to continue the supportive activities for their customers after their product has been sold into the channel. The sale itself does not finish the job because the distribution chain is merely assuming a part of the supplier's responsibility. To be market oriented, the supplier needs to manage all the processes involved in that chain, until the product arrives at the end user. Even at that point, the channel management task is not complete because the entire distribution chain needs to stand ready to further communicate with the customer for postpurchase management, be it for additional information, for a recall or return, or in preparation for the next purchase of the channel's products. Doing so involves a number of decisions, including the management of channel membership, channel motivation, and channel monitoring.

11.3.1 Channel Membership

The supplier (often the producer or manufacturer) has some control over which organizations participate in the distribution chain and what the structure of that channel might be. At one extreme, in mass consumer goods markets, such as canned soup, the supplier's main concern may be to maximize distribution levels so that a large number of outlets stock the product. At the other extreme, where dealers, for example, take over some of the supplier's responsibility for supporting sophisticated technical products or services (e.g., mobile phone operators or server operations), the supplier may be primarily concerned about the quality of the individual dealer. Generally, there are three different levels of distribution intensity.

In the case of **intensive distribution**, the majority of resellers stock the product. This method is used mostly for convenience products and particularly for the brand leaders in consumer goods markets. Price competition may be very important here. Under conditions of **selective distribution**, only specialty chosen resellers stock the product, with the selection being a function of location, image, or other reseller attributes important to the product. Specialty watches may be an example. Under an **exclusive distribution** approach, only a few resellers (typically

only one per geographical area) are allowed to sell the product to ensure that the product and subsequent service provisions are properly supported. Such exclusive distribution is used most often when products are unique, expensive, or complex and when the resellers add distinctive value to the product through their highly specialized activities and market knowledge. Desire for such exclusivity is why Toyota developed an entirely new set of dealerships for its Lexus cars rather than simply having them sold by existing dealers. Of course, distribution does not always go according to plan. For example, if large price differentials exist across national borders, new sources of unauthorized distribution or gray markets can emerge. ► **Manager's Corner 11.1** explains how gray markets offer both advantages and disadvantages.

Intensive distribution—The level of distribution in which the majority of resellers stock the product.

Selective distribution—The level of distribution in which only specially chosen resellers stock the product, with the selection being a function of location, image, or other reseller attributes important to the product.

Exclusive distribution—The level of distribution in which only a few resellers are allowed to sell the product to ensure that the product is properly supported.

11.3.2 Channel Motivation

Motivating employees to provide necessary sales and service support is difficult enough, but motivating the owners and employees of the independent organizations in a distribution chain requires even greater effort. Profit is the most frequently used motivator to entice a channel member to push one product over its competitors. Some suppliers offer a better margin (which is the price minus manufacturing and marketing cost) or more frequent turnover of the product. Others offer an incentive to the distributors' sales personnel, such as a competition, so that they are tempted to push the product. Alternatively, producers can supply their own personnel to the channel to retain full control over the presentation and sale of their products.

11.3.3 Monitoring Channels

In much the same way that the organization's own sales and distribution activities need to be monitored and managed, so do those of the distribution chain. For example, the supplier needs to know which products sell, how they are displayed, and what promotional plans the intermediaries have so that they are able to respond to their needs. Traditionally, monitoring has implied a one-way flow of information.

For example, firms such as Holiday Inn would send employees, unannounced, as “mystery sleepers” to different locations to monitor the performance of franchisees [7]. Increasingly, however, as we will see in ► Sect. 11.7, “Supply Chain Management,” success requires close collaboration and intensive information exchange. Only through a two-way interaction can higher levels of efficiency in channel management be achieved.

One very direct form of channel management takes place through channel integration. For example, the supplier can form one unified system with wholesalers and retailers. Such an approach may arise when one member of the chain owns the other elements. When a supplier owns its own retail outlets, as is often the case with gasoline stations, we speak of **forward integration**. If a retailer owns its own suppliers—for example, a department store with its own dedicated textile producers—we refer to it as **backward integration**. Integration can also be accomplished through franchise operations, such as those offered by Domino’s Pizza. An alternative approach is the administered marketing system, in which one (dominant) member of the distribution chain uses its position to coordinate the other members’ activities. This form has traditionally been favored by manufacturers. Increasingly, however, retailers develop such systems as well. For example, Walmart has developed an information system through which the firm can prescribe delivery quantities and schedules to its suppliers. This system represents a unique strategic advantage because it allows the firm to devise product and pricing policies with much greater efficiency.

Forward integration—The channel management approach in which the supplier owns its own retail outlets.

Backward integration—The channel management approach in which the retailer owns its own suppliers.

The intention of integration is to give those involved (and particularly the supplier at one end and the retailer at the other) control over the distribution chain. This transfer of control removes one set of variables from the marketing equation. Research indicates that integration is a strategy best pursued at the mature stage of the market or product; at earlier stages, it can actually reduce profits. Some argue that it also diverts attention from the real business of the organization. Suppliers rarely excel in retail operations, and in theory, retailers should focus on their sales outlets rather than on manufacturing facilities. The most successful retail operation in the United Kingdom, Marks & Spencer, which sells clothing, food, and nonfood products, deliberately provides considerable technical assistance to its suppliers but does not own them. If integration, whether through ownership or simple market power, is successfully accomplished, it can lead to a substantial competitive advantage in the marketplace.

Manager's Corner 11.1**Gray Markets: Advantages and Disadvantages**

Manufacturers and retailers tend to shy away from gray markets in which products are sold at cut-rate prices outside their authorized distribution channels. Manufacturers fear that these markets will undercut margins and tarnish brand names. Retailers fear that they will siphon away customers and erode prices. Gray marketing is a form of arbitrage—exploiting differences in the prices for which branded goods sell in different markets. Gray marketers buy a product in the low-price market and then transport it to the high-price market, where they can sell it at a discount and still net a profit. Many scholars claim that gray markets actually do more good than harm to both manufacturers and authorized distributors. For this to be true, the market must meet two criteria: First, sharp differences must exist in consumers' price sensitivity; and second, large numbers of consumers must be price insensitive. In such markets, the low prices of the gray market will attract the most price-sensitive customers. The authorized channels will then compete only for the remaining customers—those who are insensitive to price but are sensitive to service.

The following example from the cigarette industry shows the good and bad points of gray markets. Spurred by a 50% increase in domestic cigarette prices, many “made for export” Marlboros, Winstons, and Camels have appeared for sale in US stores and on the internet at huge markdowns—as much as 25% off market prices. Here's how this system works: Philip Morris (► www.philipmorris.com) makes cartons of Marlboros in the United States earmarked for foreign markets, where prices are lower. Some of the cigarettes may then stream offshore, only to return; others may never actually leave. For example, it has been estimated that the gray market accounts for 8–10% of Russia's entire tobacco market, or \$1.7–2.5 billion. Tobacco companies strongly deny that they participate in or benefit from the diversion, noting that the practice damages multibillion-dollar brands. From a marketing standpoint, tobacco companies invest a lot of time and money building brand loyalty. These products do not meet consumer expectations of US brands. Philip Morris, for example, has fielded as many as 200 calls a month from irate smokers who purchased export Marlboros and couldn't find their “miles” insignias on US packs that are collected and redeemed for promotional items such as T-shirts and duffel bags.

“With the rapid development of global economic integration, the size of gray markets continues to expand” across different industries in the global markets. As marketers, think about how you could influence the advantages and disadvantages of gray markets in favor of your product.

Sources: Champion, D. (1998). Marketing: The bright side of gray markets. *Harvard Business Review*, 19–22; Hwang, S. L. (1999). Tobacco: As cigarette prices soar, a gray market booms. *Wall Street Journal*, B1; When grey is good. *Economist* (1998, August 22), 17; Russia hopes to curb grey market in tobacco with more regulation. *Financial Times* (2003, November 17); Li, H., Shao, J., & Zhu, S. X. (2018). Parallel importation in a supply chain: The impact of gray market structure. *Transportation Research Part E: Logistics and Transportation Review*, 114, 220–241.

Another approach to channel management is collaboration. In this situation, two or more competing organizations agree to a joint marketing operation because the tasks to be completed are either beyond the capacity of each individual organization alone or they are greatly strengthened by such collaboration. The internet vividly illustrates this trend. For example, Excite, a leading search engine company, has cooperative agreements in place with America Online and Intuit Inc., even though it competes with all those companies in trying to become a “portal,” or first stop on the internet. The agreements involve sharing technology, customers, and advertising revenue [6].



11.4 Retailing

Retailing represents a large part of the service sector and includes all the activities involved in selling goods or services directly to final consumers for their personal or business use [8]. In the past few decades, retailers have grown both domestically and internationally to become some of the world’s largest companies. “With fiscal year 2020 revenue of \$524 billion, Walmart employs over 2.2 million associates worldwide” [9]. Retailers can be categorized in a variety of ways, the most obvious of which are by type of product or service sold, type of customer service, type of organization, location, and perhaps also based on the branding focus of a particular retailer.

Retailing—The large part of the service sector; all the activities involved in selling goods or services directly to final consumers for their personal, nonbusiness use.

11.4.1 Type of Product or Service Sold

Consumers categorize retail outlets by what they find in them. Specialty outlets typically handle just one type of merchandise. Some, such as shoe and fashion shops, are the major providers of a type of good; others, such as butchers, duplicate what can now be found elsewhere. In marketing terms, such stores typically have a narrow product line. In fashion, for example, specialty outlets aim not just at women, but at women in a relatively narrow age range or size, for example. Within that narrow product line, however, these outlets usually have a deep assortment of products, offering a wider range and greater expertise than their more generalized rivals. They also tend to offer a greater degree of personal service.

Supermarkets have become the source of most consumers' general needs. They have grown in floor area and different corners or isles for diverse product range: A typical store now occupies 20,000 square feet and offers up to 10,000 product lines, which often include fashion and furniture items. The increasing number of superstores multiplies these levels. The supermarket concept revolves around five basic principles [10]:

1. Self-service and self-selection displays
2. Centralization of customer services, usually at the checkout counter
3. Large-scale, low-cost facilities
4. A strong price emphasis
5. A broad assortment of merchandise to facilitate multiple-item purchases

Department stores were once the flagships of the retail sector, with separate departments covering a wide range of products. They have in recent decades suffered from the competition offered by supermarkets and category-killer specialty stores (particularly those in fashion, toys, and office materials).

Discount outlets specialize in high turnover at low cost (“stack it high; sell it cheap”) on the basis of the 30 days' credit from their suppliers; indeed, they often obtain most of their corporate funds from their suppliers. They usually specialize in one field, such as consumer electronics, furniture, or clothing.

11.4.2 Type of Customer Service

Three service options are self-service, self-selection, and personalized service. Under the self-service concept, customers select their own goods and take them to the checkout in the supermarket or to a cash point in other retail establishments such as bookshops and fashion outlets. The sole contact with the retailer's staff is

the act of payment. Self-selection means that customers still select items from the shelf, but they may ask for and receive assistance from sales staff. Personalized service offers advice and counseling to customers and is particularly valuable when expert advice is needed, as in high fashion or investment banking. To offer such service, however, retailers must invest in training and long-term retention of staff. As shoppers are becoming increasingly disenchanted by complex merchandise and insufficient advice, this type of service may see a resurgence. Leading department stores are already experimenting with all three levels of service in the same store. The service-level variations depend on the merchandise offered and the location within the store. For example, the store may have a bargain basement that offers shoes based on self-selection, while on the second floor, the latest shoe fashions are presented with substantial service support. Other stores provide a self-service format but offer specialized customer service on request.

11.4.3 Type of Organization

The key original purpose of retailing was to serve the local clientele. As a result, most retailers were small stores owned by individuals or families. In many countries in Asia and Europe, retailing is still characterized by independent “mom-and-pop” stores.

Information technology is changing the retail structure. Due to improved management capability and greater purchasing power, corporate chain stores are becoming the dominant form of retail stores. Electronic point-of-sale data provide the information that enables detailed assessment of branch performance, improved store management, a decrease in cost structure, and an increased focus on customer demand and satisfaction. This information advantage, together with economies of scale and bulk buying, gives chain stores a major advantage over their smaller competitors and their suppliers. ► **Manager’s Corner 11.2** provides some more details of the benefits of information in retailing. Even though these stores are more efficient, they also lead to a certain degree of homogeneity in the retail sector and, perhaps, to a reduction of consumer choice. For example, in Eastern Europe, some Western chain food stores have mostly brought with them their own suppliers. As a result, obtaining locally grown fruit or locally baked bread is nearly impossible, much to the chagrin of customers who would like to be offered a combination of efficiency and traditional products [11].

An increasing number of retail outlets are run by franchisees who personally own the outlet. The format for the franchise, the way it is run, its products or services, its technical and management expertise, and its promotion are the responsibility of the franchisee. The franchisor owns the format and typically receives a commission on sales or a margin on supplies. “In 2019, the economic output of franchise establishments in the United States was about 787.5 billion U.S. dollars. Contributing to the economic output of franchise establishments in the United States, were about 8.43 million people who worked for a franchise business” in 773,603 franchised outlets throughout the United States [12]. Going far beyond fast-food outlets, franchising is improving all areas of retailing. Consider Country

Visions Inc., a chain based in Vacaville, California, that operates and franchises Country Clutter stores. Although the outlets themselves present the ambience of a small country general store, everything “behind the curtain” is driven by technology. The company’s website, administered in-house, presents product offerings and other news for customers, an intranet for franchisees that offers operations manuals, an email system, and a bulletin-board and discussion area [13].

11.4.4 Location

The traditional hubs of retailing are the shopping mall and main street, but other locations must be considered, e.g., next-door corner shop within a neighborhood. The central shopping area is the province of the chain stores—and the location with the highest property costs. The high rents are paid because traditionally location, above all, determines a retail outlet’s turnover—hence the adage that the three most important elements of retailing are location, location, and location. Chain stores use surveys of places consumers shop to determine where to place an outlet. Obtaining the best location (balancing pedestrian traffic against property cost) is a skill that retailers justifiably rate highly. The value of each location can shift, however, because of changing customer patterns or other environmental dimensions. For example, with the advent of electronic banking, which permits customers to do most of their bank transactions via automated teller machines, telephones, or even the internet, the value of stately bank buildings in city centers is likely to decrease.

Manager’s Corner 11.2

Computer-Dating the Customer

Because of astute database management, retailers may know consumers’ names and addresses, what they buy, what they have stopped buying, how much they spend, and even how they respond to a rise in the price of dog food. For big retailers, having this information is the equivalent of going back to the days of the individual store owner who knew and greeted each customer personally. The benefits are potentially huge: Instead of spending millions on advertising beamed at people who may be indifferent or even hostile to it, retailers can use databases to help them hang on to their existing customers and persuade them to spend more. Keeping these customers is important because typically 20–35% of customers generate 70–80% of a retailer’s profit. But it is not trouble-free: Databases are expensive to develop and analyze, and customers may expect big discounts in return for their loyalty. Some may also see such individual marketing as an invasion of privacy.

Here is an example of database benefits accruing to retailers. Talbots (► www.talbots.com), a large women’s clothing chain based in Massachusetts, has compiled a database of more than seven million names that includes information about customers’ sizes. This information has enabled the firm to forecast more accurately which sizes will sell in particular stores. Talbots also asks all customers for their zip

codes when they pay, to help it plan new store openings. In association of Comenity Bank, Talbots offers their own credit card. Monitoring their customers' spending would be useful to target their particular existing customers from their database to offer the credit card services including help paying their customer bills based on different competitive options. The effort seems to be paying off. Since 1998, the company has been opening around 50 new stores per year.

Source: Computer-dating the customer. *Economist* (1995, March 4); ► www.talbots.com. Accessed 19 June 2003; Talbots. (2020a). *Reasons to love the Talbots credit card!* Talbots. ► <https://d.comenity.net/ac/talbots/public/home>. Accessed 1 August 2020; Talbots. (2020b). *Talbots credit account application*. Talbots. ► <https://d.comenity.net/talbots/public/apply/Apply.xhtml>. Accessed 1 August 2020.

Sites outside cities but with good road links have become the preferred location of warehouse stores and no-frills discount operations. Increasingly, such sites are also the chosen location for superstores—very large supermarkets of up to 80,000 square feet—and are rapidly taking share from the smaller, more conventional supermarkets. Hypermarkets are similar but typically of 100,000–200,000 square feet and carrying a product range similar to that of a department store. In Europe, Carrefour S.A. is a well-established chain of hypermarkets, whereas in the United States, Walmart is a primary developer of the concept.

One key desire of retailers is to be footloose and location independent. They desire to serve customers without the need to create a retail establishment close to them. Technology increasingly enables retailers to take such direct marketing approaches.

The most obvious manifestations of direct marketing are the large, lavishly illustrated catalogues mailed to consumers. Some of them offer a range of goods matching that of a department store. The advantage to the supplier is reduced cost because there are no expensive store locations to maintain, while the advantage to the consumer is convenience. For example, Williams-Sonoma Inc. is a marketer of kitchenware and home and garden products both through brick-and-mortar stores and direct mail. In 1999 the company launched a “Pottery Barn Kids” brand, sold exclusively in catalogues, which featured children’s bedroom furniture, rugs, and other tasteful kids’ furnishings. The initial mailing of 500,000 catalogues was so successful that the company mailed out additional batches a few months later [14].

Another form of nonstore retailing is door-to-door selling, which has reached new global heights with firms such as Avon and Amway. Both catalogue and door-to-door marketing are effective but are limited by their need to target specific customers and can present only a one-way dialogue with their merchandise. The catalogue needs a detailed address; the Avon representative needs to find a customer at home. Both approaches offer merchandise that is already in existence. Also, many mobile phone operators and gas and electricity providers employ the door-to-door selling strategy either through their own salesforce or outsourced sales team supplied by an external contractor.

Operating without the restraint of advance targeting are television shopping networks, which are growing successfully in many countries. Even more open and, most important, able to engage in a two-way dialogue is the rapidly growing form of electronic retailing. Dell Computer, the largest direct marketer of personal computers, is an excellent example of how to capitalize on the unique benefits of internet retailing. Such firms use the internet to communicate detailed, up-to-date information on their fast-changing lines of products to the tech-savvy audience of customers. Shoppers can custom-design a computer by selecting options from an on-screen form and see the immediate impact on price. Concurrent with the shopper's input, feedback can be provided on the quality of choices made. When the shopper is satisfied with the configuration and places an order, the company builds the computer to specification and ships it to the customer's home. The customer receives the latest technology, and the manufacturer avoids obsolete inventory [3]. Due to all its advantages, electronic retailing has become one of the most important retailing methods in contemporary markets.

11.4.5 Branding Focus of the Retailers

Retailers can also be categorized based on their branding and promotional focus. A general purpose of branding of a company is to influence its target audience to think or perceive about the company in a way that the company would prefer its target audience to think or perceive about the company and its products or services. In fact, branding attempts to influence and shape the perceptions of a brand's target audience about the brand. For example, the global German retailer, ALDI attempts to brand and distinguish itself as a supermarket of "everyday low price," whereas Walmart's branding is more focused on sustainability, environment, and well-being. Such global giants in the retailing industry attempt to perceive their target audiences based on a particular way, and they act on it. For example, ALDI not only promotes itself as a cheaper-priced retailer but also tries to offer cheaper price, and in the same vein, Walmart also tries to incorporate different sustainability-oriented strategies in their operation. Such branding efforts generate a distinct identity of different retailers in the long run based on a distinct identical category.

11.5 Wholesaling

Sandwiched between producers and retailers may be a layer of wholesalers, distributors, and agents. Their role is to provide a link between the extremes of the distribution chain. The number of independent retailers, for example, may make it uneconomical for the producer's own salesforce and distribution network to work with each one of them.

Wholesalers and service retailers are usually independent. They stock a range of items from different suppliers and market them either through their own salesforce or through self-service cash-and-carry warehouse facilities exclusively for retailers. A **distributor** is a wholesaler that deals with industrial establishments and

business-to-business marketing. Agents differ from wholesalers in their relationship with the producer. **Agents** typically represent one or more suppliers on the basis of a formal agreement. They operate as extensions of a supplier, following established terms of business and quality standards, but they do not take title to goods. Rather than making a profit from reselling merchandise, they earn a commission on their sales.

Distributor—A wholesaler that deals with industrial establishment (e.g., producer/manufacturer) and undertakes business-to-business marketing.

Agents—The link between producers and retailers that represents one or more suppliers (e.g., producers) on the basis of a formal agreement and profit share by earning a commission on sales.

Wholesale intermediaries vary also in the levels of support they offer. Cash-and-carry wholesalers offer the most basic level of support, mimicking the self-service element of supermarkets. The customers, typically small retailers and caterers, service themselves and pay at a checkout counter, just as supermarket customers do. At the other extreme, the wholesaler's representative may visit or telephone the retailer to take the order, which is then delivered, which is a common practice in the culinary industry for restaurants. This is the traditional—but declining—form, now increasingly limited to specialist markets. However, many countries in Asia and Europe still have distribution systems characterized by multiple layers of wholesalers deeply involved in the sales process. Between those two extremes are various forms of cooperative relationships between channel members. One example is category management, in which a leading supplier manages shelf space allocation and arranges for shelf stock replenishment. This approach has been widely used in the tobacco industry and in supermarkets. For example, rather than tracking inventory and ordering replenishments itself, Walmart has handed over the management of in-store inventories of items such as Tide and Crest to its producer, Procter & Gamble. The firm has direct access to point-of-sale data, and it is up to P&G to manage inventory and assure that there are no out-of-stock conditions in stores. Also used are service merchandisers (“rack jobbers”), who manage and service an assigned department or category such as periodicals, greeting cards, or recorded music. This approach is often found in department stores, discount department stores, and drugstores. Finally, there are leased departments, in which an independent contractor manages a section of a department store [15]. Cosmetics, jewelry, and different socioeconomic and environmental cause-related offerings are frequent examples of this “store-within-a-store” concept.

Strategically, it is important for wholesalers to find new ways of adding competitive value to the marketing process in order to survive and prosper. Without such value additions, both retailers and suppliers have a great incentive to circumvent the wholesale level. The typical way to add value is to perform distribution processes more efficiently based on market-specific specialized knowledge. A

wholesaler may offer better and more efficient inventory management, better transportation or break-bulk service, more efficient restocking practices, more promotional support, or more complementary product assortments. Alternatively, a wholesaler may specialize in an information-gathering role, to facilitate the planning and management of retailers and suppliers. If wholesale intermediaries cannot perform functions better and more efficiently than other channel members, the functions will be taken on by other channel members and the intermediary will be eliminated.

11.6 Purchasing

The purchasing function is dealt with in this chapter, because it concerns the relationship with the firm's buyer and is particularly relevant to wholesalers and retailers. Purchasing is still generally seen as the “poor cousin” of the marketing discipline and, as such, has been insufficiently researched. This is despite the fact that bought-in elements usually account for more than half the total cost of goods and sometimes of services too. Inefficient or ineffective purchasing can easily lose far more value than the best possible management can add in the remaining processes under its control. Therefore, firms should put a great deal of effort into working with their suppliers, particularly because the increase in global sourcing makes the tasks increasingly complex [16].

Successful purchasing involves several elements. First, the buying department has to appreciate the needs of the internal customers, those departments that will be the users of the purchased goods and services (e.g., the manufacturing department or the factory units of a producer as the raw materials' user of the producer's product). Second, the buyer (e.g., the purchasing department of the producer) must understand the product to be bought. Third, the buyer must know the alternative suppliers of that particular product (e.g., the raw materials) or a specific service (e.g., servicing and maintenance of machineries at the production units). The culture of buying is still dominated by the “master–servant” relationship based on the extent of bargaining power and competitive advantage between the channel members (e.g., whether a particular producer could survive without a specific raw material supplier and vice versa). However, it is very much in the buyer's interest to treat the supplier as a partner to optimize the propensity of cost-effective purchases for the long run. In essence, the buyer should deal with suppliers as if they were in another department within the organization. After all, both the suppliers and the buyer's organization have the same key objective: to please the end users and thus to increase their market share. By working together, both parties can improve their overall operational capacity, leading to lower costs, better products, greater competitive advantage, and higher profitability.

It is also important that the buyer be part of the product specification process. Insufficient understanding of specifications can result in inefficient buying; inadequate specifications can lead to very expensive modifications later (not to mention the costs of recalls or lawsuits); and overspecification inevitably causes inflated product costs. One of the most important activities in purchasing is the appropri-

ate supplier selection. This activity requires market knowledge and judgmental ability as to the suitability of the prospective suppliers, including their ability to meet requirements over the long term. The starting point is the identification and evaluation of suppliers through desk research. Often, buyers will insist that suppliers meet certain certification standards. For example, ISO certification, issued by the International Organization for Standardization, provides the buyer with assurance about a firm's internal processes. The ISO 9000 series of international standards represents quality management and the practice of quality assurance. Its aim is to give organizations guidelines on what constitutes an effective quality management system, which in turn can serve as a framework for continuous improvement [17]. On many occasions, the evaluation will include a formal inspection visit to review a prospective supplier's capabilities. The outcome of the visit may be the inclusion of the supplier on the "approved list," with the tacit implication that the firm has a good chance of receiving an order at some time in the future.

When it comes to supplier choice, there are two extremes. The most efficient approach, making the best use of any economies of scale, is to concentrate all purchases on a single supplier. This approach also allows the best chance of developing a close partnership. Alternatively, several suppliers may be chosen, to ensure continuity of supply. A buyer may even place businesses in several countries to assure local supply and to reduce the effect of exchange rate changes. For example, for imported supplies the devaluation of a country's currency or geopolitical interests may dramatically affect production and pricing, whereas for domestically sourced supplies, the effect may be minimal and more manageable. Multiple suppliers are expected to recognize the existence of these competitors and accordingly offer more competitive prices. However, this approach may have an adverse impact on the individual supplier partnership.

After a purchasing order is received from the internal department (e.g., the production units as the raw materials' user), the alternative suppliers should be evaluated against the specific order. The buyer can do this by developing a rating system based on quality, terms' and conditions' flexibilities, and service schemes as well as price. Doing so avoids purchasing systems in which business is conducted solely on the basis of personal relationships. Such an evaluation must be conducted periodically to monitor changes at the supplier level. One important service the buyer can provide for suppliers is the development of a global industry benchmarking system. Through such a system, which can be administered by neutral third parties such as the International Trade Centre in Geneva, suppliers anywhere in the world can check how they measure up in terms of international competitiveness. By obtaining detailed comparative information, they can also take steps to improve their activities, which lead to greater competitiveness and, in turn, provide for better supplies to the buyer. The buyer needs to assure itself that, in addition to product standards, production process standards and environmental, ethical, and sustainability standards are being met. Production processes need to be reviewed in terms of cost and quality, eco-friendliness of the production process, and also human rights, child labor laws, wage levels, and worker welfare. Basically, the firm needs to determine whether the conditions of production meet standards that are

acceptable to its management, stockholders, and stakeholders including customers. ► Manager's Corner 11.3 provides some insights into the problems that can be encountered.

11.7 Supply Chain Management

In supply chain management, the firm uses a series of value-adding activities to connect the company's supply side with its demand side. This approach views the supply chain of the entire extended enterprise, beginning with the supplier's supplier (e.g., the raw material provider) and ending with consumers, or end users. The perspective encompasses all products, information, and funds that form one cohesive link to acquire, purchase (e.g., of raw materials), convert/manufacture and assemble the finished product, distribute goods and services to the ultimate consumer [18], and monitor the postpurchase consumer behavior. The implementation effects of such supply chain management systems can be major. Efficient supply chain design can increase customer satisfaction and save money at the same time [19]. On an industry-wide basis, research conducted by Coopers & Lybrand, before its 1998 merger with Price Waterhouse, indicates that the use of such tools in the structuring of supplier relations could reduce operating costs of the European grocery industry by \$27 billion per year, with savings equivalent to a 5.7% reduction in price [20]. Clearly, the use of such strategic tools is crucial to develop and maintain key competitive advantages. An overview of the supply chain is shown in ■ Fig. 11.2; ► Manager's Corner 11.4 explains how McDonald's uses its global supply chain, along with discussing the considerations for psychic distance in global supply chain.

Underlying effective supply chain management is the development of a logistics system that controls the flow of materials into, through, and out of the corporation. Due to the systems approach, the firm explicitly recognizes and coordinates the linkages among the traditionally separate logistics components within the corporation, which are production, transportation facility, inventory, and communication decisions. By recognizing the logistics interaction with outside organizations and individuals, such as suppliers and customers, the firm is able to create a mutual purpose for all partners in the areas of performance, quality, and timing. As a result of implementing a logistics system, the firm can develop **just-in-time (JIT)** delivery for lower inventory cost, electronic data interchange (EDI) for more efficient order processing, and early supplier involvement (ESI) for better planning of product movement. The logistics effort has two parts: materials management and physical distribution management.

Just-in-time (JIT)—The inventory approach in which components are delivered from the suppliers directly to the production line just as they are needed.

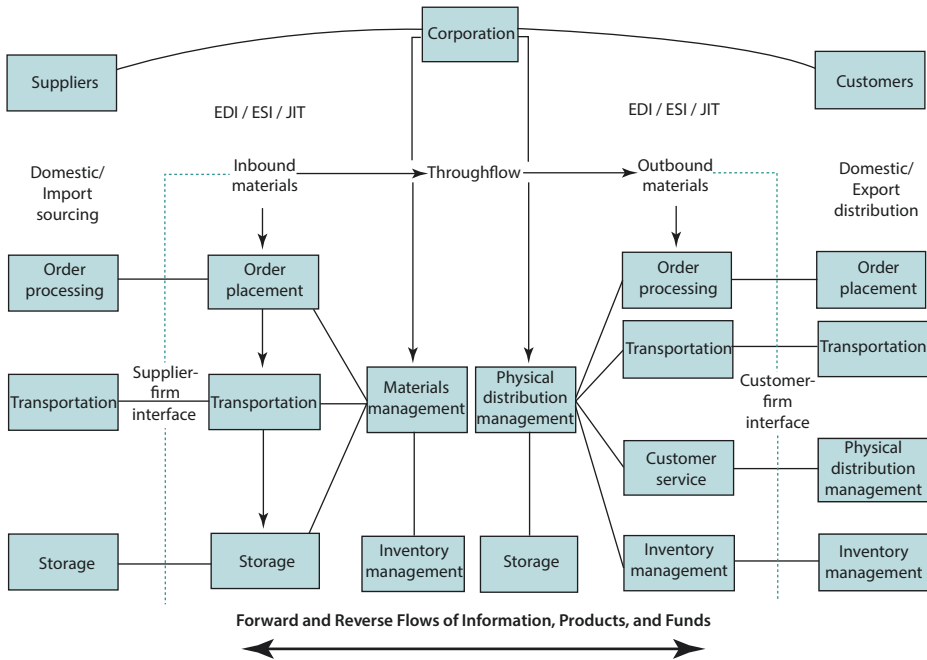


Fig. 11.2 The supply chain. (Source: Czinkota, M. R., Ronkainen, I. A., & Moffett, M. H. (2003). *International business, update 2003* (6th ed.). Copyright © 2003. Reprinted with permission of South-Western, a division of Thomson Learning)

Materials management controls the movement through the production processes. It takes in raw materials and schedules them through the various processes until the final product is placed into the finished goods warehouse. Physical distribution management deals with the inflow of products from suppliers and the movement of the firm's finished product to its customers. In both phases, movement is seen within the context of the entire process. Stationary periods (storage and inventory) are therefore included. The basic goal is the effective coordination of both materials and physical distribution management to result in maximum cost-effectiveness while maintaining service goals and requirements. In the words of the director of international logistics operations at General Motors, the purpose of logistics is "to plan cost-effective systems for future use, attempt to eliminate duplication of effort, and determine where distribution policy is lacking or inappropriate. Emphasis is placed on consolidating existing movements, planning new systems, identifying useful ideas, techniques, or experiences, and working with various divisions toward implementation of beneficial changes" [21].

Manager's Corner 11.3**Supplying Product with Dignity**

One of those \$20 T-shirts in your drawer could have been made by a Central American teenager or a South Asian widow who might have said that she regularly labors for 18 hours a day in a garment factory. The bargain dress on your back might have been made by kids who couldn't go to the bathroom without a pass from their boss. Those inexpensive pants may have been assembled in Los Angeles by Thai workers imprisoned behind barbed-wire fences.

Sweatshops are a part of doing business in the garment industry—particularly for those involved in inexpensive to moderate merchandise, where price is all that matters. Purchasers are trying to fight inhumane treatment in the production process. Gap (► www.gap.com), Levi Strauss (► www.levi.com), and Phillips-Van Heusen (► www.vanheusen.com), for instance, all have corporate codes of conduct addressing issues of minimum wages, humane working conditions, fair hiring practices, and more. But getting suppliers (e.g., the garments manufacturers in the emerging economic countries) to adhere to these codes is not easy. Since Levi Strauss instituted its “terms of engagement” in 1991, it has ceased business with about 5% of its suppliers and has required improvements by another 25%. Those improvements ranged from clearing the path to a fire exit to actually creating one. The company has about 600 contractors worldwide. “In many respects, we’re protecting our single largest asset: our brand image and corporate reputation,” says spokesman David Samson.

In 2004, Reebok, the athletic apparel and footwear giant, was accredited by the Fair Labor Association (FLA), a nonprofit group formed to promote adherence to international labor standards, for its substantial implementation of standards protecting workers at its factories around the world. As the first company to be accredited by the FLA, Reebok is considered the forerunner in the apparel industry when it comes to protecting workers’ rights: In 1992, the company was the first in its industry to adopt a code of conduct calling for decent working conditions, start systematic inspections of factories that produced its products, and implement a list of human rights production standards. In 2004, Reebok continued its leadership by earning FLA accreditation for completing a checklist that included meeting standards banning child labor, forced labor, abuse, and discrimination and guaranteeing health and safety of workers, freedom of association, and collective bargaining.

Today, “individuals, and especially those within the millennial generation, are more socially aware than ever, and thus, the (term) ‘ethical consumer’ has come about.” The term “ethical consumer” is defined as the consumers who are socially responsible, and value the ethical perspectives in their buying decisions, which is related to the “feel-good factor,” so that consumers feel better about their purchase decisions, as well as about themselves because of the ethical significance of their decision that contributes to any socioeconomic cause at least to some extent. Because of this “feel-good factor,” “consumers around the world have placed increasing value on corporate social responsibility (CSR).”

Such consumer pressures have led to a purified scope for CSR considering that the manufacturers would not be able to sell their products (irrespective to lower price offered because of cheap manufacturing labor) unless the manufacturing process meets the ethical standard. As a result, the companies who sell garments items try to keep a balance between their CSR effort and profit-seeking tendency in order to address these consumer pressures. Simultaneously, suppliers of garments items in many emerging economies have been trying to meet and underpin their work environment, minimum wages, worker welfare, and other ethical standards. For example, Bangladesh, the third largest ready-made garments (RMG) supplier in the world, “increasingly has the know-how to safeguard its workers from industrial accidents and poor working conditions.” Consequently, the entire supply chain system of RMG from purchasing RMG from the emerging economic countries, transporting them to different markets in the developed economies across the world, and selling the RMG to the end users meets the industry requirements and ethical standard.

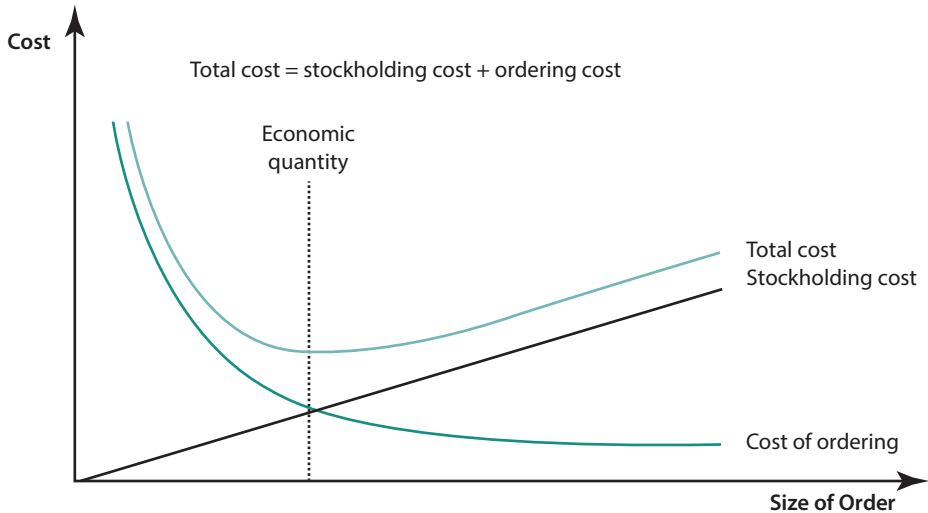
Sources: Givhan, R. D. (1995, September 12). A stain on fashion. *Washington Post*, B1, B4; Foster, M. (2004, May 1). Reebok gets thumbs up from anti-sweatshop group. *Associated Press*; Choi, J., Chang, Y. K., Li, Y. J., & Jang, M. G. (2016). Doing good in another neighbourhood: Attributions of CSR motives depend on corporate nationality and cultural orientation. *Journal of International Marketing*, 24(4), 82–102; Laroche, S. (2017). Cause-related marketing in five unique culture (honours dissertation). Texas: Texas Christian University; Textile Today. (2019). ► <https://www.textiletoday.com.bd/12-apparel-companies-receive-osh-good-practice-awards/>. Accessed 1 July 2020; Rahim, M. M. (2017). Improving social responsibility in RMG industries through a new governance approach in laws. *Journal of Business Ethics*, 143, 807–826.

In ► Sects. 11.7.1, 11.7.2, 11.7.3, 11.7.4, and 11.7.5, we will examine the five decision areas for logistics management.

11.7.1 Production Decisions

In the context of the distribution function, production decisions concern issues such as the quantity in each production batch and the lead time required for production. Production of a good can be continuous, as in an oil refinery or on a car assembly line. In these cases the whole production process has to be matched to demand. Very expensive mistakes can be made if the capacity installed turns out to be greater than demand; this results in frequent shutdowns.

Production is typically “batched” into specific production runs. The size of the production order and the frequency with which the order is placed are matters for calculation on two separate fronts. The first refers to economies of scale. A cost overhead is involved in placing every order, so the number of orders placed should be minimized. At the same time, an ongoing cost is involved in holding stock, and



■ Fig. 11.3 Economic order quantity

thus the amount of stock should also be minimized. Needless to say, these two factors work in opposition, as the graph in ■ Fig. 11.3 demonstrates. The equation that determines the economic order quantity (EOQ) is

$$\text{EOQ} = \sqrt{2AT/C}$$

where A is the cost of placing the order, T is the expected throughput in the time to the next order, and C is the unit cost of storing an item over the period until the next order is received.

The second major consideration in determining batch size and frequency concerns the buffer stock to be held to cope with variations in demand. Depending on the known pattern of demand, the optimal size of this buffer stock can be statistically calculated, although the calculations are beyond the scope of this book.

All these considerations, however, deal only with the status quo and do not address the distribution processes. That is where the coordination of activities with suppliers and customers can play a major role. For example, because the Wrangler jeans company receives precise, ongoing information about purchase levels (in terms of quantity, style, and sizes) from its major retail clients, the firm can plan its own purchasing and production more efficiently and thus offer a better price. Similarly, if customers provide real-time information on their needs, the producer can be more efficient in scheduling production. In both instances, the degree of uncertainty is reduced, and the extent of mutual trust is increased.

To achieve these benefits, the firm has to invest substantially in building a system relationship and providing for information exchange. Clearly, such investment is viable only if it is driven by a long-term perspective. However, the results show that the investment may well be worthwhile because its benefits can far exceed the results of efficient internal management alone. For example, typical

savings from integrating the supply chain include the liberation of 50% of working capital, a 30% reduction in operating costs, and a sizable reduction in fixed assets [22]. The United Parcel Service used EDI to reduce the administrative time necessary for creating and sending purchase orders by 67% and reduced order processing time by 30% [23]. With the internet offering a lower-cost alternative to the development of private value-added networks, such collaboration is expected to increase markedly.

Manager's Corner 11.4

Global Supply Chain Management at McDonald's

Except for Saudi wheat, Big Macs sold in Saudi Arabia are all made from foreign ingredients, beef patties from Spain, sauce from the United States, onions and sesame seeds from Mexico, and oil and sugar from Brazil, as well as the packaging which is from Germany. How can the world's giant fast-food chain McDonald's (► www.mcdonalds.com) do that? The answer is consolidated global warehousing and distribution so that all the materials of the uniform Big Mac can come together from producers and distributors, however far-flung they may be.

The company “cracks the global supply chain to create a borderless environment,” says its global logistics manager, Raymond Cesca. To keep McDonald's' 34,000 restaurants in 118 countries worldwide to serve 69 million customers per day in continuous supply, the company is one of the world's largest buyers of beef and other ingredients for its products. In large markets, the company sources its ingredients locally, whereas in small markets like Saudi Arabia McDonald's uses its distribution system so that items such as beef patties can be supplied almost anywhere in the world. The benefits of this type of supply chain management for global retailers like McDonald's is assurance of a stable source of supply and protection against fluctuations in the value of local currencies.

In such global supply chains, the psychic distance between the seller and consumers could create marketing myopia, unless the consumer behavior in the distant market is not adequately analyzed to serve them. For example, in Saudi Arabia, the meat in Big Mac has to be halal; otherwise, McDonald's will not be able to meet the Saudi consumers' requirements. Because of misinterpreting the consumer behavior or not appropriately addressing the stakeholders' concerns in the overseas markets, we have seen large deficit in US trade balance with other countries. In 2016, it was more than \$500 billion.

Two major approaches can improve the international trade position of the United States. The first is to reduce imports, and the second is to increase exports. US customers appear, at least in the short run, unlikely to reduce their consumption of imports from abroad. So we need to find ways to increase exports. In order to underpin the export of US products and services, we need to fill the gap in the psychic distance between us and our target consumers in overseas, considering that companies are said to develop the direction of their export thrust based on their “psychic distance” to other countries. This concept, as defined by researchers at the Uppsala School, consists of two dimensions—cultural and geographic factors.

People and companies are considered to be more “culturally distant” when there are differences in customs, language, and economic development. People and companies are regarded as being “geographically distant” when they are further apart only by sheer mileage.

The theory of psychic distance has significant implications when applied to the export process. Exporting could begin among people and companies that are less culturally and geographically distant. For example, Canadian companies present the opportunity for US companies to work with a country that has both cultural similarities and geographic proximity. US companies ultimately can transfer this experience by expanding into new markets that may be more psychically distant to the United States.

One could attempt to reduce the psychic distance between countries to enhance trade relations. For example, a US business executive could visit a Latin American immigrant area in the United States to become more knowledgeable of their language and customs. A deeper cultural understanding could be beneficial for this US business executive when trying to handle trade negotiations with Latin American executives. If cultural dimensions become more familiar among individuals, then the psychic distance is lessened through cultural understanding and trust. To sum up the key issues:

- Selecting a country as an export customer is the combined choice between cultural and geographic dimensions.
- To encourage exporting, it helps to start with low-hanging fruits. For US firms, this is a result of the combination of both cultural and geographic proximity. Canada or the United Kingdom could be major testing regions.
- Change happens! Over time, a region may reconstitute itself, which can impact trade relations. Immigration can trigger cultural change among countries, such as language facility, psychological expectation, or new demand.

The United States must recognize the role of psychic distance and its potential impact on underpinning their global supply chains, in order to improve the US trade balance deficit and enhance American’s economic competitiveness.

Source: Freudman, A. (1999). Supplying Big Macs: A lesson in logistics. *The Journal of Commerce*, 3A; ► www.mcdonalds.com. Accessed June 19, 2003; McDonald’s. (2020). *Your right to know*. ► <https://www.mcdonalds.com/gb/en-gb/help/faq/18525-what-countries-does-mcdonalds-operate-in.html>. Accessed 1 July 2020; Czinkota, M. R. (2018). *In search for the soul of international business*. New York: Business Expert Press

11.7.2 Transportation Decisions

Coordinating the transportation of products is a major operation. The investment is substantial, and the specialized management of the personnel, channel members, and resources involved can be just as important. For example, in order to source RMG from a South Asian country, a US company not only needs to confirm its

South Asian supplier (e.g., the garments factory) but also needs to assure that the company has a reliable freight forwarder at the origin, who will pick up the garments from the factory, load in the vessel for transportation, monitor the entire transportation process, unload the garments at destination, and timely deliver the garments at the designated stores of the company in the United States. The main tasks of transportation management traditionally are those of scheduling—once more a balance between prompt service and the cost of providing it most economically—and routing, which focuses on the classic linear programming problem of achieving the minimum distance (and time) to reach all the delivery points. Such delivery points may include additional delivery points considering that the freight forwarder might need to load RMG in a small sea-going vessel in South Asia and unload and reload it in a big ocean-going vessel at a transshipment point (e.g., in Singapore or in Malaysia) in order to finally transport the RMG for the US destination, for example. Therefore, the entire transportation flow must be coordinated between the different links in the supply chain. Transparency of information flow is crucial here. If the firm can track the precise transportation status of orders at any time, it will be able to expedite or reroute shipments to meet emergencies, to consolidate shipments to reduce costs, and to minimize the time that shipments simply sit and await further instructions. For example, there would be a sudden labor strike at the origin or at the transshipment point, and therefore, prompt rescheduling of the shipment would be instrumental to reduce storage cost at the destination. The marketer must remember that transportation is the by-product of the need to get the product to the customer. Every action the firm can take to reduce movement and handling will improve the process and reduce costs.

The marketer must also make the appropriate selection from the available modes of transportation. This decision is, of course, heavily influenced by the needs of the firm and its customers. The manager must consider the performance of each mode in three contexts: transit time, reliability, and cost.



■ The OOCL Shenzhen sails into Sydney Harbour in Australia. With a capacity of 8063 TEUs, the Shenzhen is listed in the *Guinness Book of World Records* as the world's largest container ship. Source: Printed with permission from OOCL

Transit Time The period between departure and arrival of the (road, sea, and air) carrier varies significantly. For example, between ocean freight and airfreight, the 45-day transit time of an ocean shipment can be reduced to 24 hours if the firm

chooses airfreight; however, airfreight is much more expensive than ocean freight. The length of transit time has a major impact on the overall logistic operations of the firm. A short transit time may reduce or even eliminate the need for an overseas depot, and inventories can be significantly reduced if they are replenished frequently. As a result, capital can be freed up and used to finance other corporate opportunities. Transit time can also play a major role in emergency situations. For example, if the shipper is about to miss an important delivery date because of production delays, a shipment normally made by ocean freight can be made by air.

Perishable products require shorter transit times, and rapid transportation prolongs their shelf life in the market. For products with a short life span, air delivery may be the only way to successfully enter distant markets. For example, international sales of cut flowers have reached their current volume only as a result of airfreight. ► **Manager's Corner 11.5** shows how effective transport management can be crucial in the development of new markets for products.

Reliability All providers of transportation services wrestle with the issue of reliability. Modes are subject to the vagaries of nature, which may impose delays. Yet because reliability is a relative measure, the delay of one day for airfreight tends to be seen as much more severe and “unreliable” than the same delay for ocean freight. However, delays tend to be shorter in absolute time for air shipments; as a result, arrival time via air is more predictable. This attribute has a major influence on corporate strategy. For example, because of the higher reliability of airfreight, inventory safety stock can be kept at lower levels. Greater reliability can also serve as a useful sales tool for distributors, who are able to make more precise delivery promises to their customers. If inadequate port facilities exist, airfreight may again be the better alternative, specifically for the goods with short life. Unloading operations from ocean-going vessels are more cumbersome and time-consuming than from planes. Finally, merchandise shipped via air is likely to suffer less loss and damage from exposure of the cargo to movement. Therefore, after the merchandise arrives, it is ready for immediate delivery—a facet that also enhances reliability.

Manager's Corner 11.5

The Challenge of Short Shelf Life

Chiquita (bananas, ► www.chiquita.com) and Dole (pineapples, ► www.dole.com) are experts at the logistics of international shipping. The success of their businesses depends on getting the product to the stores as quickly as possible, while the product is still ripe. Bananas, exported primarily from Latin American countries, are the most popular fruit consumed in the United States. Although Chiquita enjoys a high demand for its product, the firm faces significant logistics challenges. Specifically, Chiquita had to develop an efficient international supply chain system to ship the product fresh, keep the price low, and provide prompt and reliable delivery. With this in mind, a Chiquita researcher discovered that packing bananas in corrugated boxes and storing them at a temperature of 58 degrees would greatly extend the ripening

period. Although a 1950s advertisement featured a singing banana warning listeners that you should never put bananas in the refrigerator, nearly all bananas shipped today are packed in carefully monitored refrigerated holds on ocean freighters.

But if ocean shipping is acceptable for bananas, Hawaiian pineapple growers have been increasingly turning to airfreight. Discontented with the length of shipping time and the difficulty of getting fresh product to stores on the East Coast of the United States when shipping by ocean carrier, pineapple companies now fly their product. Although it was economically impossible to ship pineapples by air before deregulation, the new and intense competition among airlines has brought down shipping prices significantly.

Short shelf life is, of course, not just a problem for food items. For example, the US Food and Drug Administration has warned about the dangers of expired cosmetic items, such as mascara, which can dry up and cause eye infections, or “all natural products” that may contain plant-derived substances conducive to microbial growth.

Sources: Carriers, ports savor growing volumes. *Global Trade* (1992, June), 10; Air freight makes pineapples fast food. *Journal of Commerce* (1990, June 29), 11B; US Food and Drug Administration. *Shelf life—Expiration date* (revised, October 15, 2002)

Cost Transportation services are usually priced on the basis of both cost of the service provided and value of the service to the shipper. Because of the high value of the products shipped by air, airfreight is often priced according to the value of the service. In this instance, of course, price becomes a function of market demand and the monopolistic power of the carrier.

The marketer must decide whether the clearly higher cost of airfreight can be justified in relation to the projected or actual market demand. In part, this depends on the cargo's properties; the physical density and the value of the cargo affect the decision. Bulky products may be too expensive to ship by air, whereas very compact products may be more amenable to airfreight transportation. High-priced items can absorb transportation cost more easily than low-priced goods because the cost of transportation as a percentage of total product cost is lower. As a result, sending diamonds by airfreight is easier to justify than sending coal by air. To keep costs down, a shipper can join a shippers' association, which gives the shipper more leverage in negotiations. Alternatively, a shipper can decide to mix modes of transportation to reduce overall cost and time delays. For example, part of the shipment route can move by air to address the current or near-future market demand, while another portion can move by truck or ship to meet the future demand.

Most important, however, are the overall logistic considerations of the firm. For example, the marketer must determine how important it is for merchandise to arrive on time. The desire to be at the cutting edge of trends results in the latest clothing fashions mostly being shipped by air. The need to reduce or increase inventory must be carefully measured. Related to these considerations are the effect of transportation cost on price and the need for product availability. For example,

■ **Table 11.2** Evaluating transportation choices

Characteristics of mode	Mode of transportation				
	Air	Pipeline	Highway	Rail	Water
Speed (1 = fastest)	1	4	2	3	5
Cost (1 = highest)	1	4	2	3	5
Loss and damage (1 = least)	3	1	4	5	2
Frequency ^a (1 = best)	3	1	2	4	5
Dependability (1 = best)	5	1	2	3	4
Capacity ^b (1 = best)	4	5	3	2	1
Availability (1 = best)	3	5	1	2	4

Source: Ballou, R. H. (1999). *Business logistics management* (4th ed.). © 1999. Reprinted by permission of Pearson Education, Inc., Upper Saddle River

^aFrequency: Number of times mode is available during a given time period

^bCapacity: Ability of mode to handle large or heavy goods

some firms may wish to use airfreight as a new tool for aggressive and fast market expansion. Airfreight may also be considered a good way to begin operations in new markets without making sizable investments for warehouses and distribution centers.

Although costs are important, the marketing manager must adopt an overall perspective when deciding on transportation. The manager must factor in all corporate activities that are affected by modal choice and explore the total cost effects of each alternative. A useful overall comparison between the different modes of transportation is provided in ■ Table 11.2. The marketer's choice will depend on the importance of the different transportation dimensions to the market under consideration.

Increasingly, though, organizations are subcontracting their entire transportation operation to outside operators (often they are known as freight forwarder); indeed, this has become the classic “make or buy” decision. Contract, or third-party, logistics is a rapidly expanding industry. The main thrust behind the idea is that individual firms are experts in their industry and geographical locations for transportations and should therefore concentrate only on their location-specific operations. Third-party logistics providers, on the other hand, are experts solely in logistics, with the global knowledge of alternative transportation options and means to perform efficient and innovative services for those companies in need. The goal is improved service at equal or lower cost.

Logistics providers' services vary in scope. For instance, some use their own assets in physical transportation, whereas others subcontract out portions of the job. Some providers are not involved with the actual transportation but develop systems and databases or consult on cargo planning and monitoring services, considering that loading and unloading cargo in container at origin, transshipment

point, and destination requires specialized knowledge. In many instances, the partnership consists of working closely with established transport providers, such as Federal Express or UPS. These firms happily provide their self-service parcel boxes by the entrances for stores and firms. This way, a customer desiring overnight delivery does not have to expend energy trying to find a carrier willing to perform the service [24].

The concept of improving service, cutting costs, and unloading the daily management onto willing experts is driving the momentum of contract logistics. One of the greatest benefits of contracting out the logistics function is the ability to take advantage of an in-place network complete with resources and experience. The local expertise and image are crucial when a business is just starting up. The prospect of newly entering a region as confusing as Europe with different regulations, standards, and even languages can be frightening without access to a seasoned and familiar logistics provider.

One of the main arguments leveled against contract logistics is the loss of the firm's control in the supply chain. Yet contract logistics does not and should not require a firm to hand over control. Rather, it offers concentration on one's specialization—a division of labor. The control and responsibility to the customer remain with the firm, even though operations may move to a highly trained outside organization.

Marketing in Action 11.2

Pepsi-Cola Seeks Bottlers for Abroad

Headquartered in Purchase, New York (USA), PepsiCo (► www.pepsico.com) is composed of five powerful consumer product companies: Pepsi-Cola (beverages), Frito-Lay (snack chips), Tropicana (branded juices), Quaker (breakfast, snack, and pasta foods), and Gatorade (sports performance drinks). PepsiCo reported 2019 revenues of \$67.16 billion.

Pepsi-Cola began selling its products in the international market in 1934 and is now present in more than 200 countries and territories around the world, with 24.9% of US market share in 2018. In mid-2019, *The Wall Street Journal* reported that “PepsiCo’s shares have gained 19.5% for the last twelve months and 49.2% for the last five years, compared to 15.8% and 22.1% for Coca-Cola.” Pepsi-Cola’s increasing success can be attributed, in part, to its shift from reliance on small international partners to large regional bottlers in various countries and regions. In addition to having strong local ties, these large regional bottlers also have the capital to invest in operations.

In strategic moves to overtake Coca-Cola’s dominant world market share, Pepsi-Cola formed key partnerships such as one with Gemex Bottling Group to solidify its long-term growth potential in Mexico and Latin America. Pepsi-Cola also asked several of its large US bottlers to take control of many of its international markets. Pepsi feels that these US bottlers have the managerial and operational expertise to make its international operations a success.

Can Pepsi's regional bottlers gain sustainable success overseas? Why would a US bottling company invest millions of dollars in Pepsi's international bottling operations?

Sources: PepsiCo, Inc. (2002). *PepsiCo supports proposed purchase of Gemex by the Pepsi Bottling Group*. PepsiCo press release; PepsiCo, Inc. (2004). Form 10-K. Both are available at ► www.pepsico.com; PepsiCo. (2019). *Creating more smiles with every sip and every bite*. Annual Report. PepsiCo. ► https://www.pepsico.com/docs/album/annual-reports/pepsico-inc-2019-annual-report.pdf?sfvrsn=ea470b5_2. Accessed 2 August 2020; Mourdoukoutas, P. (2019). Pepsi beats Coke, again. *Forbes*. ► <https://www.forbes.com/sites/panosmourdoukoutas/2019/07/13/pepsi-beats-coke-again/#124e1c862bad>. Accessed 2 August 2020; Bedford, E. (2020). PepsiCo company's market share in the United States from 2004 to 2018. *Statista*. ► <https://www.statista.com/statistics/225419/us-market-share-of-the-pepsico-company-since-2004/#:~:text=In%202018%2C%20PepsiCo's%20U.S.%20market,shares%20may%20be%20found%20here>. Accessed 2 August 2020; PepsiCo Global. (n.d.). *PepsiCo's products are sold around the world*. ► <http://www.pepsicoindia.co.in/company/global>. Accessed 2 August 2020

11.7.3 Facility Decisions

After deciding *what* product or service to provide, the organization must decide *where* to provide it. The questions that follow are how these chosen markets can best be served and how the best possible service can be offered for the lowest cost. Unfortunately, once again, these two factors are usually in opposition. Service tends to improve with the number of warehouses or branches. At the same time, more warehouses require more buildings, higher inventory, and more staff—in short, higher cost.

The location of any particular central or regional plants can be mapped by calculating the weighted distribution costs for each part of the market to be served. But distribution times and costs are also affected by the pattern of natural barriers, such as rivers and mountains, and by the quality of the road systems. In addition, trade-offs to building warehouses can be found in better modes of transportation and closer collaboration with customers and suppliers, who, for example, may be asked to preposition product for rapid delivery. This is particularly the case in industrial marketing. For example, when it comes to crucial parts on an assembly line, even an 8-hour delivery delay may be unacceptable because it means shutting down the line. Location models increasingly rely on the use of computer simulations to deal with these considerable complexities. ► Marketing in Action 11.2 describes the facilities decisions facing PepsiCo in its attempt to gain greater international market share.

11.7.4 Inventory Decisions

Decisions about how much inventory to hold as raw materials, work in progress, or finished goods; where to hold it; and in what quantities are vital. Inventory levels largely determine the level of service that an organization can offer to its customers or clients. The level of inventory is almost totally dependent on the accuracy of the sales forecasts, as described in ► Sect. 11.2.3, “Channel Compensation.” The vagaries accompanying such forecasts have led to the need for large inventories to be held (as buffers) to maintain customer service levels, and there is usually a clear trade-off between the cost of stockholding and customer service.

Inventory Control For most organizations control of inventory is a crucial activity. If a product is not available when the customer wants it, the sale may be lost, and the dissatisfied customer may take the business elsewhere. For example, it has been estimated that under low promotion conditions, retailers lose 6–9% of sales due to out-of-stock situations. Under conditions of heavy promotion, the losses typically amount to 12–15% of sales [25]. For example, in the supermarket industry, stock-outs are probably the worst for heavily promoted items on Sunday evenings—just before the restocking takes place. On the other hand, if too much inventory is held, the cost can be exorbitant; in most industries, annual inventory holding costs (physical warehousing, financing, administration, shrinkage, and deterioration) can easily exceed 30% of the total value of the stock.

Methods of inventory control vary widely in sophistication. One of the simplest methods is to have two “bins” of a product. When the first bin is empty, it is replaced by the second (full) one, and another bin of product is ordered. An alternative is computerized inventory control, which in most cases is just a form of stock recording. The record merely states what the balance of stock is—or should be. More sophisticated versions also make provision for on-order and back-order items. All of these are records of what has happened. The decisions of when and what amount to reorder are the responsibility of the human operator, but the computer helps by providing a reminder when the stock falls below the minimum or reorder point and provides assistance with some of the calculations (such as the EOQ). In service industries, the reminder usually also shows the slots available at some time in the future.

One important development in inventory management, pioneered by Toyota, is the just-in-time (JIT) approach. Here, components are delivered from the suppliers directly to the production line just as they are needed (or at least only a few hours before). This way, the manufacturer holds very little stock. This method of planning inventory is accordingly very efficient.

JIT does have hidden disadvantages, however, the most important of which is its lack of flexibility. It demands flat scheduling, which means that the production runs must forecast exactly several weeks in advance because the comparable production runs by the suppliers will take place some time in advance of the final assembly. Changes in plan are not possible in the short term; if the key components are produced in-house and flexible manufacturing (especially reduced setup times) is employed, though, this disadvantage may be minimized. Equally, the

manufacturer's much vaunted inventory savings may sometimes come about simply because the suppliers are holding buffer stocks instead. Yet the discipline of meeting JIT demands has improved the performance of many organizations.

It should be noted that JIT is not a technique, but the outcome of a very rich package of measures, including zero defects (or total quality management, TQM) and flexible manufacturing, as well as the traditional workforce dedication involving quality circles and multifunctional workers. It is the practical combination of these techniques, along with the support of sophisticated management (or inventory) information systems providing details on production schedules, vendors, parts, buyers, and transportation, that offers the greatest reward.

Finally, the firm needs to consider that a shift to a just-in-time system makes a company and its production processes much more vulnerable. For example, during the 1996 strike at a General Motors brake-pad plant, most of the firm's assembly plants around the nation had to be shut down very quickly due to a lack of product flow and lack of any inventories. Thus, a narrowly focused strike can have major corporate repercussions. In consequence, a total commitment to just-in-time systems will be particularly successful if management and labor agree not to use this corporate vulnerability as a bargaining chip [26].

11.7.5 Inventory as a Strategic Tool

International corporations can use inventories as a strategic tool in dealing with currency valuation and changes or to hedge against inflation. By increasing inventories before an imminent devaluation of a currency instead of holding cash, the corporation may reduce its exposure to devaluation losses. Similarly, in the case of high inflation, large inventories can provide an important inflation hedge. In such circumstances, the international inventory manager must balance the cost of maintaining high levels of inventories with the benefits accruing from hedging against inflation or devaluation. Many countries, for example, charge a property tax on stored goods. If the increase in tax payments outweighs the hedging benefits to the corporation, increasing inventories before a devaluation would be unwise [27].

11.7.6 Communications Decisions

Logistics management is not concerned only with the flow of materials through the company and its distribution channels. It also deals with the flow of information, including order processing, invoicing, records of each customer's past usage, forecasts of demand, stockholding in the company's own warehouse, and also the sequence of stockholding at the freight forwarders' warehouse in origin and transshipment point. The logistics system needs to handle the information effectively to provide satisfactory customer service at acceptable cost. It also needs to offer effective communication and information systems so that management can make better day-to-day and long-term decisions. The flow of information has become as important to the success of a company as the flow of physical products. It is information

that ensures that the right goods are in the right place at the right time to meet customer needs. For example, the freight forwarders plan for the origin, transshipment point, and destination that which goods will be loaded at the front, middle, end, upper, and lower part of a particular container, so that the goods' handlers at the transshipment point and the destination can be prepared accordingly to load and unload the goods in that sequence at all points of transportation to ensure that all required handling measures are appropriately and timely followed during the goods' transportation. Along with such information, the freight forwarders also regularly update all associated stakeholders at transshipment point and destination about the progress or delays in shipment, any unforeseen hazards during the shipment, and other relevant information, so that the concerned parties at all transportation points can be prepared in advance to proactively address any delays or other challenges in transportation.

11.8 Logistics and the Environment

The logistician plays an increasingly important role in allowing the firms to operate in an environmentally conscious or eco-friendly way. Environmental laws, expectations, ethics, and self-imposed goals set by firms are difficult to adhere to without a logistics orientation that systematically takes these concerns into account. Because laws and regulations (and perhaps ethical standards) differ around the world, the firm's efforts need to be responsive to a wide variety of requirements. One new logistics orientation that has grown in importance because of environmental concerns is the development of reverse distribution systems. Such systems are instrumental in ensuring that the firm not only delivers the product to the market but also can retrieve it from the market for subsequent use, recycling, or disposal. The ability to develop such reverse logistics systems is becoming an essential determinant of market acceptance, cost-reduction, eco-friendliness, and profitability. Considering the eco-friendliness and profitability of this reverse logistics strategy, Coca-Cola, as well as some companies, offers money to the general public for returning used Coke bottles and cans for recycling purpose [28].

Society is also beginning to recognize that retrieval should not be restricted to short-term consumer goods, such as bottles. Rather, it may be even more important to devise systems that enable the retrieval and disposal of long-term capital goods, such as cars, refrigerators, air conditioners, and industrial goods, with the least possible burden on the environment. The design of such long-term systems around the world may be one of the most important challenges—and opportunities—for the logistician and will require close collaboration with all other functions in the firm, such as design, production, and marketing. On the transportation side, logistics managers need to expand their involvement in carrier and routing selection. For example, shippers of oil or other potentially hazardous materials need to be involved in choosing the route that the shipment will travel and select those that are far from ecologically sensitive zones.

In the packaging field, environmental concerns increasingly lead to expectations that the packaging materials used are minimized and that the materials used are

environmentally “friendly.” Companies need to learn how to simultaneously achieve environmental and economic goals. Esprit, the apparel maker, and The Body Shop, a British cosmetics producer, screen all their suppliers for environmental and socially responsible practices. ISO 14000 is a standard specifically targeted at international environmental practices by evaluating companies both at the organization level (management systems, environmental performance, and environmental auditing) and product level (life-cycle assessment, labeling, and product standards) [29]. From the environmental perspective, those practices are desirable that bring about fewer shipments, less handling, and more direct movement. Such practices are to be weighed against optimal efficiency routings, including just-in-time inventory and quantity discount purchasing. This means that even though a JIT inventory system may connote highly desirable inventory savings, the resulting cost of frequent delivery, additional highway congestion, and incremental air pollution must also be factored into the planning horizon. Despite the difficulty, firms will need to assert leadership in such trade-off considerations to provide society with a better quality of life.

Addressing the environmental issues in logistics, on the one hand, is challenging; however, on the other hand, it brings opportunities for logisticians. Considering the long-term cost-effectiveness, increased brand image, added competitive advantage, and profitability for addressing the environmental issues in logistics operations, many logistics companies have adopted eco-friendly operational policies and strategies. For example, DHL aims to reduce carbon emission to zero by 2050. In the word of DHL, “by the year 2050 we want to reduce all logistics-related emissions to zero – a highly ambitious goal” [30]. In order to achieve this highly ambitious long-term environmental goal, DHL has also established its midterm goals (e.g., for 5 years), which are feasible to achieve as they think, and successfully pursuing all these midterm goals will enable DHL to successfully pursue its 2050 environmental goal. For example, in pursuant of their long-term 2050 goal, DHL’s goal for 2025 is to [30]:

- “Increase our carbon efficiency by 50% compared to 2007 levels.
- Reduce local air pollution emissions by operating 70% of our own first and last mile services with clean pick-up and delivery solutions, such as bicycles and electric vehicles.
- Have more than 50% of our sales incorporate Green Solutions. In this way we also make our customers’ supply chains greener.
- Certify 80% of our employees as GoGreen specialists and get them involved in our environmental and climate protection activities. This includes joining partners to plant one million trees each year to protect our forests.”

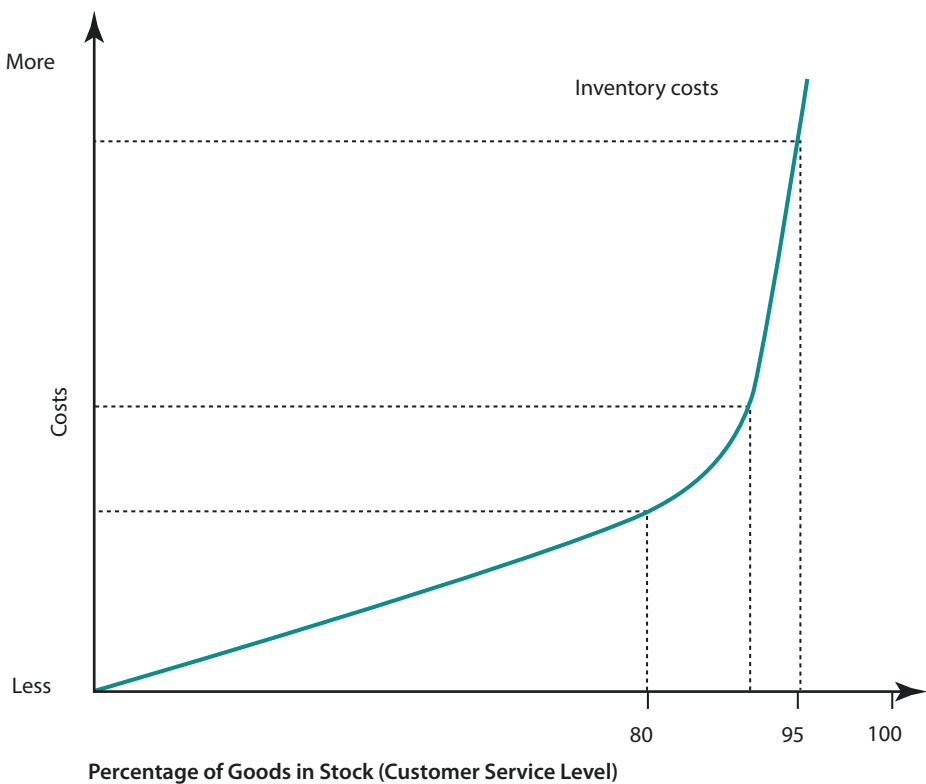
11.9 Customer Service

All the distribution and supply chain activities discussed so far have a common goal: to provide delightful customer service. Goods and services need to be available when and where the customer wants them, they need to be distributed efficiently so that the customer can afford them, and the process should delight customers so that they will come back. Even though all marketing functions aim

for customer service and satisfaction, it is becoming more difficult for firms to differentiate themselves from the competition. Product performance is becoming similar, and prices are adjusted rapidly in response to competitive activity. However, high levels of channel capabilities and supply chain performance are not easily copied and are sometimes ignored as a competitive tool. They can be successfully used to develop a sustainable competitive advantage [31]. ► Sections 11.9.1, 11.9.2, 11.9.3, and 11.9.4 presents some details on the important dimension of customer service in logistics operations by discussing its various components, which are service levels, customer complaints and satisfaction, and the organizational essential to provide customer service.

11.9.1 Service Levels

The percentage of product availability is described as the **service level**. It might seem that the simple goal would be to achieve 100% availability, but the cost of achieving this level rises very steeply as the service level approaches 100%, as shown in Fig. 11.4. The trade-off here between customer service (level) and cost is very



■ **Fig. 11.4** The cost of stockholding and service levels. (Source: Thomas, M. J. (1989). *Gower handbook of marketing*. Copyright © 1989. Reprinted by permission of Gower Publishing, Ltd.)

clear. Marketers must therefore decide on the implications of service levels. Typical issues to explore are whether customers understand and appreciate the different service levels and whether they are willing to pay for higher service levels. Offering different degrees of service may well become necessary to permit more customer choice. For example, Federal Express offers delivery of packages on the next morning, the next afternoon, or after 2 days. Each one of these services is priced differently, of course, and appeals to different consumer uses.

Service level—The percentage of product availability.

11.9.2 Customer Complaints

To keep a good benchmark of a firm's customer service and to learn how to improve performance, the firm needs to record all complaints and the manner in which they are dealt. This task may seem obvious, but it is often not done. Customer complaints are one of the most important aspects of business operations requiring management control, yet many organizations often neglect them and treat them as a nuisance. Another challenge of effectively tracking customer complaints is the motivation level of customer service attendants. For example, a customer would have a complaint about the professionalism of the customer service attendant who is also responsible for internally monitoring and updating all customer complaints in regular basis. In such cases, companies need to implement an effective monitoring system for customer complaints, as well as to ensure that their employees' motivation level is high. Nevertheless, addressing the customer complaints has considerable value for several reasons.

Although there will always be a small number of "frivolous" complaints, a complaint usually highlights something that has gone wrong with a part of the overall marketing operation. Whatever the reason, the sensible marketer will want to know exactly what went wrong so that remedial action may be taken. The way in which a complaint is handled is often seen by customers, and their many contacts, as the litmus test of the true quality of support. What is more, it is also a powerful reminder to the organization's own staff of just how important quality is. Customers who complain are usually loyal customers (those who are not loyal tend to switch to another supplier) and will continue to be loyal and valuable customers—particularly if their complaint is handled well. Ritz-Carlton, FedEx, and Xerox are all known as service quality leaders, partly for their internal specification for the speed and convenience of the complaint procedure, as well as in their concern for appropriate customer compensation delivered by caring employees [32].

The first rule is that complaints should be positively encouraged. One of the surest signs of a bad or declining relationship with a customer is the absence of complaints from the customer. Nobody is ever that satisfied, especially over an extended period of time; the customer is either not being candid or is not being contacted. This is not the same as saying that the reasons for complaints should be encouraged.

But assuming that problems have occurred despite your best efforts, you should put nothing in the way of any customer who wants to complain. The main problem lies with the many customers who do not complain and instead change to another supplier rather than the few who abuse the complaint system [33].

For the convenience of customers, many businesses have established toll-free numbers so that customers can report problems easily and at the company's expense. American Express has installed such lines and estimates that it achieves responses more quickly and at 10–20% of the cost of handling correspondence [34]. General Electric has gone further still, by providing around-the-clock, centralized, expert, general support service: Anyone who has a query—not necessarily a complaint—about any of GE's products may call free of charge. Jiffy Lube, the world's largest fast-lube franchisor, has information about each individual customer, with each service center boasting a database of 8000–50,000 customers. The firm knows about customer driving habits and oil change requirements and has performance data to determine which Jiffy Lube outlet is not as effective as it might be [35]. Microsoft established beta sites to seek customer knowledge in all important phases of new software development, from generating product specifications to alpha (verifying that the software conforms to specifications) and gamma (final checking of the product before its release) testing. Microsoft attributes its continued market success to its vigorous pursuit of customer knowledge in new product development [36].

The second rule is that all complaints should be carefully handled by painstakingly controlled and monitored procedures. Complaints must be handled well and must be seen to be handled well by the complainer and by the organization's own staff. The third and most important rule is that the complaint should be fully investigated and the cause remedied. Complaints are only symptoms; the disease needs to be cured! The temptation to overlook complaints until they reach a significant level is understandable, but holding off until the complaints reach this pain threshold usually means that they have already become damaging to the organization's image. It is far better to take the position that even one complaint is too many.

11.9.3 Customer Satisfaction

Up to 97% of dissatisfied customers do not complain, but they do tell their friends (a survey showed that 13% complained to more than 20 other people) [37]. The threat of such negative word-of-mouth publicity alone should encourage every organization to develop an ongoing focus on customer satisfaction, particularly because the internet has dramatically raised the number of people customers can complain to or share praises with. Rather than appealing only to a few dozen friends, active web participants can now easily complain to hundreds if not thousands. All it takes is a well-visited website or chat room.

There are other powerful implications to customer satisfaction as well. Customer satisfaction leads to increased corporate profitability [38], as seen by the track record of Nordstrom department store, which consistently obtains the highest levels of customer satisfaction in US retailing. Satisfied customers are less sensitive to price than either dissatisfied customers or new customers [39]. They are more

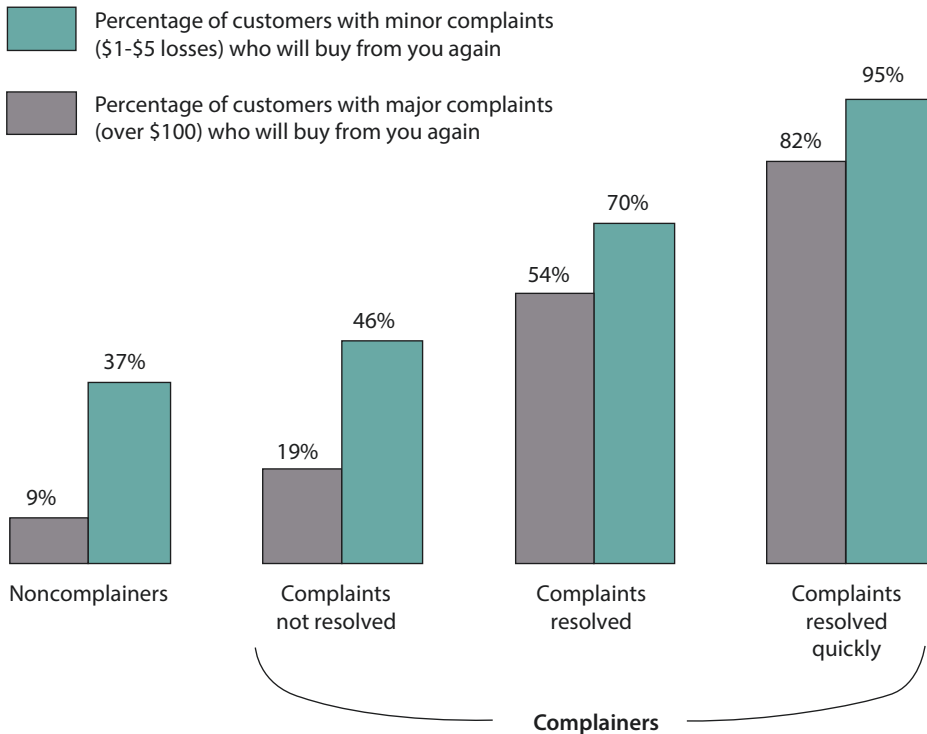


Fig. 11.5 How many of your unhappy customers will buy from you again? (Source: Goodman, J. A., & Malech, A. R. (1986). The role of service in effective marketing. In V. R. Buell (Ed.), *Handbook of modern marketing* (2nd ed., p. 68). Reprinted by permission of the McGraw-Hill Companies, Inc.)

willing to pay for the services they receive. It is also far less expensive to maintain an existing account than to develop a new one [31]. Satisfied customers tend to purchase more frequently and in greater volume than less satisfied ones [40]. Data from a report from the Office of Consumer Affairs, shown in **Fig. 11.5**, demonstrate that even for dissatisfied customers, the repurchase rates vary substantially, depending on whether and how their complaints are addressed. It is therefore essential that an organization monitor and assess the satisfaction level of its customers. The results should be analyzed to produce overall satisfaction indices and should also be provided to field managers so that they can rectify any individual problems.

Conducting satisfaction surveys offers a number of advantages (particularly when any individual problems highlighted can subsequently be dealt with):

- Like complaints, they indicate where problems lie.
- If they cover all customers, they allow 96% of noncomplainers to communicate their feelings and vent their anger.
- They show even the satisfied customers that the supplier is interested.
- They help to persuade the supplier's staff to take customer service more seriously.

The importance of very high standards of customer service can be demonstrated by McDonald's' marketing philosophy, which is encapsulated in its motto "QSC&V" (Quality, Service, Cleanliness, and Value). The standards, enforced on its franchisees and managers at the Hamburger University (a training facility of McDonald's), require that the customer receive a good-tasting hamburger in no more than 5 minutes from a friendly server in a spotless restaurant. It is instructive to observe how few of the company's competitors manage even the simple task of keeping their premises clean.

Technology allows firms to learn about the possibility of failure before the customer even notices a problem. For example, Xerox and Caterpillar are already implementing information systems that allow service technicians to diagnose problems before customers realize they need help. Computer systems at district service centers continually monitor firms' equipment by remotely reading sensors on each machine. When a pending problem is spotted, an electronic alert is sent to the portable computer of the local field technician, specifying exactly which parts and tools will be needed to make the repair. Onsite, an interactive computer then guides the service technician through the best and most efficient practices for making the repair [41].

11.9.4 Organizing for Customer Service

By definition, marketing is concerned primarily with the world outside the organization. But if marketing is to optimize the use of resources, it has to be concerned with what lies inside the organizational perimeter as well. The most valuable resource of any organization is its people and the skills that they possess. Many of the traditional tools of marketing can be used to great effect in the very important areas of internal communication and motivation, which is also known as internal marketing. Employees should be marketed to in exactly the same way as customers. Such internal marketing is as much about finding out what the employees want as it is persuading them to do what the organization wants.

Marketing research conducted on the organization's own employees should be used to determine where they stand in relation to their perception of the customer and of the customer service programs. It should explore the attitudes and motivations of employees by asking questions such as these:

- Is the customer seen as a friend or foe?
- Does anyone do anything more than pay lip service to customer research programs, and why?
- Do employees really want to offer a good service? If not, why?
- How can they be persuaded to change their views?

Managing Service Attitudes Perhaps the most important but least appreciated aspect of internal marketing is that it is a process of managing change; the marketing department needs to adopt the role of change agent. The aspects to be imbued in an organization are as follows:

- *Adopting an (internal) customer perspective*—Find out how the “internal customer” (the employee) feels about the changes.
- *Investing in education*—Stimulating change takes considerable, extended effort, for example, following the COVID-19 pandemic, many organizations around the world have attempted to increase the digitalization of their operations, which requires additional training for their employees to move from an in-person service environment to a fully digitalized service environment (where in many cases, employees need to work through the digital environment only because of the pandemic and the subsequent social-distancing issue).
- *Planning for change*—Work out the complex relationships that need to be addressed and modified.
- *Using conviction marketing*—Changing the culture is the most powerful change that can be made, but it takes a considerable investment over a number of years.

The last two objectives represent areas in which internal marketing diverges most from conventional marketing. The techniques may be closer to those of education and indeed may require significant amounts of retraining.

The culture of the company is often what conditions this customer service. Customers see customer service in terms of all their contacts with the company. They do not restrict their view to the narrow confines of product availability or to just those members of the salesforce who are supposed to be the ambassadors of the company. Being told that “your call is important to us” provides them with very little solace when they continue to remain on hold. They are even less influenced by advertisements that tell them how good the customer service is if their own experiences tell them otherwise. It is therefore essential for customer service thinking to permeate the organization so that the customers encounter a service orientation at every level of contact.

Summary

Distribution comprises channels and supply chain management. Channels deal with institutional linkages such as retailers and wholesalers, whereas supply chain management addresses the processes underlying these linkages, such as warehousing, transportation, and inventory management, and connects them from the supplier to the end user. The objective of both components is to provide a high level of customer service at a manageable cost.

Distribution channels take on various functions of the manufacturers because they can perform them more efficiently. Depending on the type of product and type of consumer, they can range from the zero level, where the contact between manufacturer and end user is direct, to multiple levels, from producer to wholesalers and retailers. The choice of channel is an important one because it has major strategic implications and is difficult to change. Within the channel choice, decisions also need to be made about channel compensation and control. To a large degree, effective channel management depends on close information linkages. The use of information analysis at the retail level increasingly makes other channel members dependent on

these information sources. Overall, channel members need to add value to the distribution process—or be eliminated. This also applies to the purchasing process, which is an integral part of distribution, albeit an internally focused one.

Supply chain management benefits from a systems view of corporate activity and includes the development of close relationships with both suppliers and customers. Effective coordination between parties reduces cost and provides for competitive advantage through approaches such as just-in-time (JIT) delivery, electronic data interchange (EDI), and early supplier involvement (ESI). Production, transportation, facility, inventory, and communication decisions are the key areas within logistics, all of which require trade-offs and collaborative action among participants. Even though the optimizing activities of a firm provide for some benefits, competitive differentiation occurs mainly through coordination with other companies.

The firm may evaluate transportation based on transit time, reliability, and cost and achieve operational improvements, but a strategic collaborative approach with customers and suppliers can deliver even greater benefits. Such collaboration can include the use of third-party logistics providers. Logistics can also play a major role in making the firm more environmentally responsive by designing reverse distribution systems for the recycling of merchandise and by devising distribution processes that minimize risk and damage to the environment.

All channel and supply chain efforts are designed to increase customer service. The intent is to delight the customer. It is therefore important to understand the importance of customer complaints. Such complaints should be encouraged so that the firm learns early on about potential problem areas. In addition, they need to be resolved quickly so that customers are willing to return. Good customer service requires the orientation and commitment of the entire corporate culture so that the customer notices at each point of contact with the firm that customer service thinking is a part of the organization.

Key Terms

Agents

Backward integration

Distributor

Exclusive distribution

Forward integration

Intensive distribution

Just-in-time (JIT)

Retailing

Selective distribution

Service level

? Review Questions

1. What are the roles of the different levels of distribution channels?
2. What are the main decisions to be made in logistics management? What are the most important production decisions?
3. What are the three main types of distribution intensity? Why is intensive distribution more difficult to control, and why are channel members harder to motivate?
4. What are the main retail product decisions? Why is location important?
5. How should complaints be handled, and why? What can be done about customer satisfaction?
6. What are the main decisions to be made in purchasing?

? Discussion Questions

1. The advent of the internet seemed to sound the death knell for distributors. As e-commerce became ever more popular, it was expected that products would be obtained directly from manufacturers. Yet there are still several steps in the online retail supply chain. Some predict that rather than the distributor going the way of the dinosaur, it will ultimately be the online retailer that disappears [42]. How can information technology affect the channel structure of an industry? Provide examples of such changes.
2. Both General Motors and Ford Motor have parts-producing operations that are seeking to spin off from their parent companies. In the case of GM's Delphi unit, the goal is to make Delphi more competitive with nonunion rivals [43]. With a historic trend in industrialized nations tending toward channel integration, are these efforts at channel disintegration an anomaly? Provide examples to support your position.
3. In 1998, Barnes & Noble had more bookstores than any of its competitors. After a series of acquisitions, the company moved away from the mall-based strategy that carried it through the late 1980s and began building superstores. But its new hope lies in the success of ► barnesandnoble.com, a retailer with as many locations as there are web users [44]. New forms of retailing are said to dramatically affect the importance of location. What are the implications for city centers and real estate values? Are these shifts inevitable?
4. To date, there have been no wildly successful internet hardware stores. In fact, *The Wall Street Journal* analysts are bullish on Home Depot and Lowe's because of the seeming inability of the industry to translate well to online retailing. Nonetheless, the web is enabling suppliers of hardware superstores to sell directly to consumers. Home Depot responded with a letter that states its intolerance of vendors that began to compete with it through online ventures [45]. Is this an example of channel control or channel imperialism? Will the result be customer satisfaction?
5. In the wake of the health scare that plagued Coca-Cola Europe in the summer of 1999, CEO Doug Ivester was slow to make a public relations announcement to Belgian consumers. Despite the PR fiasco, Ivester was quoted as saying, "In ten years, we'll sell twice the volume we do today. The turmoil of the last 18

months will be history, just like New Coke is history” [46]. Do you think Ivester is right? Because measuring customer satisfaction deals only with the current environment, are such measurements a waste of time and money? Why or why not?

? Practice Quiz

1. The _____ channel is used when contact between the manufacturer and the end user is direct and no intermediaries are involved.
 - (a) Three-level
 - (b) Two-level
 - (c) One-level
 - (d) Zero-level
2. All the following are factors that determine the channel decision EXCEPT
 - (a) Corporate strategy
 - (b) Marketing strategy
 - (c) Product cost
 - (d) Consumer location
3. Which of the following forms of discounts given to distribution chains is usually expressed as a fixed percentage?
 - (a) Trade discounts
 - (b) Quantity discounts
 - (c) Promotional discounts
 - (d) Cash discounts
4. Which of the following is the key aim of all discounts or bonuses to distribution chains?
 - (a) To motivate the channel members to support the supplier's strategy
 - (b) To motivate the channel members to support the producer's strategy
 - (c) To motivate the channel members to deliver superior customer service
 - (d) To motivate the channel members to minimize a firm's distribution costs
5. Forward or backward integration is best pursued at which stage of the market or product?
 - (a) Introduction
 - (b) Growth
 - (c) Mature
 - (d) Decline
6. Retailers can be categorized in all the following ways EXCEPT
 - (a) Type of product sold
 - (b) Type of customer service
 - (c) Type of organization
 - (d) Type of country of origin
7. The production decision concerns all the following issues EXCEPT
 - (a) Quantity
 - (b) Quality
 - (c) Lead time
 - (d) Buffer stock

References

8. All the following are benefits of the just-in-time approach EXCEPT
 - (a) Minimized stock
 - (b) Increased efficiency
 - (c) Improved performance
 - (d) Increased flexibility
9. What is the foremost reason why a firm would NOT want to maximize its service level?
 - (a) High costs
 - (b) Limited human resources
 - (c) Decreased customer complaints
 - (d) Decreased customer satisfaction
10. _____ is used to optimize the use of a firm's human resources.
 - (a) Internal marketing
 - (b) Employer marketing
 - (c) Labor relations marketing
 - (d) Human resource marketing

(You can find the correct answers to these questions by taking the quiz and then comparing your answers with the answers that are provided at the end of the book, under the “Practice Quiz Answers” part of the book.)

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Designing Effective Promotion and Advertising Strategies

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■ BMW's Promotional Message Has Always Been Consistent



■ (Source: ► pexels.com/royalty-free-images/)

The majority of BMW's success is attributed to the development of a consistent marketing policy, the market niche strategy. The company has built its brand on four core values: (1) technology, (2) quality, (3) performance, and (4) exclusivity.

BMW has maintained these core values since the company's inception. Coupled with WCRS (BMW's advertising agency since 1979), the company has adopted a consistent advertising strategy. In addition to the *message* of these values being portrayed in advertising and promotional campaigns, the company explicitly expresses one or more of these values in all BMW advertisements.

This product philosophy, which runs through every BMW, has been communicated through a number of TV and print ads and over the internet. The brand image has been built up by using more than 300 color press advertisements through more than 64 different television commercials. Throughout this campaign, BMW has remained true to its belief in focusing on the substance of the cars themselves.

BMW introduced a film commercial series. These films are accessible through PCs as well as local BMW dealerships. Since its launch at ► BMWFilms.com, “The Hire” (a film series consisting of five different short films) has been singled out as the first high-profile, big-budget, celebrity-laden internet marriage of advertising and entertainment. It has been reviewed, scrutinized, deconstructed, and cited as evidence of the perilous future for traditional advertising. *The New York Times* film critic Elvis Mitchell called the series “a marriage of commerce and creativity, straddling the ever-dwindling line between arts and merchandising.” BMWFilms is simply the pioneer and possibly the hippest website to make use of streaming video to lure prospective customers that mingle the target audiences’ entertainment with the company’s commercial interest. Fast cars, mysterious passengers, Buddhist monks, rock superstars, and sinister enemies are all part of the film series, which is presented in installments by some of Hollywood’s top directors. These films are being advertised on television the same way that movie trailers are advertised; the difference is that instead of the catchphrase “coming soon to a theater near you,” this catchphrase reads “see it only on ► BMWFilms.com.”

Actor Clive Owen (star of the acclaimed British film *Croupier*) is “The Hire” in the series title, a skilled mercenary driver who seems to specialize in risky assignments. Although he is certainly a smooth operator behind the wheel (very James Bond-like), it is always the Ultimate Driving Machine that saves the day. The car is definitely the star of the show.

Each episode features a “driver” (in a BMW, naturally) who is on a mysterious nighttime mission along with a mysterious passenger. Examples include one incident in which the driver is on the run with a small Buddhist boy and another episode that has an arrogant superstar diva (played by Madonna) desperately wanting to escape the swarm of the paparazzi.

12

Filmgoers, thrill seekers, and potential customers have the option of watching the video through YouTube. Another option is to download the BMW Film Player, a fairly simple process offered through the BMW website, which turns the computer screen into a miniature personal theater complete with HD-quality pictures and sound. Installing this player allows the user to download and view the video on the full computer screen while offline. In addition to the full-length videos, BMW also offers trailers for those customers with slower modem connections. These trailers allow viewers to have a “quick peek” at the films.

The numbers of viewers to the site soared each week. One week following the advertising blitz of the website films, traffic to the site was up 55% to 214,000 unique visitors compared to only 138,000 the previous week, according to the web measurement firm Nielsen//NetRatings. This tremendous leap made BMWFilms one of the internet’s fastest-growing sites.

The films all have different styles, but they all hold one thing in common: The majority of the action takes place in a BMW while the participants are in the middle of a car chase. There is no limit to the actual number of BMWs that you will see; one, two, three, even more Beemers are seen speeding down alleyways and streets, screeching around corners.

BMW did not randomly decide to initiate a web-based advertising campaign. The company clearly did its homework. It is well-known among advertising firms

that more than 85% of potential car buyers will conduct most (if not all) of their initial research on the internet before they make a final decision on a purchase. Therefore, BMW has made it convenient for shoppers by adding a link to its film site to ► BMWUSA.com. This site gives consumers basic information about the car(s) as well as the location and phone number of the local dealerships.

Given that the average BMW automobile starts at upward of \$50,000, the company's decision to design a classy film series, which can be viewed on a high-speed internet connection by an upscale, mostly male audience, is clearly targeted. The simple concept of these films—BMW wants to sell cars! These film series of BMW as advertising campaigns were however launched in 2001; the campaign has significant implications in today's advertising world. In late 2019, industry commentators argue that “the Hire was a starting point and (still) a benchmark for content marketing, not only for the automotive industry but overall.” Other industry leaders think that “*The Hire* as work that still has a huge influence on the concept of what a car commercial is now. ‘The BMW films are often referenced; big budget, big Hollywood directors and big storylines but, most importantly, ‘audience in’ not just ‘brand out’.’... So, [those films] can be credited with a new approach to brand messaging that is important now, with multiple channels and the imperative to give audiences value for time. Entertainment is arguably now the most effective way of communicating core brand values and brand difference in a market saturated with the same reliability features and pricing.”

Source: Adapted from “BMW Marketing Innovation,” a case in Kotabe, M., & Helsen, K. (2004). *Global marketing management* (3rd ed.). Hoboken: John Wiley & Sons; Meadow, J. (2019). How BMW's the Hire ushered in a new era. *Shots*. ► <https://shots.net/news/view/how-bmws-the-hire-ushered-in-a-new-era>. Accessed 6 August 2020.

12.1 Introduction

In ► Chap. 1, “An Overview of Marketing,” we defined marketing as a dialogue. Specifically, we explained how market research is used to *listen* to customers. In this chapter, we now come to the other half of the dialogue, that of *talking* to customers. As presented in the vignette at the beginning of this chapter, BMW always *talks* (appeals) to specific (niched) target market segments in a very consistent manner.

The promotional mix consists of a wide variety of specific techniques that may be used to communicate with customers. Broadly speaking, this mix can be grouped into three main categories, in terms of decreasing impact on the customer: personal selling (direct contact), advertising (indirect contact), and sales promotion and publicity (complementary support). The ideal form of promotion is the conversation that takes place between the sales professional and his or her customer. This type of promotion is ideal because, in addition to being interactive, the communication in each direction is specific to the needs of both. However, it is the most expensive form of promotion. Other forms of promotion can only hope to approximate this ideal.

In this chapter, we examine advertising practices in terms of both the overall promotional mix and media decision, with a review of the main media types. Advertising offers indirect contact with the customer. We will examine promotional methods involving direct contact with the customer and complementary support in ► Chap. 13, “Direct Marketing, Sales Promotion, and Public Relations,” and ► Chap. 14, “Selling and Sales Management.”

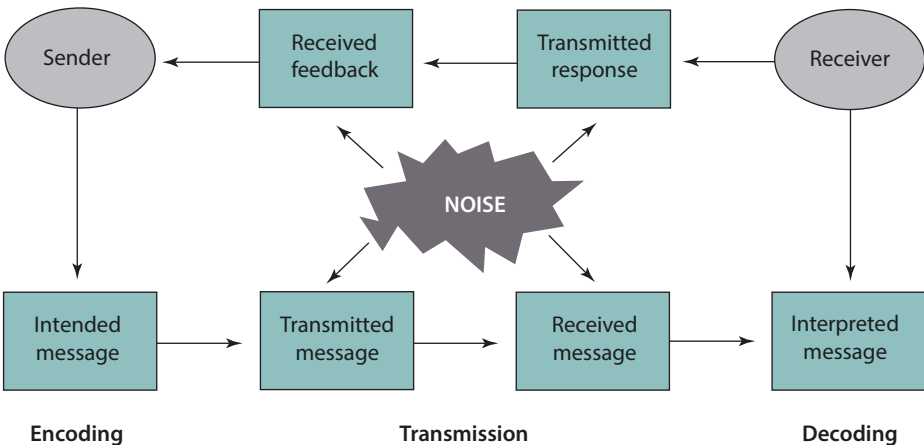
12.2 Dialogue

Promotion is only one-half of a marketing dialogue. If the promotion does not respond to customer needs, which should have been discovered from marketing research, it will probably fail, no matter how creative the treatment is.

Effective promotion is thus inextricably linked with sound market research, in one form or another. This is also an ongoing dialogue because the promotion itself will change what the customer thinks and needs [1].

12.2.1 Encoding and Decoding

The traditional model of the communication process stresses the elements of **encoding** and **decoding**, as shown in ■ Fig. 12.1. Simply put, human-to-human communication is a *very* complex process with plenty of room for misinterpretation. For example, a focus group participant of a market research could suggest something from her/his personal context. If the market researchers cannot appropriately generalize the implications of such suggestions, it is highly likely that implementing a promotional decision based on such suggestions will lead to market myopia and subsequent less appeal of the promotional campaign on its target audience. Considerable skill is needed to create the messages that the receiver



■ Fig. 12.1 Encoding, decoding, and noise in the communication process

(the consumer) finds persuasive—hence, the justification for highly paid advertising agency copywriters.

Encoding—The portion of the communication process during which the sender creates the message that the receiver (consumer) obtains.

Decoding—The portion of the communication process during which the receiver interprets the received message, which was encoded by the sender.

This electronic metaphor does, however, illustrate the point that “noise” is a major problem for any promotional message. The message itself may be distorted in transmission, in the few seconds that the reader spends on it before the page is turned or before the viewer is distracted from a commercial’s message. The recipient may, accordingly, obtain a fragmentary message—hence the emphasis on simplicity in advertising messages. Worst of all, though, will be the torrent of other “noise,” the potentially more interesting editorial matter surrounding the advertisement, or just the distractions of everyday life, through which the advertisers’ messages have to be heard. Consequently, there is a reliance on multiple “opportunities to see”—to “turn up the volume” or to break through the noise barrier. There is also a need to invest in creative talent to optimize the impact of the individual message.

12.2.2 Marketing Mix

The final caveat, before we enter upon promotion itself, is that all promotion must be seen in the context of the *whole marketing mix*. Promotion is just one of the 4 Ps (product, price, promotion, and place) or other extended Ps in marketing, which are discussed in ► Chap. 15, “The Future of Marketing.” Price and place may be just as important, and certainly they have their own impact on any promotion. A high-priced product sold through specialist outlets will demand a very different form of promotion to that of a cut-price brand sold through supermarkets.

In addition, the most important element of the marketing mix must almost always be the product or service itself. Consumers will not buy—at least not more than once—a product or service that does not meet their needs, no matter how persuasive the promotion is. In a way, a one-term presidency for the Oval Office epitomizes this hard fact.

At the same time, the form of the promotion itself—the message and even the medium—may be largely determined by the specification of that product or service. Thus, by defining the product, you largely define the whole marketing mix, which explains the heavy emphasis on the “product” in the earlier chapters. In this way, then, all the elements of the marketing mix contribute to the overall promotion of a product, service, or company, and the “input” into promotion may come from areas even further afield. For example, the target audiences of a promotional

campaign, in general, need to know the product features, its pricing, and the location where it can be available for sale, as well as the promotional message (e.g., whether the message is relevant to the need of its target audience) which itself has future implications on product's acceptance, prospective price change, and change in the products' availability locations.

12.3 Corporate Promotion Versus Brand Promotion

Most advertising, along with other forms of promotion, relates to specific brands and is very direct in attempting to increase sales of that product or service. However, a growing element is that of **corporate advertising**, which promotes the overall organization rather than its individual brands (this type of promotion is particularly important in Japan where consumers often buy based on the reputation of the overall organization). The rationale may be that it is the support to be obtained from the organizational umbrella that ultimately sells the brands. Such a case can certainly be made for Marks & Spencer (whose corporate name is better known than its “St Michael” brand name) or IBM. Corporate advertising may well be, however, due to a degree of nervousness induced by the increasing possibility of even very large corporations falling to hostile takeovers. The principles of corporate advertising follow those of brand advertising very closely; in this context, the corporation is the brand name.

Corporate advertising—The form of promotion in which the overall organization rather than its individual brands is promoted.

12

The example of corporate advertising does, however, illustrate a more general point. An organization may conduct a number of promotional campaigns, often aimed at different audiences. The promotion targeted toward consumers is usually self-evident, but a significant amount of promotion—often in the form of direct mail—may also be directed at shareholders and other members of the financial community to protect the share price and reduce the risk of takeover activity.

Another good example is Intel, a manufacturer of microprocessors for personal computers. Traditionally, components manufacturers sell their component products to manufacturers of finished products on an Original Equipment Manufacturer (OEM) basis. However, as shown in ► Manager's Corner 12.1, Intel began to emphasize its components—486, Pentium, Celeron, and Core microprocessors—in personal computers with its “Intel Inside” slogan. Intel's corporate advertising is designed to achieve a dominant product design status for its microprocessor-based personal computers.

Overall, promotion and advertising campaign can be undertaken at the three levels within an organization, which are the corporate level, the organizational unit

level, and the product level. For example, if a university promotes them as a single unit, it can be classified as the corporate-level promotion, which is similar to BMW's promotion when they promote their unified corporate message, "The Ultimate Driving Machine." A university could also promote one of their faculties (e.g., the business faculty), which can be attributed as the organizational unit-level promotion. It is similar to the promotion of Unilever, when they promote only their Home Care division to a particular target audience. Once the university promotes one of their particular programs (e.g., MSC in Digital Marketing), it is a specific product-level (or service-level) promotion. Similarly, when Toyota promotes only its latest model of Camry, it is attributed to Toyota's product-level promotion.

12.4 Push Versus Pull

Where a supplier uses any form of distribution channel, as most of those in the mass consumer markets do, he or she is faced with two extremes in terms of promotion:

- **Push**—In this case the supplier directs the bulk of the promotional effort and the promotional message at selling the "product" into the channel (into the various organizations that make up the chain of distribution) to persuade the members of that channel to "push" the product forward until it reaches the final consumer. This strategy thus tends to revolve around sales promotion and is sometimes referred to as "below the line" (an expression derived from the days when advertising agencies managed all promotional activity, and the items on the accounts that did not relate to advertising were put below the line, which divided the agency's main activity on the expenditure reports). This technique is particularly favored by organizations without strong brands that are involved in price competition.
- **Pull**—Here, the supplier focuses the promotional effort (typically advertising) on the consumer, in the belief that he or she will be motivated to "pull" the product through the channel (e.g., by demanding it from retailers). Due to its association with advertising, this strategy is sometimes referred to as "above the line." This technique is usually favored by the owners of strong, differentiated brands, such as Procter & Gamble or Nestlé.

Push promotion—The form of promotion in which the supplier directs the bulk of the promotional effort at selling the product into the channel to persuade members of the channel to "push" the product forward to the final consumer.

Pull promotion—The form of promotion in which the supplier focuses the promotional effort, typically advertising, on the consumer in the belief that he or she will be motivated to "pull" the product through the channel.

Manager's Corner 12.1**Techno-branding!**

Brand identity is being recognized as increasingly important to firms manufacturing or selling high-tech products. A brand encompasses the “visual, emotional, rational, and cultural image” that buyers associate with a company or product. The most significant difference between technology and consumer branding is the level of complexity of the product or service. The messaging process for simple versus complex products differs in two ways: (1) simple/commodity products/services attempt to “magnify small differences” (e.g., Ivory Soap is marketed as “99.4% pure”), and (2) complex/technological products/services attempt to clarify the user-friendliness of the product, in order to “simplify the message to reduce buyer confusion” (e.g., Intel simply states “Intel Inside”).



One reason why branding should be important to technology firms is that these products/services are essentially more differentiated than typical consumer products. Thus, there is more substance to their claim that their product offering is unique. Brands are unlikely to be effective unless they are perceived as minimizing

one's exposure to risk. This challenge can be effectively addressed and monitored in a high-tech product scenario, especially given the functional and proprietary differentiation.

Techno-branding Processes

The goal of creating the brand identity is to increase overall sales. Thus, in creating a brand, the research should be firmly focused on discovering the most important factors motivating the product purchase. The following steps describe the whole branding process:

1. Define objectives and what questions related to the target customers' needs should be answered.
2. Conduct qualitative and quantitative research to explore insights to answer the identified question to pursue the branding objective.
3. Define the brand; create the brand identity (e.g., how distinctively the brand is able to satisfy the customers' needs in comparison to the competitive brands).
4. Develop the brand strategy and communications plan, including the media decision.
5. Execute an integrated marketing communications plan to convey the distinct brand message, in order to establish, maintain, and enhance the desired brand identity.
6. Manage the brand and track it to build brand equity.

Intel's Success Story

The reason for the success of Intel's "Intel Inside" campaign is that it communicates the company's message clearly, it reduces the buyer's anxiety, and its message relates wholly to the customer's buying criteria. "Intel Inside" conveys the message of state-of-the-art technology and upgradability that are perceived as protecting the customer's investment in the product. Also, these branding benefits are realized both by Intel and the PC vendor. Overall, should this trend continue, we would expect that big-money brand management would no longer be identified only with consumer products. "The Intel Inside label on your computer indicates that the processor Dell factory (as a vendor) installed is a genuine Intel processor." It offers the users a peace of mind knowing that they have the latest technology installed in their PC. As a result, Intel is able to establish a benchmark identity about the uniqueness, user-friendliness, and quality of their processor through their "Intel Inside" promotional message, in order to occupy a distinct image in the mind of both its users and vendors.

Sources: Brand ID's importance to high-tech direct marketing. *DM News* (1995, March 27); and Gelpman, R. (2002). Positioning vs. branding. *Adweek Magazines Technology Marketing*, pp. 25–26; Dell Technologies. (2020). *What does the Intel Inside label mean?* ► <https://www.dell.com/support/article/en-uk/sln38993/what-does-the-intel-inside-label-mean-kb-article-162329?lang=en>. Accessed 6 August 2020.

In practice, most suppliers choose a route somewhere between these two extremes, blending both elements to obtain the optimum effect and thus optimum blend of the overall marketing mix. Which type of promotion to emphasize must also be decided in light of the economic development of the target nation. Often the ability to reach consumers in developing countries may be limited by the availability of suitable media. In these markets, a push strategy is often more effective. Also, the state of the promotional need can be useful to determine which type of strategy should be adopted at a particular stage. For example, if a company wants to promote the information about its forthcoming discounts and other sales incentives, the push strategy is more relevant here. On the contrary, if a company identifies that a wrong message has been conveyed to the target audience, or if the company identifies that the brand message that is conveyed so far is no longer relevant to the choices of the new (and expanding) generation(s) among its target audiences, in such cases, pull strategy would be more relevant to create a wider awareness about the company's newly modified brand message.

12.5 Consumer Versus Industrial Advertising

Whereas **consumer advertising** (B2C) has to handle almost all the contact with the end-user audience, **industrial advertising** (often called business-to-business or B2B advertising) typically forms only part of the overall communication. It is often designed just to create the initial awareness and to generate leads (frequently based on postage-paid reply forms with the advertising) before the face-to-face sales process conducted by the producer's own salesforce (or, perhaps more likely, by its agents' and dealers' salesforces) takes over. Industrial advertising can also be placed in industry-based publications and websites. For example, a crane or forklift manufacturer could advertise in the local, regional, national, or international chamber of commerce' magazine or website, in order to attract different companies (as industrial buyers) who need cranes and forklifts in their day-to-day operations, where buying such machineries are as part of their capital investments.

Consumer advertising—Promotion that is directed to the end-user audience.

Industrial advertising—Business-to-business promotion, which is designed to create the initial awareness and generate leads before the face-to-face process is conducted by the producer's salesforce.

Much of industrial advertising is therefore designed to elicit responses leading to a sales visit or site inspection to develop a customized product (e.g., machinery) as per the prospective industrial buyer's specification, for example. It also often needs to convey more information than equivalent consumer advertising: Capital goods, for example, are significantly more complex than repeat-purchase consumer goods. The advertising campaigns may also have to work over much longer

periods because purchases may be more infrequent, and the purchase process itself may be extended.

The average advertising budget for industrial products is usually much lower than for consumer goods—normally less than seven figures and often less than six figures, even for relatively large organizations (as compared with Nike, McDonald’s, and Coke, which have advertising budgets in the hundreds of millions of dollars). The average target audience is also much more specifically selected for industrial advertising, and this has led to the emergence of a specialist group of media, particularly the trade journal and other relevant publications. In this context, media buying has become a correspondingly specialist activity, frequently focusing on identification of the few publications that can reach the specialist target audience rather than producing a balanced schedule for reaching them most economically, as is the task with consumer goods campaigns.

The main differences between industrial and consumer advertising are listed in  Table 12.1.

12.6 Creating the Correct Messages

Clearly, the prime objective of any promotional method—whether direct, indirect, or supportive—is to make the sale (in the case of a nonprofit organization, the sale might be to persuade the target audience to adopt a different behavior pattern—say, give up smoking or to become more eco-friendly). To achieve this result, though, the promotion will almost certainly need to communicate one or more messages (whether it consists of face-to-face selling or advertising on television or on the internet). The tasks that these messages must undertake closely shadow the model, as shown in  Fig. 12.2: awareness, interest, understanding, attitudes, and buying decision.

12.6.1 Awareness

The first task, awareness, is to gain the attention of the target audience. According to David Ogilvy, one of the great gurus of advertising, “on average, five times as many people read the headlines as read the body copy. It follows that unless your headline sells your product, you have wasted 90% of your money” [2]. Therefore, the headline of a print or online advertisement or the first few seconds of a TV commercial should closely be relevant to the needs of the target audience and an indication of the brand’s distinct ability to meet those needs, in order to motivate the target audience to read or watch the entire advertisement.

Achieving awareness means, therefore, that the messages must first of all be seen and “read.” They must grab the audience’s attention. Advertising agencies have spent decades honing down the techniques involved: from challenging headlines (such as Avis’s famous line “We try harder”) in the newspaper to memorable images on television (such as Coca-Cola’s “I’d Like to Teach the World to Sing”). One of the most successful campaigns in recent decades has been Taco Bell’s ad

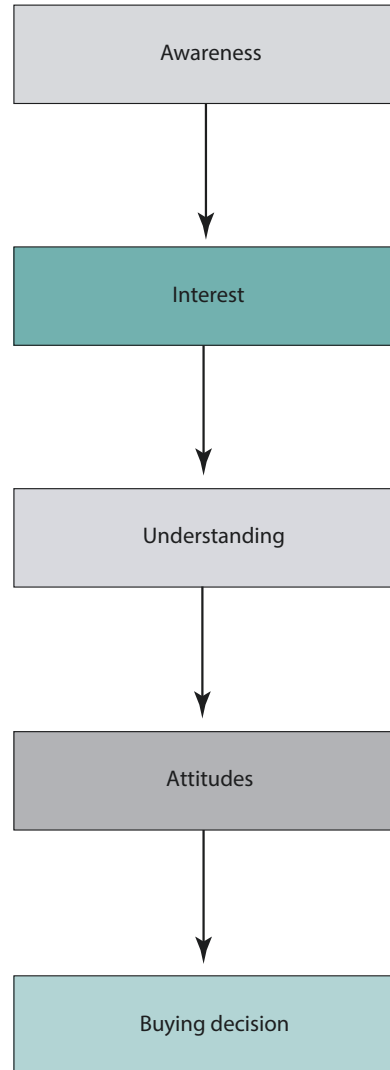
Table 12.1 Differences between industrial and consumer advertising

Industrial advertisers		Consumer advertisers	
1.	Have complex and multitiered buying influence	1.	Simple, one-person or family influence
2.	Advertising is generally “support” to the sales influence	2.	Advertising is the major sales influence
3.	Purchase decisions are long-range and considered; immediate, measurable immediate, sales results rarely occur	3.	Purchase decisions are more spontaneous, i.e., if you need it, buy it; measurable sales results often occur
4.	Product usage cycle is long	4.	Product usage cycle is short for most items
5.	If purchase is not satisfactory, buyer is challenged—his or her job is on the line	5.	If purchase is not satisfactory, repercussions are minimal
6.	More advertising planning—less “marketing” planning—so less result-oriented	6.	Product management (marketing) systems are based on results
7.	Little “test” marketing	7.	“Test” marketing is the norm
8.	Advertising budgets are based on last year’s sales—and historical spending levels	8.	Advertising budgets are based on “task” or “need” from test results
9.	Reliance on “readership scores” and “did you buy?” to evaluate success of advertising	9.	Communications, recall, and image measurements
10.	Advertising is technical/factual in copy content. Often very potent—very informative—persuasive	10.	Advertising emphasis is on “brand image.” Sometimes even dumb sell vs. smart sell—often persuasive
11.	Editorial environment is naturally business-oriented	11.	Editorial environment tends to be personal fulfillment/entertainment environment
12.	Attitude of “catching up” to marketing world	12.	Great confidence. “Knows everything” attitude

Source: Brugaletta, Y. (1985). What business-to-business advertisers can learn from consumer advertisers. *Journal of Advertising Research*, 25(131) RC8+. Reprinted by permission of Cambridge University Press

featuring a Chihuahua with the signature line, “Yo quiero Taco Bell” [3]. Let’s have a look at the interesting part of the Avis’s print advertising headline, “When you’re only No. 2, you try harder. Or else” [4]. When Avis was number two in terms of market share in the US rent-a-car industry, Avis promoted them based on this headline, clarifying that we are second in the market; this is why we try harder

■ **Fig. 12.2** A customer's psychological stages prior to a purchase decision



(in comparison to the number one company in the market) to serve your car rental needs, in order to become number one in the market in future. Also, look at the last part of the heading (Or else), which implies Avis's consciousness and commitment to their customers that if they fail to serve their customers' needs better, they will not only be able to occupy the number one place in future, but also their current second place in the market would be vulnerable.

Getting attention is critical to success and is in part a function of size. A full-page advertisement is more likely to command attention than a quarter-page ad: a 2-minute commercial, more than a 15-second one. What helps is having some feature that breaks through the apathy of the reader or viewer, such as an

extraordinary image of a provocative headline. But this success has to be achieved in an environment in which every other advertiser is attempting the same task. A unique example of creating and reshaping awareness is presented in ► Marketing in Action 12.1.

12.6.2 Interest

Grabbing the reader's attention for a second or so, until it wanders again, is not sufficient. In that brief time, the message must *interest* that reader and persuade him or her to “read” on. The content of the message(s) must be meaningful and clearly relevant to the target audience's needs, as well as the distinct features of the brand to satisfy those needs more competitively.

This is the place where marketing research can come into its own as the basis for effective advertising. In the first instance, the “advertiser” needs to know exactly *who* the target audience is (e.g., the entire target market or a particular segment of the total market). Then the advertiser has to understand the audience's interests and needs, which must be addressed, and the exact benefits (in the consumer's own terms) that the product or service will provide. In short, the message must be in the language of the consumer in the target audience and must make an offer that is of real interest to the specific audience. For example, the increase in the Hispanic population in the United States not only has Ricky Martin, a Grammy Award-winning Latino musician, singing in Spanglish (a mixture of Spanish and English) but also has advertisers developing ads in Spanglish targeted at Generation N (Latin Generation X—12- to 19-year-olds—who are rediscovering their roots and inventing a new, bicultural identity) [5].

Marketing in Action 12.1

Creating Coke Zero's Awareness: “Next Time You're Thirsty, Drink an Ad!”

“You Don't Know Zero Till You've Tried it.” In spring 2015, based on this tagline, “Coca-cola and Ogilvy & Mather (an advertising agency) developed a complete promotional campaign for Coke Zero that you can eventually drink ‘whether it's on TV, magazine, print ads, (electronic) billboards or even on radio!’”

The audience of this ad can scan a particular barcode through their smartphone from their TV screen while viewing the ad on TV at home or from the giant screen in the middle of thousands of people during the break of a basketball match in a large stadium. Similarly, the audience can scan the electronic barcode from a print ad or a billboard or even while listening to the ad on radio. Upon redeeming the scanned barcode at a store, the audience can receive a free Coke Zero.



■ (Source: ► pexels.com/royalty-free-images/)

“Coke Zero is marketed as a zero-calorie, zero-sugar drink with the same taste as regular Coke, which distinguishes it from its sister soda Diet Coke’s distinct flavor. Yet Coca-Cola has found that many people have pre-conceived notions of the beverage and assume they won’t like it even before taking a sip of it.” In this context, based on these free giveaways through diverse electronic media, Coca-Cola attempted to create awareness about the taste of their Coke Zero to their mass target audience in the United States. The issue was whether the Coke Zero really tastes like a traditional Coke or the sugarless ingredients of Coke Zero make it less tasty than the classic Coke. With an aim to educate the target audience that even with the sugarless ingredients, Coke Zero tastes good similar to their traditional Coke, the Coca-Cola company wanted to create a massive awareness about Coke Zero, especially targeting those target consumers who would prefer to drink a sugarless cola if they know that it tastes similar to other traditional colas. With the tagline of “You Don’t Know Zero

Till You've Tried it," the commercial ended up inviting the target audience that "Next time you're thirsty, drink an ad!"

Coco-Cola and Ogilvy & Mather, for the first time in the history of the advertising industry, created this drinkable advertising campaign that offers free giveaways to the target audience in an innovative, interesting, and engaging way. "80 per cent of millennials say they have not tried Coke Zero (before), but 60 per cent of people go on to re-purchase it once they've had a taste of it." As a result, the campaign was not only able to become successful in creating awareness about the actual taste of Coke Zero among the prospective customers who did not try it before but also able to encourage their target audience to repurchase Coke Zero.

After 5 years of this promotional campaign to create awareness about the taste of Coke Zero, does Coca-Cola need to worry about the positioning of Coke Zero? What strategy should Coca-Cola consider in tapping the younger consumers? How could Coca-Cola implement such technology-enhanced advertising campaign in an overseas market that is technologically less advanced in comparison to the US market?

Sources: Smiley, M. (2015). *Anatomy of an Ad: Behind the scenes of Coke Zero's 'drinkable advertising' campaign*. ► <https://www.thedrum.com/news/2015/06/04/anatomy-ad-behind-scenes-coke-zero-s-drinkable-advertising-campaign>. Accessed 7 August 2020; Campaigns of the World. (2016). *Drinkable advertising campaign by Coke Zero*. ► <https://campaignsoftheworld.com/technology/drinkable-advertising-campaign-coke-zero/>. Accessed 7 August 2020.

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Targeting the audience this way may mean that the message is not interesting to all other audiences (including those who are commissioning and creating the advertisement), but that is not the point: The message has to be of interest only to the specific target audience. The messages that are of interest to Generation N technological product buyers are very different from those aimed at middle-aged buyers of Volvo station wagons.

This stage of creating a target audience-specific advertising message and its impact, therefore, largely depends on an excellent appreciation of the results of marketing research.

12.6.3 Understanding

After interest can be established, the message has to explain the product or service and its benefits in such a way that the reader can understand them and can appreciate how well it may meet his or her needs—again as revealed by the marketing research. In this attempt, complex words, technical jargons, and other complicated information should be avoided to clarify the brand's distinctiveness to satisfy the target audience's needs, especially if the target audience is the general mass consumers. This may be no small achievement when the copywriter has just 50 words,

or 10 seconds, to convey the entire message. That is one reason why complex capital goods sales are the province of the sales professional who may take many hours, in total, to explain the product fully. This is also the reason why there is such a demand for good creative copywriters who can actually describe consumer goods—in meaningful terms—in just a few words. In the case of Taco Bell, its copywriters condensed the message down to very few words indeed! On the other hand, “long copy—more than 300 words—actually attracts *more* readers than short copy,” for print ads that try to create awareness, arouse interest, and build preference [6]. German companies, in particular, tend to provide very detailed descriptions of their products.

This stage is, thus, a mix of sound marketing research mediated by professional copywriting skills.

12.6.4 Attitudes

The message must then persuade the reader to adopt such a positive attitude toward the product or service that he or she will purchase it, albeit as a trial. There is no adequate way of describing how this outcome may be achieved. Often the adoption of such an attitude comes down to the creative *magic of the copywriter's art*, based on the strength of the product or service itself to distinctively and more competitively meet the customers' needs, wants, and expectations.

12.6.5 Buying Decision

All the stages described in ► Sects. 12.6.1, 12.6.2, 12.6.3, and 12.6.4 might happen in a few minutes while the reader is considering the advertisement in the comfort of his or her favorite couch. On the other hand, the final decision to buy may take place some time later—perhaps weeks later, when the prospective buyer actually tries to find a shop that stocks the product online or in the traditional physical stores. This means that the basic message will probably need to be reinforced by repeats until the potential buyer is finally in the position to buy. Above all, it also means that the product or service must be distributed widely enough for the prospective buyer to be able to find it.

12.7 Other Models

There are other models similar to the one illustrated in ■ Fig. 12.2. For example, the **AIDA model** (which stands for *attention, interest, desire, action*) is frequently advocated as the structure for the selling process. Similar stages are also described in the *hierarchy of effects* [7] model (in which interest and understanding are paralleled by knowledge, liking, and preference). After AIDA, the most often quoted model within the advertising industry is *Defining Advertising Goals for Measuring*

Advertising Results (DAGMAR), which splits the process down to the four steps of Awareness, Comprehension, Conviction, and Action.

AIDA model—The attention, interest, desire, action model that describes consumers' psychological stages prior to a purchase decision.

These models all describe the same processes from different viewpoints [8], but they are limited by certain factors. Although they may work in a cold sales call, in other complex real-life marketing situations, they do not take into account time and experience. Attitude changes are likely to be more gradual, and much of advertising succeeds by virtue of marginally increasing the frequency with which consumers who already have experience with a brand purchase it [9].

Thus, one of the major weaknesses of most promotion theory is that it fails to take into account the history of the brand. Buying decisions are rarely made in isolation. They are an accumulation of months', even years', worth of experience on the buyer's part. According to a study by Abraham and Lodish, on average, 76% of the difference observed in the test year persisted 1 year after the advertising was rolled back. Over a three-year period, the cumulative sales increase was at least twice the sales increase observed in the test year. Their study further indicates that if advertising changes do not show an effect in 6 months, they will generally not have any impact, even if continued for a year [10].

12.8 The Message

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The main message of the promotion will usually be based on the specific benefit that the advertiser has identified as the main advantage that the product offers over its competitors. Sometimes, this may not be the main benefit the buyer will receive from the product because that may also be offered by all the competitors. It is the foolish advertiser who does not realize that the consumer is aware that many products are identical in offering the main benefit.

The advertiser will aim to find a unique selling proposition (USP), or an important benefit unique to the product or service in one of three ways:

1. *Product feature*—This USP may be based on physical or intangible product features associated with the product—ranging from what it actually does through to the quality of the support services. Most advertising follows this route, so it is particularly easy to target, communicate, and monitor messages of this type. However, a key challenge for this option is to identifying a distinct product feature related to customers' needs that is not highlighted or promoted by the competitive products, or promoting such identical product features in a more distinct or superior way in order to satisfy the customers' needs with additional sustainable competitive advantage.

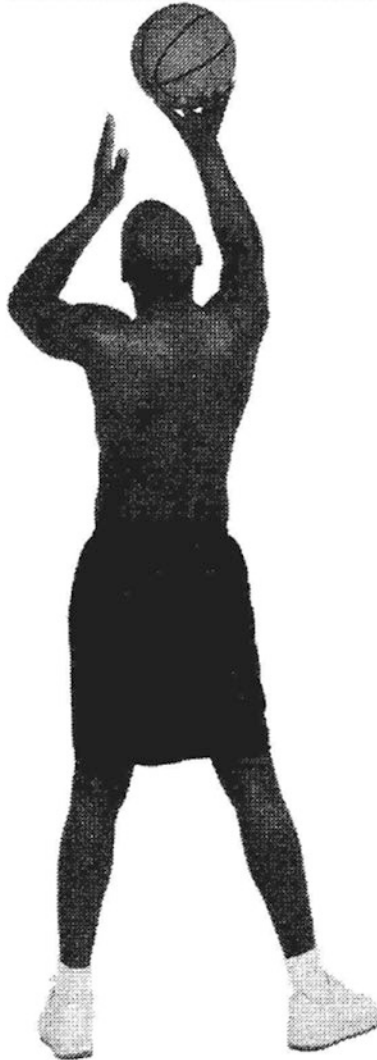
2. *Psychological feature*—The USP may occasionally be based on a psychological appeal, such as fear (e.g., financial services and condoms), guilt (educational toys), love (2020 Super Bowl ad featuring Greek descriptions of love moves audiences), or humor (Budweiser). In the case of humor, the viewer or reader who shares the joke will develop a positive attitude toward the product; unfortunately, if the joke is not shared—and humor is a notoriously difficult art form—it is likely to alienate the potential customer.
3. *Association*—The message may be communicated by association with a well-known personality either in person (e.g., Nike’s use of Cristiano Ronaldo) or in a voice-over (e.g., Morgan Freeman in various commercials). In terms of non-profit organization, an example of such brand association is appointing the Mexican actress Yalitza Aparicio as the UNESCO Goodwill Ambassador to promote UNESCO’s values, mission, and services to a target market, where Yalitza Aparicio has popularity and acceptance. “UNESCO Goodwill ambassadors are personalities who place their notoriety at the service of the Organization’s campaigns. They commit to raise public awareness of the Organization’s mission for a period of two years” [11].

12.8.1 Message Consistency

One factor that is often ignored by marketers, and in particular by agencies, is the need for successive campaigns to be consistent with their predecessors. Too often, campaigns are seen in isolation, with just the current task to carry out. To achieve the maximum effect, campaigns must be consistent with their previous messages or, at least, allow for the inherent investment in consumer image built up by these messages.

For example, Nike has poured millions of dollars into making its brand one of America’s most powerful. “Nike” is the name of the Greek goddess of victory. Nike created an image for itself in the late 1970s and 1980s as an athlete’s company, a winning company, and has stuck to this message because consumers, mostly teenagers, like to associate themselves with winning companies and winning products. The brand is successful from Taiwan to Tivoli, and the reason is that the company’s advertising message has remained strong and consistent throughout its history. More recently, when the company faced lagging athletic gear sales in the United States, Nike never even ran product-related ad campaigns. What Nike did run was clever, edgy advertising that grabbed the consumers’ attention. More important, the ad campaigns spoke right to the consumer, appealing to an athlete’s need to win. The strategy was that high-profile, successful athletes would build a winning brand for consumers to associate with. Such world-class endorsers as Michael Jordan, John McEnroe, Andre Agassi, and Joan Benoit Samuelson built Nike in the 1990s, which currently endorsed in Nike’s global market by Cristiano Ronaldo, the megastar in soccer. Star athletes still drive its advertising, but the company has added some product spots to counteract a saturated sneaker market in the United

States. Yet, whether the campaign is pushing a new running sneaker or is simply an image spot featuring Tiger Woods, the strategy remains always consistent [12].



12.8.2 Opinion Leaders

In the case of a new product, the effect of promotion may occur in two stages. The promotion itself (usually advertising) persuades the more adventurous **opinion leaders** in the population to try the product or service. For example, we saw toothpaste's TV commercial promoted by a dentist while talking about the distinct and competitive features of the toothpaste. Such opinion leaders then carry the mes-

sage to those who are less exposed to it. In the mass markets this often means those who are less exposed to the media. Most personal influence is transmitted within a network of peers who possess similar demographic characteristics [13].

Opinion leaders—Those who are more apt to try new products or services and carry their message to those who are less exposed to the firms' promotions.

12.8.3 Word of Mouth

A more generalized aspect of communications within the community as a whole is word of mouth. Much of advertising theory concentrates on the direct receipt of these indirect communications. It assumes that the consumer receives the message directly from the media, and only from the media. In practice, as we saw in ► Sect. 12.8.2, “Opinion Leaders,” the message may well be received by word of mouth from a contact (who may have either seen the advertising or, in turn, received it from someone else). Even if the consumer saw the advertising previously, word-of-mouth comments may reinforce (or undermine) what this has achieved directly [14].

Some manufacturers have embraced the importance of word of mouth by embarking on an “antimarketing marketing strategy.” Particularly, Converse, Adidas, and Puma have decided not to advertise many of their old-style athletic shoes. They are targeting their shoes at Generation Xers who “don’t like being overmarketed to, don’t like hype, and are wise to paying a premium for celebrity-endorsed shoes.” One Adidas marketing executive said that “the best advertising strategy is, you don’t.” Considering that Nike’s spending of \$3.59 billion for advertising in 2020 [15] and Reebok’s spending of around \$100 million in 2019 [16] on advertising, the strategy pursued by the antimarketers may seem risky. But all three of the antimarketers report great success. The success of their shoe sales “was sparked entirely by word of mouth, executives say.” The shoes became popular with skateboarders, at hip-hop dance clubs, with Madonna and Elle Macpherson. As one reporter has observed about the success of the antimarketers, “Sometimes, it seems, the best way to be heard is to whisper” [17]. ► Marketing in Action 12.2 considers Nike’s Alpha Project in the light of message consistency and recapturing market share among young consumers (see also ► Web Exercise 12.1).

12.8.4 Message Selection

The advertising messages used, usually created by the advertising agency’s creative department, need to be evaluated carefully. Experts recommend that an effective advertisement should concentrate on just one central selling proposition. Complicating advertisements by adding further messages will generally dilute the main message, as well as the overall impact.

The most effective method of message selection is that of pretesting the advertisement on a sample of the target audience. This specialized form of marketing research is usually the province of specialized research agencies. An audience is typically shown a new commercial (sometimes in storyboard form, although using this approach is very difficult) and questioned to determine its impact (before seeing it, as well as after, to detect shifts in opinion).

In their messages, most companies seem to place too much emphasis on the product itself and not enough on individuals' values or perspectives. For example, women are often portrayed as frazzled and out of control in advertisements. In actuality, female consumers are stressed and busy. To better cater to female consumers, Kellogg's discontinued a long-running ad campaign for its Special K cereal showing slender women consuming the product. The company admitted that the creative elements did not accurately portray women or their attitudes about health. Kellogg's discovered that female consumers are "maxed out" on the representation of photogenic, model-like women in ads. The Special K theme is "Reshape Your Attitude." The Reshape campaign chides the stereotypical complaints women have about maintaining a perfect figure. One male sitting at a bar asks about his slacks: "Do these make my butt look big?" Kellogg's then asks: "Men don't obsess about these things, so why do we?" [18].

12.8.5 Cognitive Dissonance

One perhaps unexpected feature of audience behavior, reported by Leon Festinger, is that interest in all forms of promotion, particularly advertising, reaches a maximum *after* the consumer has made his or her purchase [19]. The usual explanation for this apparently illogical behavior is that the consumer is then searching for proof to *justify* his or her recent decision. The consumer seeks out flaws, in comparison with the chosen product or service, to obtain reassurance that his or her decision was correct.

The importance of this point is that there is still a job to do even after the sale has been made. In addition, the messages needed to address cognitive dissonance may be subtly different: They will provide reassurance and allow for the fact that these purchasers will also represent the main source of future sales.

12.8.6 Promotional Message and Promotional Purpose

Another key issue in promotional message selection is that the message should be consistent with the promotional purpose. There would be two purposes of a promotional campaign, in general. The first is creating as much awareness of a brand among its target audience as possible. It is mostly relevant for a new brand or modifying the current message of an existing brand, with a long-term outlook.

The second is more short-term focused, for example, to increase sales of the unsold items in the stock in the next 3 months' period. In such cases, promotional message should be focused on the "push" strategy as described in ► Sect. 12.4

(Push Versus Pull), in order to persuade the target audience to “push” the product forward to the end users. In contrary, in terms of creating awareness of a brand message, copywriters should be focused on to motivate the target audience to “pull” the product toward them. Avis’s promotional message (We try harder) is a classic example of “pulling” customers toward the brand by clarifying why the customers should associate with the brand or purchase the particular brand instead of associating with the competitive brands or purchasing the competitive brands.

Marketing in Action 12.2

Is Advertising the Name of the Game for Shoe Manufacturers?

Consumers are inundated with various alternative competitive options when selecting a sneaker. Nike (► www.nike.com), for example, offers options such as Monkey Paw, Ball Control Materials, N-Site, Tensile Sockliner, Abrasion Resistant Materials, and Footform. Many of the options appear in shoes targeted at a particular type of athletic activity. Monkey Paw is for basketball players, Ball Control Material and Tensile Sockliner are for soccer players, N-Site and Footform are for runners, and Abrasion Resistant Materials is for tennis players.

Since the last two decades in the twentieth century, Nike’s innovative product development process has become the industry standard. In the late 1970s, Nike began the development of shoes with airbag cushioning, and “Nike Air” was born. A few of the Nike shoes built on this technology were called Tailwind, Pegasus, Epic, and Air Max. The introduction of Air Max started the market trend of see-through openings that allowed consumers to see the shoe’s air-cushioning system. Throughout the company’s history, technological development has been the cornerstone of the brand’s success. Although Nike will continue to follow a strategy of continual product innovation, changes in the traditional footwear market are driving Nike and other shoe manufacturers to rethink their strategies.

For Nike, this rethinking meant the creation of the Alpha Project, which was however shelved indefinitely. “Nike launched Alpha Project on New Year’s Day 1999, and the philosophy was simple: identify and solve product performance problems for (and with) the athlete.” The Nike Alpha Project was an attempt to focus on the broader needs of athletes—footwear, apparel, and equipment. Alpha was designed to focus on a particular sport and market the entire line of Nike products to the players of this particular sport. The company would have Alpha Athletes with targeted ads featuring the athletes clad solely in Nike products. Perhaps Nike hoped that this shift in focus—from footwear technology to complete athletic outfitting—would help recapture the attention of the younger consumers who were leaving the sneaker market for the hiking boot/walking shoe market. However, the Nike Alpha Project was shelved in the beginning of this current century; recently in 2017, industry experts argue why and how the Nike Alpha Project should be reintroduced, because of the success of this project theme.

Would the Alpha Project be consistent with Nike’s historical brand message? Why or why not? What would be the implications for Nike if the shift to complete athletic outfitting was perceived by the market as a departure from the company’s

historic image and positioning? Would the use of Alpha Athletes bring younger buyers back to sneakers?

Sources: ► www.nike.com; Richards, B. (1998). Tripped up by too many shoes, Nike Regroups. *Wall Street Journal*, 81+; and Kelly, J. I. (1999, February 15). Nike puts Alpha project on the shelf. *Adweek*, p. 3; Hammell, D. (2019). *Nike's short-lived Alpha project gave us the air presto & so much more*. ► <https://www.highsnobiety.com/p/nike-alpha-presto/>. Accessed 8 August 2020; Phillips, C. (2017). *How Nike Basketball should bring back the Alpha project*. ► <https://www.nicekicks.com/nike-basketball-bring-back-alpha-project/>. Accessed 8 August 2020.

Web Exercise 12.1

Go to Nike's website (► www.nike.com) and look at several of the specialized pages there, such as New Releases, Men, Women, Kids, Back to School, Collections, and Sale. What messages are the texts, animations, MP3s, downloads, and commercials on the site sending about Nike's positioning in individual sports markets? How does Nike use sports celebrities to communicate with its audience? What kind of lifestyle is Nike selling? How do the pages for shoes differ from the sportswear pages on the site?

12.9 Media Selection

12

Media selection is the process of choosing the most cost-effective media to achieve the necessary coverage, and number of exposures, among the target audience. Performance is typically measured in terms of coverage and frequency.

12.9.1 Coverage

To maximize overall awareness, advertising should reach the maximum number of the target audience. This is known as **coverage**. There is a limit, however; the last few percent of the general population are always difficult (and accordingly very expensive) to reach because they do not see the mainstream media used by advertisers. Indeed, the cost of cumulative coverage typically follows an exponential pattern. Reaching 90% can cost double what it costs to reach 70%, and reaching 95% can double the cost yet again. The coverage decision is, in practice, a balance between the desired coverage and the cost of achieving it. A large budget will achieve high coverage, whereas a smaller budget will limit the ambitions of the advertiser.

Coverage—The maximum number of the target audience that is reached by advertising.

In some markets, such as China, the cost to reach even 50% of the market could be extremely expensive for a foreign company. The variety of languages and dialects and the ongoing geopolitical issues impact on the effectiveness of any one advertising message of a foreign company in China. China has more than 600 television stations, and many more newspapers and magazines in comparison to many other countries. Whereas elsewhere in the world advertisers expect \$20–30 of sales for every dollar spent on advertising, in China the expected sales are half of that number and falling. The effectiveness of advertising in China may have already reached a point of diminishing return [20].

Despite the problems of advertisers in countries such as China, the use of a global ad campaign is increasing. Globe-trotting companies are increasingly employing either **pattern standardization** or globally standardized ads to develop a global image for their products as well as to reduce advertising costs. Pattern standardization refers to synchronizing advertising messages in different countries while using their respective locally popular features such as movie stars and sports celebrities [21]. Coca-Cola, Anheuser-Busch, McDonald's, and American Express are but a few examples. Global standardization is an extreme and relatively rare case in which one ad is developed for many different countries [22]. For example, for their Lux soap, Unilever uses local celebrities to promote Lux in different international markets; however, Unilever has one ad for its Dove soap that it uses in a number of countries. The ad features a succession of 30-ish Australian, French, German, Italian, and other women of other nationalities, each praising Dove in her own language. An increasing number of companies have begun such unified standardized global ad campaigns. As another indication of the growing use of these global campaigns, the 50 top US marketing research firms had total revenues of \$11,495 million in 2003; of that, \$5804 million were generated in the United States, and \$5692 (or 49.5%) were non-US research revenues [23]. In 2017, the 50 top US marketing research firms generated together nearly \$25 billion revenues, and 53.3% of these revenues were generated from outside of the United States in 2017 [24]. Despite increased use of pattern standardization or standardized ads, advertisers should take special care *not* to violate local customs and cultural mores and taboos, such as showing an animal wearing eyeglasses in certain Asian countries where animals are considered lowly creatures or showing a chunk of ham in a refrigerator in Muslim nations where eating pork is prohibited.

Pattern standardization—The process of synchronizing advertisement messages in different countries while using each country's respective locally popular features such as movie and sport stars.

The European Commission is also working to find agreement between member states on all forms of cross-border communications. What is likely to emerge is a system of “mutual recognition,” in which companies can carry out sales promotion activities in the target country as long as they are legal in the company’s country of origin. This system could allow European consumers to be presented with sales promotions across all media, including more of the spam practices we have seen from internet promoters [25].

12.9.2 Frequency

Even with high coverage, it is not sufficient for a member of the target audience to have just one *opportunity to see* (OTS) the advertisement. It is generally believed that around five OTS are needed before any reasonable degree of impact is achieved, and significantly more may be needed to build attitudes that lead to brand switching. To achieve 5 OTS, even across a coverage of only 70% of the overall audience, may require 20 or 30 peak-time transmissions of a commercial, or a significant number of insertions of newspaper and online advertisements in the national media and websites. As these figures suggest, most consumers simply do not see the commercials that frequently. The point is that the life of advertising campaigns can often be extended far beyond the relatively short life that is usually expected of them. Indeed, as indicated here, the research shows that advertisements need to obtain a significant number of exposures to consumers before they even register [26].

The more sophisticated media planners will also look at the *spread* of frequencies. Ideally, the whole audience should receive the average number of OTS (because those who receive fewer are insufficiently motivated and the extra advertising is wasted on those who receive more). Needless to say, achieving this ideal is impossible. As with coverage, the pattern will be weighted toward a smaller number of heavy viewers, for example, who will receive significantly more OTS, and away from the difficult last few percent. However, the good media buyer will manage the resulting spread of frequencies so that it is weighted close to the average, with as few as possible of the audience away from the average.

Frequency is also complicated by the fact that the number of viewings is a function of time. A pattern of 12 OTS across a year may be scarcely noticed, whereas 12 OTS in a week will be very evident to most viewers. This is often the rationale for advertising in “bursts” or “waves” (sometimes described as “pulsing”), with expenditure concentrated into a number of intense periods of advertising—which are noticed—but with these bursts spread throughout the year so that brands do not remain uncovered for long periods.

One advertising campaign that has an extremely long period between bursts is the one run by Oscar Mayer. Only once in every few years do we see the now-famous Oscar Mayer Bologna ad featuring the small boy singing the company’s jingle. Another company, Apple Computers, ran a very expensive and equally memorable ad on only one occasion. The ad featuring IBM as Big Brother in an Orwellian setting being destroyed by the Apple Macintosh was shown only once, during the 1988 Super Bowl [27].

In the end, it is the media buyers who deliver the goods, by negotiating special deals with the media owners and buying the best “slots” to achieve the best cost (normally measured in terms of the cost per thousand viewers, or per thousand household “impressions,” or per thousand impressions on the target audience). The growth of the very large, international agencies has been partly justified by their increased buying power over the media owners.

12.9.3 Types of Media and Their Characteristics

In terms of overall advertising expenditures, media advertising is dominated by newspaper, television, and different websites that are able to attract a considerable number of target audience on their site, which are of comparable size in terms of projected sales. Billboards and radio follow some way behind, with cinema representing a specialist medium. The role that the internet plays as a medium for the next generation has been growing rapidly in the advertising industry.

Effective media selection depends on an in-depth understanding of each target audience and then matching their characteristics with the different attributes offered by each medium. Because consumers have different wants, needs, and habits, few products and services can be effectively marketed via only one medium. However, this does not mean that resources should be equally divided among all media. Rather, marketers must test each medium on an ongoing basis to ensure that financial resources are utilized in the most productive manner possible. The proportion of broadcast to mail to print will vary by product, market segment, and many other variables. For example, seniors tend to rely more on print and mail. They are accustomed to reading to gather the information they need. Gen Xers, on the other hand, are less likely to be suspicious of what they see on television or on the internet [28].

Newspaper/Magazine National and local newspapers dominate spending, the latter taking almost all the classified advertising revenue. Magazines and trade or technical journal markets are about equal in size to each other but are less than half that of the newspaper sectors.

Television Television is normally the most expensive medium, and as such is generally open only to the major advertisers, although some cable and specialized channels offer more affordable packages to their local advertisers. This medium offers by far the widest coverage, particularly at peak hours (roughly 7:00 P.M. to 10:30 P.M.) and especially of family audiences. Offering sight, sound, movement, and color, it has the greatest impact, especially for those products or services requiring a “demonstration,” because it combines the virtues of both the “storyteller” and the “demonstrator.” However, to be effective, these messages must be kept simple and have the impact to overcome the surrounding distractions of family life.

Because of the explosive growth of cable TV channels with specialized programs, such as CNN News, MTV, and A&E (originally called the Arts and Entertainment Channel), it has become possible to **narrowcast** messages to more targeted niche audiences [29]. Many channels offer local advertising time slots, so

this medium can be used for regional trials or promotions (including test marketing). In Europe, TV transmission may reach far beyond national borders. To the delight of West (now western) German producers after the German unification, many of their products were well-known in East (now eastern) Germany even though they were unavailable there. Everyone in eastern Germany had seen them on TV from western Germany.

Narrowcast—The ability to advertise messages to more targeted audiences due to the explosive growth of specialized cable television channels.

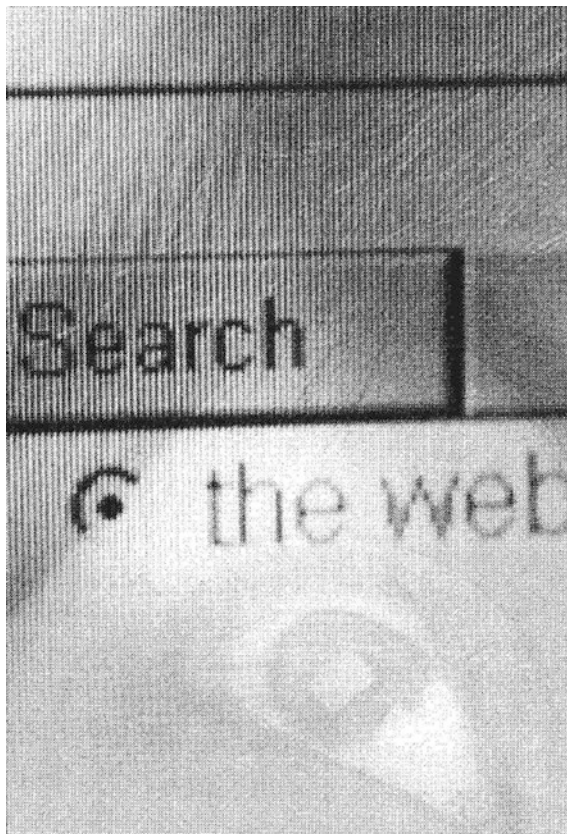
The price structures can be horrendously complicated, with the “rate card” (the price list) offering different prices for different times throughout the day; and this pricing structure is further complicated by a wide range of special promotional packages and individual negotiations. Television is truly the province of the specialist media buyer.

Satellite television is now supposed to be the medium of the future in many countries across the world, just as cable television was similarly supposed to represent the future few decades ago. This promise has been largely fulfilled in the United States, where the average household can now tune into 31 channels. Today, satellite television has achieved comparable levels of penetration in many other countries. Satellite TV broadcasters, for instance, initially planned to broadcast the same ads and programs globally. Because of that, viewership for many of the satellite channels is comparatively low. As a result, very few advertisers are interested in airing spots on satellite TV. Lately, however, more and more satellite networks have started to customize the content of their programs. NBC Super Channel even broadcasts many of its programs in Europe with subtitles or local voice-overs to overcome the language barrier. Likewise, cable TV channels such as MTV and ESPN customize their content to different countries or regions [30].

Another increasingly popular use of television is the infomercial, particularly in the United States. Featuring such celebrity hosts as Kim Kardashian, George Foreman, and others, small and Fortune 500 companies, such as Apple, Bank of America, Ford Motor, and Texaco, have begun using infomercials in record numbers. Sales from infomercials reached \$250 billion in 2015. Infomercials are unparalleled in their ability to generate consumer demand, qualified leads, and immediate sales for a fraction of the budget needed to create an advertising campaign around a 30-second commercial spot [31].

The Internet Internet advertising—which began in 1994 when the first banner ads were sold on HotWired—is now one of the popular media for advertisers to reach their target audience. Online audiences have been growing, often at the expense of other media. The technology is advancing rapidly, and many major advertisers have realized that the internet should form a key part of their advertising strategies. Banner ads are the most popular internet advertising format.

Online advertising made up 2.2% of advertisers' total marketing efforts in 2003, accounting for about \$5.5 billion in spending in the United States. According to a study conducted by Jupiter Research, online advertising expenditures are expected to increase to almost \$14 billion by 2007, or 2.5 times the amount spent in 2003 [32]. In 2019, "advertisers intend to reach 64.1% of women and 35.9% of men (via internet)... Women represent the largest segment of online shoppers" [33]. "During the first six months of 2019, advertisers spent \$57.9 billion on U.S. digital advertising... That's a 17% increase compared to the same period in 2018" [34]. The key virtue of digital advertising via internet is it can combine text, voice-over, demonstration, and interactive conversation with the target audience. As a result, various internet-enhanced digital platforms have been becoming popular among advertisers. Although advertisers believe that cyberspace advertising is effective, the major challenge is how to measure the results. Furthermore, ethical issues concerning liquor and cigarette ads have reemerged [35]. Cyberspace advertisers have begun to track how computer users interact with cyberspace messages. For example, Nielsen Media Research, Yankelovich Partners, and ASI Market Research have a strategic partnership, called ANYwhere Online, to develop a research service online. This online service will measure the use, appeal, and impact of advertising and commercial ventures on the internet [36].



Research by Millward Brown Interactive found that exposure to internet banner ads generated greater awareness than television or print advertising. However, their impact on consumers' purchase decisions is not well-known. As internet advertising budgets grow, the pressure is intensifying for advertisers, media owners, and agencies to identify and develop formats, technologies, and creative approaches that will deliver results. To boost the effectiveness of internet advertising, different formats, including pop-ups and micro-sites, are being deployed. Rich media—the combination of high-grade graphics, audio, and interactive capabilities—are being used to create more engaging, memorable, or intrusive advertising. But greater use of rich media does not mean that the standard banner is redundant. Banners can be effective as signals. They can be a first step into advertising in this medium. Advertisers, agencies, and media owners must consider whether the audience is able to download and view rich media [37] (see ► Manager's Corner 12.2).

Alongside placing sponsored ads on the internet, different internet-enhanced social media (e.g., Facebook, Twitter, Instagram, etc.) are also a popular and cost-effective option for a brand to reach its target audience. Especially for small enterprises across the world (e.g., a gasoline station, a next-door shop, a local restaurant, etc.), the internet-enhanced social media appears as a new option (in comparison to 20 years ago) to cost-effectively reach to their target audience. However, reaching the target audience through such social media is challenging, especially if a considerable fan base (or followers) cannot be established for such social media promotion; it cannot be effective. On the contrary, once a brand is able to establish a considerable fan base through its social media site, the brand can enjoy an interactive option for conversation with its target audience through such social media advertising campaigns.

12

Radio The use of radio has increased greatly in recent decades, with the granting of many more licenses. This medium typically generates specific audiences at different times of the day—for example, adults at breakfast, housewives thereafter, and motorists during rush hours. Radio advertising can be a cost-effective way of reaching these audiences (especially because production costs can also be much cheaper), although the types of messages conveyed will be limited by the lack of any visual elements and, therefore, may provide a “lightweight” image. Also, since the turnover from the last century, many FM band radio stations are established around the world in the private sector targeting the younger generation. The popular radio jockeys (who are commonly known as RJs) of such stations are able to attract a considerable number of audience, especially from the younger generations. As a result, advertisers, especially those who target the younger adults, found such FM band radio stations as an effective medium of reaching their target audience.

Movie and Rental Video Although the numbers in the national audience are now small, advertising through movie and online movie streaming may be another effective medium for extending coverage to the younger age groups because the core audience is aged 15–24. Additionally, a captive audience, out of boredom and lack of suitable alternatives, for practical matters tends to watch the ads.

Similarly, thanks to the explosive growth of the online movie streaming business, Netflix movies, for example, are also used increasingly as a mobile advertising tool (see ► Web Exercise 12.2).

Billboards Billboard advertising is something of a specialist medium, which is generally used in support of campaigns using other media. On the other hand, some advertisers, particularly those in brewing and tobacco, have successfully made significant use of the medium, although, to achieve this, they have developed the requisite expertise to make efficient use of its peculiarities.

The best sites are typically reserved for the long-term clients, mainly brewers and tobacco companies (hence, one reason for their success in use of the medium), so new users may find this a relatively unattractive medium. One interesting public policy question regarding billboards is the large number of alcohol, particularly beer, companies that use billboards to advertise. The billboards could be interpreted as encouraging drivers to drink while driving.

Electronic Billboards (or Small and Giant Screens) While you visit a large shopping center or wait at your doctor's chamber, you might have noticed that different large or small screens are displayed there. For example, at shopping centers, the local shops place ads in such digital screens, which are centrally located at the shopping center, so that such small local shops can attract the traffic in the shopping center who probably visits the shopping center for another purpose. Such electronic billboards (or small and giant screens) are also a useful medium, especially for small advertisers (e.g., corner shop, local pizza shop, barbershop, and others) to reach their target audiences in a cost-effective manner.

Manager's Corner 12.2

How Do We Measure the Effectiveness of Ads on the Internet?

Knowing effectively an advertisement on different media reaches potential customers is very important to any advertiser. Boasting the popularity of the electronic version of *The Onion* claims that it gets about three million hits a week from computer users tapping into the satirical newspaper on the internet. Microsoft gets some three million hits a week. Does the number of hits mean that that millions of internet cruisers are tapping into these ad sites? The answer is NO! The so-called hit is the unit of measure most commonly cited by companies that have set up websites on the internet, but it does not mean how many people visit a website.

Hits count files, not people. Since one file is required for every chunk of text and every graphic element on a web page, and also because most websites contain more than one page, one mouse click may count as a dozen or more hits depending on how complex the page is. Therefore, to estimate how many visits are made, the number of hits to a page must be divided by the number of files on that page. Based on this, *The Onion* is estimated to have received **25,000** visits a week. This could be a significant

number, if and only if it meant **25,000** people a week. Unfortunately, however, there is no way of knowing how many people actually visited The Onion website.

According to a survey of 1000 adults conducted by Eisner & Associates, most internet users ignore the ads they see online. More than 80% of regular internet users said they either pay no attention to ads or spend only a few seconds on the advertised website. Even worse, those belonging to affluent households—a choice market segment for most advertisers—are the least likely to pay attention to online advertising. Some other evaluations, including one by Jupiter Communications, show that “click-through” rates are falling. That means people are clicking on an ad and visiting the ad site less frequently than they were in years past.

There are some encouraging signs for the future of online advertising, however. Namely, big corporations are continuing to pour money into the effort. Total online ad revenues leaped from \$55 million in 1995 to \$940 million in 1997 and to \$1.9 billion in 1998. Although that amount is a relatively tiny portion of overall ad spending—which is somewhere in the \$200 billion ballpark—it is growing rapidly. Total online ad revenues hit \$5.5 billion by 2003, which was **\$57.9 billion on US digital advertising** during the first 6 months in 2019. According to Procter & Gamble, successful online advertising must have the two Rs—richness and reward. It must have the richness of presentation to draw consumers in, and it must reward them with an added utility such as extra product information.

Fortunately, the effectiveness of mass media is evaluated by professional rating agencies. Television has Nielsen ratings. Radio has Arbitron ratings. Also, there is a joint venture between Nielsen and NetRatings rate internet advertising. The Nielsen//NetRatings reports go beyond simply enumerating and profiling a website’s audience. Enhanced ad-banner tracking capabilities also provide competitive analysis. An advertiser can run reports on the most-viewed banner ads for a given week, the specific sites on which they ran, the demographic profile of the viewers of those banners, and even the way that profile varied for a competitor’s campaign or sale.

Sources: Hassell, G. (1999, January 20). Online advertisers seeking attention. *Houston Chronicle*, Business Section, 1; Thompson, M. J. (1999, March 29). Nielsen rates the web. *Industry Standard*, p. 20; and Marketing factbook. *Marketing News* (2003, July 7), pp. 17, 21; Ha, A. (2019). *Digital ad spend reached \$57.9B in the first half of 2019, but growth has slowed*. ► https://techcrunch.com/2019/10/21/iab-ad-report-first-half-2019/?guccounter=1&guce_referrer=aHR0cHM6Ly93d3cuZ29vZ2xlLmNvbS8&guce_referrer_sig=AQAAAJPKuUB6JG9O5bXXcGLHdQuo1CUh9KftQSgKN-enslV63_GPLTg1Se0t7n8D0aIKnKbQQhcnSxARJG4CSBkX5t8_VXHza6Jvjhe0UUH5zMcfAU_8ODKwWr5121OJN9EnQgsqcHDTJ9amkekAVqWjLqTICogwirbvVg3_mYYYhcFc. Accessed 8 August 2020.

Web Exercise 12.2

Product placement in movies and television is becoming an increasingly lucrative business. For an overview of how placement works in movie streaming, go to ► <https://www.netflix.com/>. How often do you notice the products used in your favorite movies? Can you trace any of your purchases or brand preferences back to having seen a product or brand in a film that you watched via Netflix?

12.10 Promotional Mix

In the United States, manufacturers spent 11% of sales on trade promotions in the 1990s, as opposed to 4% in the 1970s [38]. This spending was increased to 25% of gross sales in 2008 in the United States [39] and was 57% only for B2C companies at the beginning of 2017 [40]. The increased promotional spending suggests increased competition over the years. Allocating the promotional budget in an optimal manner has become increasingly important. The ideal promotional mix (advertising, personal selling, and sales promotion) will be specific to an individual product or service and to the marketing objectives that have been set for it. In deciding that optimal mix, however, a number of general factors may need to be taken into account:

- *Available budget*—The prime practical determinant of the promotional mix, and one that is often ignored by theory, is usually the amount of money available. For example, if you do not have a budget running well into six or seven figures, you need not consider television. In such cases, it would be a better idea to concentrate more on increasing the social media followers of your brand, and perhaps presenting ads on local giant screens (e.g., in the shopping centers) if you have target audience in the local market. Also, if your budget is below six figures, you could look at newspapers and trade magazines (if relevant).
- *Promotional message*—The chosen message will also largely determine the medium to be used. A demonstration of the product will demand either face-to-face selling of some form or television (or movie). A coupon response will work only in the newspaper or by direct mail (or door-to-door). Certain types of promotion can also incur risks for the firm. For example, PepsiCo faced numerous lawsuits from a botched promotion in the Philippines in the early 1990s. In its promotion, Pepsi offered a grand prize of one million pesos (equal to \$36,000 US at that time) to the person who found the number 349 printed on a Pepsi bottle cap. As a result of a “computer glitch,” more than 500,000 bottle caps had the winning number! That number of winners meant that Pepsi potentially owed \$18 billion. When PepsiCo announced that an error had occurred, rioting took place at its bottling plant near Manila. The company offered a compromise of \$19 per winning bottle cap. As a result, \$19 million was paid to 500,000 Filipinos. Nonetheless, 6000 Filipinos filed more than 600 civil suits seeking

damages, and 16,000 others filed approximately 5000 criminal suits. In addition, anti-Pepsi rallies took place in various Philippine cities, and Pepsi plants and trucks continued to be attacked. Although the financial impact of all the suits and attacks did not result in significant financial losses, the impact on Pepsi's image was notable [41]. Therefore, not only selecting the right promotional message is not sufficient, but also how the promotional message could be reached to its target audience, how the reaction of the target audience would be monitored, and what would be a plan B if the promotional plan needs adjustment at some stage in future need to be considered.

- *Complexity of product or service*—Sometimes the product or service itself will determine the medium. If, as often happens in industrial and capital goods markets, the product is complex or requires significant amounts of service support, face-to-face selling may be the only route open for promotion.
- *Market size and location*—Where the target audience is located will be a determinant of the media chosen. If the audience covers a large part of the population, and the budget can afford it, television and heavy online promotion will usually be the best choice. If the audience is very specialist but spread throughout the whole population, relevant newspapers or even targeted direct mail (or email) may be most suitable.
- *Distribution*—Obtaining distribution, in particular through retailers, may often be the key to success. The promotional mix chosen may, therefore, be designed as much to sway the buyers in the distribution chain as the end users.
- *Product life cycle*—The product life-cycle stage may also be critical: If the product or service is in the introductory stage, building awareness is the main aim; whereas if it is in the growth stage, the requirement is to persuade potential consumers to switch their buying patterns.
- *Competition*—Any marketer needs to consider what the competitors are doing. If the main competitor launches a high-spending television campaign, and you have a low-spending newspaper campaign, you will have to make some serious decisions. Do you also move into television and sponsored online advertising and probably increase costs to the extent that your profits will be hit? Or do you stay where you are and possibly accept a reduced market share? When advertising abroad, multinational companies must also be aware that they may need to spend more to keep up with local competition. In China, local media owners discriminate against foreigners by charging them up to five times more for ads than they do for local companies [20].
- *Government regulations*—Although advertising is a form of constitutionally protected free speech in the United States, the state government may restrict truthful advertising about lawful products, such as alcohol and cigarettes, to reduce consumer demand. If societal welfare is deemed to outweigh the virtue of free speech, the government may step in to control certain types of advertisements [42]. Advertising regulations vary across the states in the United States and across national boundaries. For example, in European Union member states, advertisers have sometimes been able to overturn local laws by appealing to the European Commission or the European Court of Justice. A host of retailers (including ► [Amazon.com](https://www.amazon.com)), ad agencies, and media in France filed a

complaint with the European Commission in an attempt to overturn a 40-year-old French law that bans TV advertising by retailers. They argued that the law runs counter to EU rules [43].

- *Ethical issues*—Over and above the government regulations, advertisers should be aware of societal norms for advertising. Is it ethical to promote high-alcohol-content beers in poor neighborhoods? How about an automaker showing its car model cruising at a speed in excess of 100 miles an hour on a road, when in fact driving at that speed is obviously illegal or at least risky? In recent decades, US children received high exposure to advertisements for a burgeoning category of liquor-branded malt beverages known as “alcopops.” Alcopops are sweet-tasting drinks trumpeting the brand names of hard liquors such as Bacardi, Captain Morgan, and Smirnoff. Public health advocates claim that ads for those drinks not only promote alcopops, but are a back-door way for liquor companies to put their brand names in front of young audiences on network television [44]. Although some societies tolerate a certain degree of alcohol, sex, and certain other taboos in entertainment and advertising, advertisers’ ethical consideration is necessarily paramount even if their ads do not violate government laws.

12.10.1 Promotion of Services

Despite the fact that services follow much the same promotional pattern as products, some differences may be noted:

- *Personal selling and employees*—We have already seen that services are usually produced and consumed at the same time, and frequently this is also the time of the sale itself. This means that the sale is often made personally by the staff who are providing the service. In this way, perhaps the majority of the staff, in effect, become sales personnel, and to persuade them to provide the requisite quality of service, “advertising” may have to target them as much as the external customers.
- *Word of mouth*—Because of the problems associated with demonstrating quality and value, and the customers’ need to build up trust, word-of-mouth recommendation by loyal customers may be correspondingly more important, particularly for those services, such as personal services, that are based on local branches with relatively small market areas [45].
- *Tangibility*—The promotional campaign needs to make the intangible tangible, possibly by the use of symbols such as McDonald’s Golden Arch or Prudential Securities’ “The Rock of Gibraltar” logo.
- *Consistency*—Because “trust” can easily be destroyed by a single bad experience, it is important that the service, and its promotion, maintains consistency. It must continue to offer, and deliver, what was promised to the customer. As evidence of the importance of consistency, and in a break from its past, IBM decided to cease tailoring its ad campaigns individually to each of the European countries in the early 1990s. The company then started tailoring the language to the country but uses the same image and text with its broadcasts and print media.

12.10.2 Promotion in Nonprofit Organizations

Service providers in general have the same promotional needs as manufacturers of physical products, although the detailed messages may be very different. However, employees at nonprofit organizations may fail to see any requirement to sell or promote their products or organizations. A national health service, for example, may not need to advertise for customers, although its private-sector competitors certainly do.

One issue is clear: Such organizations still have to communicate with their customers. They need to let their consumers know that the organization exists, what it offers, and how they can use it—hence the plethora of promotional booklets that social services departments offer to the unemployed. The requirements imposed by these communications are often indistinguishable from conventional service industry promotions. Indeed, government information campaigns—such as those to combat cigarette smoking and drug addiction or United Way campaigns for charitable contributions—can dominate the mass media.

12.11 Advertising Plan

As with all marketing activities, objectives must be set for advertising and should include the following:

- *Who and where*—Defining the target audience as precisely as possible is critical because this allows the media buyers in the advertising agency to plan to achieve an economical coverage of this audience, to build up the media schedule to give a cumulative coverage of the desired audience. It is also important to agree on what percentage coverage of this desired audience will be acceptable.
- *When*—Timing needs to be balanced with the requirement for each separate campaign to have sufficient impact. Noting the difference in seasons between the northern and southern hemispheres is also important. In the northern hemisphere, we enjoy a cold December; people in the southern hemisphere celebrate their “Green” Christmas in the midst of their summer. Also, when the target audiences watch TV or radio programs is a key consideration for placing a TV or radio commercial through these media. A TV commercial targeting teenagers would not be successful if it is broadcasted with a highly complicated philosophical talk show on TV.
- *What and how*—The message that the agency’s creative team will encapsulate has to be the right message for the product and the audience; thus, the impact required may also determine the medium used.

The most important aspect of an advertising plan is that it should be quantified as much as possible so that the subsequent performance of the advertising itself can be measured. If such research is affordable, both awareness and attitude should be measured after each campaign. Unless awareness was already very high, the advertising should have achieved a measurable increase; it should also have brought about the planned attitude shifts.

12.11.1 Deciding on Advertising Budgets

The average cost for 30 seconds of airtime during a recent Super Bowl game in 2019 was \$5.1 to \$5.3 million [46]. At this event, Budweiser, Coke, Toyota, and GTE logos filled the stadium. They also appeared on everything logos can fit on: Sprint logos on coaches' headsets, Nike logos on players' shoulders, and the Budweiser blimp wafting overhead. Even at \$5.1 million per 30-second slot, advertisers jostled opportunities to be seen. The big players were PepsiCo, Budweiser, Visa, and Nike. There was also the usual assortment of relatively newcomers—companies such as Autobyte, Tabasco, and Iomega, which each tried to leap into the national consciousness with one outrageous investment [47]. Indeed, TV or radio advertising in particular can be very expensive.

Ideally, advertising should be set on the basis of profit maximization models. Thus, in theory, the demand curve for a product or service against advertising expenditure is plotted in much the same way as is that of the more traditional demand against price. Needless to say, however, there are very few products or services for which this ideal can be achieved. Where it is an option, and where there are lengthy series of historical data, and where competitors are consistent in their actions, this ideal is sometimes attained by sophisticated (computerized) “regression analyses.” Sometimes, more pragmatically, the shape of the curve is guessed, judgmentally, by the experts involved. Then marginal analysis (the same principle as marginal costing) can be applied, and advertising can be increased just up to the point at which the additional income offsets the additional costs. Unfortunately, due to the inherent complexities of promotion (and its long-term investment impact), such calculations are rarely possible.

More generally, the advertising budget is determined by even more basic means:

- *Affordability*—The management staff may decide on what they think is a reasonable figure, often just based on last year's budget, or on whatever is left over when the expected revenue is offset against the projected costs and the required profits.
- *Percentage of sales*—Determining the budget through percentage of sales is virtually the classic method, in which a fixed percentage of sales revenue is allocated. This number is fast and easy to calculate, but it does not take into account any changes in market conditions—and perhaps implies that sales create advertising rather than the other way around. The problem is essentially the same in new product development.
- *Competitive parity*—In competitive markets, the share of the advertising budget is often equated with the share of the market. Evidence from the US automobile industry, for example, indicates that advertising shares broadly follow market shares. It is the advertising that positively creates the market share rather than the other way around [48]. As a result, large-share competitors may end up allocating more to their advertising budget than necessary, whereas small-share companies may under-invest in advertising.
- *Objective and task*—This strategy simply asks what needs to be done (although with carefully calculated and quantified objectives) and then costs it. Although this method is most logical, it is not extensively used.

It would be ideal if a general model could be found that allowed advertisers to forecast the sales outcomes of their advertising expenditure, but in most markets the complexity of the other factors involved precludes this. So there is, perhaps, some excuse for the rules of thumb described in the preceding list. In practice, many marketers use all these techniques, weighting the budget by which one seems most applicable to the task in hand.

One **survey** [49] shows that only three approaches are in common use:

Percentage of sales	44%
Affordability	21%
Objective and task	18%
All others	17%

More subversively, perhaps, Thomas Bonoma [50] reports, based on his research:

- » The egalitarianism in resource allocation creates “global mediocrity”; marketing that is excellent at nothing. Because the company spreads its resources thinly over many programs, the most vital marketing projects don’t get the funding and attention they need. The creative marketing manager subverts this parody of equality by allocating resources on the basis of merit, often through budget switching of loose “shoe-box” money.

The wise marketer also monitors what is happening throughout the year as the various campaigns progress to see whether the budgets need reviewing and, in any case, conducts formal reviews on a quarterly basis.

12.11.2 Researching Advertising Effectiveness

The marketing research process is frequently used to test individual pieces of advertising, newspaper advertisements, and (in particular) commercials before they are used to ensure that they actually meet the objectives that have been set for them.

The coverage achieved by the advertising will almost certainly be tracked directly if television commercials are used because the A.C. Nielsen research monitors the performance of all television advertising, and the Nielsen//NetRatings (► <https://www.nielsen.com/us/en/solutions/measurement/online/>) monitors online advertising. In the case of newspaper and magazine advertising, it is sometimes considered worthwhile to conduct separate research to measure the proportion of the target audience that has actually seen the advertisement and, more importantly, can remember seeing it. The same techniques can also be used for commercials (whereas the Nielsen results are limited to which television sets are switched on and who is in the room at the time, which may not always give the result that the advertiser is

seeking). Monitoring any advertising campaign's performance against the objectives set for it is normal.

In general, the three main advertising objectives are as follows:

- *Building awareness (informing)*—The first task of any advertising is to make the audience appreciate that the product or service exists and to explain exactly what it is. *Spontaneous awareness* is measured as the proportion of those who can remember the brand without any prompting. *Prompted awareness*, which is usually much higher, measures the proportion who can recognize the brand when a prompt card (listing its name, among other competitive brands) is shown to the respondents. *Recall tests* explore what consumers can remember about the elements within the advertising (in the case of aided recall, with the benefit of being shown the advertisement).
- *Creating favorable attitudes (persuading)*—The next state, and the one that preoccupies most advertisers, is to create the favorable attitudes toward the brand that will eventually lead customers to switch their purchasing patterns. Most advertisements are normally designed to have an impact on specific attitudes. Ideally, in the most sophisticated approaches, the research should check that the brand has achieved the new position that was set as the objective.
- *Maintaining customer loyalty (reinforcing)*—One of the tasks that is often forgotten is maintaining the loyalty of existing customers, who will almost always represent the main source of future sales. It is known that maintaining loyal customers is more profitable than gaining new customers. The acid test of advertising is the additional sales generated. Due to the multitude of other factors usually involved, this is normally a difficult, if not impossible, causal measurement to make. However, it is an exercise that should be undertaken, no matter how approximate the results may be.

The question “Just how effective is advertising?” is an age-old pursuit of any business organization. Lord Leverhulme, the founder of Unilever, made the famous comment that he was sure that half of his advertising did not work—but the problem was that he did not know which half. This view is reinforced by Abraham and Logish, whose research showed that only 46% of advertising campaigns for established brands showed a positive impact on sales, while this ratio was slightly higher at 59% for new products [10].

One researcher took the 200 most praised ads from around the world to see whether they had increased sales, market share, or brand awareness. Overall, he found that 80% of the ads were successful by using one of those measures. However, it should be noted with caution that most of the data from the study came from the ad agencies themselves [51].

Similarly, there is an increased public distrust of both the entertainment and news media, media that get billions of advertising dollars every year. Parents are highly concerned about sex, drugs, and violence on TV and in movies. An alarming 70% of the public think that those who control the TV industry do not share their moral values. And 63% said news reporting is often improperly influenced by the media's desire to make a profit. The big question that cannot be dodged by market-

ers is: How can trust be nurtured via media that are becoming saturated by mistrust? Marketers first need to think about how well the content of their advertising responds to consumer demand for honesty and impartiality. As it stands, few measure up: airline ads headlining one-way fares rather than roundtrips; car leasing deals with so many hidden costs and restrictions; and telecommunications companies that sometimes switch our phone service without even telling us. Marketers are well advised to choose a medium based on its ability to reinforce the reliability, honesty, and integrity of the message [52].

12.11.3 Determining Coupon Response

One particularly useful measure of the effectiveness of newspaper advertising, along with that of direct mail (or email), can be implemented where the purpose of the advertising is to elicit a direct response, typically in terms of motivating the reader to ask for further information through a coupon included in the advertisement or mailed material.

The first (paper-based) coupon (ticket) of Coca-Cola ever, “for a free glass of Coca-Cola was first distributed in 1988 to help promote the drink. By 1913, the company had redeemed 8.5 million tickets.” [53] Based on the same concept of coupon and free giveaways, Coca-Cola launched the first ever drinkable advertising campaign in 2015 for Coke Zero, based on electronic barcode. As discussed in ► Marketing in Action 12.1 (Creating Coke Zero’s Awareness: “Next Time You’re Thirsty, Drink an Ad”), Coca-Cola was able to increase the awareness about the real taste of Coke Zero, as well as to increase the repurchase intention of their customers, based on this electronic coupon of Coke Zero. Each such coupon-based advertisement or mailing can then be given a code, the usual means being to include a dummy department number (which corresponds to, say, the publication used) as part of the mailing address. The response obtained from each of the publications (or each of the mail packages) can then be measured accurately, at least in terms of the percentage coupon response rate. Of course, that may not be an appropriate measure if what is primarily being attempted is a shift in attitudes.

This technique can also be used to test, and directly compare, two or more advertisements in which the media owner offers split runs: The overall print run is split geographically, or the television spots are run by regions. Comparison of the results, for each part of the test, may give a good indication of performance, although geographical variations will need to be allowed for (and may even be partly compensated for by “flip-flop testing,” in which the test is repeated with the regions reversed). Coupon response may not always be the best measure of the performance that you want to gauge. For example, long-term image building and brand loyalty will not be demonstrated. Despite such a limitation, many package and consumer durable goods companies, such as Procter & Gamble and Panasonic, frequently use this method.

12.11.4 Selecting an Advertising Agency

We have seen that many promotional activities, especially those in the area of advertising, demand specialist skills. In the United States and the United Kingdom, few suppliers are likely to find these specialist skills in-house. In France and Japan, however, it is reported that almost half of all advertising is handled within the advertiser's own organization. The choice of an advertising agency represents a major, strategic decision for any organization because that agency will be almost solely responsible for a number of key marketing activities. The success of the organization will thus come to depend on the success of that agency and on the relationship with it.

There are directories that list advertising agencies, the most generally available being the *Standard Directory of Advertising Agencies* (Skokie, IL: National Register Publication Co.) for domestic advertisers and the *Standard Directory of International Advertisers and Advertising Agencies* (Skokie, IL: International Register Publication Co.) for international advertisers. The equivalents for direct mail organizations are the *Directory of Mailing List Sources* (Chicago, IL: Dartnell Co.) and the *Direct Marketing List Source* (Wilmette, IL: Standard Rate & Data Service). Probably the wisest move is to find someone who has had firsthand experience with a particular agency. If all else fails, you should consider contacting some of that agency's existing clients, but beware—for legal and other reasons, few clients will criticize their suppliers, even if they are so dissatisfied that they are about to move to another agency.

The next step depends on the size of your budget. If you have one of the relatively few multimillion dollar accounts, you can expect half a dozen agencies to compete for your business (although it is normally recommended that you limit the numbers, finally making a formal presentation to three or four). Each will put considerable effort, and possibly thousands of dollars of investment, into producing its idea of what your new advertising platforms should be—although the client may well be expected to fund the direct costs of such presentations. The client's role in this scenario is to examine the material, together with the personnel involved, and determine which package best meets the marketing needs of the organization as well as which group the client's marketing staff will be happiest working with.

A client with a smaller budget may find that the onus is on him or her to persuade an agency to take an interest, and anything less than \$150,000 per year (of which \$50,000 will go to in-service charges alone) may be almost impossible to place. Given that the business is minimally attractive, most smaller agencies will be prepared to send the potential account team along to deliver a standard presentation, which will typically cover what the agencies have achieved, especially in terms of creative treatments, for their existing clients. Again, it might be wise, and fairer to the contenders, to limit the numbers committing their resources to such a presentation to just three or four agencies. In this case, the match of this "house style," along with the rapport with the account team (and, one hopes, the reports from other clients contacted), will form the basis of the selection.

Table 12.2 A typical advertising agency account

Total billed to clients	\$67,000,000
Less: paid to media and suppliers	\$57,000,000
Gross income	\$10,000,000
Expenses:	
Payroll—principal owners	\$ 800,000
Payroll—staff	\$ 4,472,000
Nonpayroll expenses	\$ 2,728,000
Gross profit	\$ 2,000,000
Less:	
Bonus—principal owners	\$ 250,000
Bonus—staff	\$ 950,000
Profit sharing—principal owners	\$ 50,000
Profit sharing—staff	\$ 250,000
Profit before taxes	\$ 500,000
Less: taxes	\$ 75,000
Net profit	\$ 425,000

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One important element in any discussions will be, of course, exactly what charges will be incurred. Many agencies now charge on a fee basis, as well as receiving their traditional media discounts, so it is well worth spelling out exactly what these charges will be. Will there be an overall service charge? You will almost certainly be charged for the production of the blocks for newspaper advertisements and sometimes for even the finished artwork, and, understandably, the cost of commercials (which may run into six figures) will almost always be passed on.

■ Table 12.2 shows a typical breakdown of where the money goes.

The cost of creativity is small compared with the cost of the media, and minute compared with the rewards you hope the advertising will bring. Therefore, purchasing the best creativity for copywriting and artwork that money can buy is very worthwhile indeed. The main practical advice must be to invest the time and effort necessary to make the best choice, learning, if necessary, exactly how each of the agencies on the short list operates. After all, they may largely determine your own marketing success.

The following six stages are suggested for agency selection [54]:

1. *Define the need.* Develop a one-page summary of what is needed and what tasks are to be performed.
2. *Perform desk research.* Check the opinions of others, including existing clients (and references in advertising trade journals, as well as trade organizations).

3. *Formulate a short list.* Eliminate those handling competitors' business or not offering the services wanted.
4. *Evaluate.* Decide on the checklist (detailing the key questions to be asked) to be used in the evaluation.
5. *Narrow the selection.* Assess each agency and reduce the short list to two or three before visiting each of them several times.
6. *Make your final selection and appointment.* Agree with the terms the agency has chosen.

12.12 Internet Advertising and Creating Attention

Along the progress of World Wide Web and subsequent internet-enhanced e-commerce platforms, marketers are able to reach their target audience proactively and in some cases more cost-effectively. In terms of cost-effectiveness of planning 4 Ps through different digitally enhanced business platforms, perhaps promotion plan and in particular advertising management through internet would be more cost-effective than planning other three other core Ps (product, price, and place) of marketing via the internet. For example, advertising through traditional channels is much more costly, in comparison to advertising through the internet. For example, in 2019, in the United States, designing and producing a TV commercial was \$63,000 to \$8 million, cost of media was \$342,000 per 30-second ad, and the advertiser also needs to pay the agency hourly rate [55]. The average cost of advertising in a national magazine in 2019 was \$250,000 per ad, and agency rate was \$113,000 as average for each ad in a national newspaper. However, the setup cost (content design and development) of a single web content advertising in 2019 was around \$6000–\$12,000 [55]. The cost of media for web advertising would be virtually free, if such web advertising is placed through a company's own corporate website and social media platforms; however a company needs to pay for media in the case of web advertising, if they prefer to place their web ads through a third party's website, for example, placing ads through a popular community website (e.g., many companies pay to Facebook to place their web ads through Facebook, and Facebook charges those companies to place their ads to the appropriate target audience of those companies by analyzing the Facebook user's web browsing history and habit).

In fact, internet advertising would be a cost-effective medium for marketers if they can select the right web platform(s) to reach their target audience. For example, a combination of free web platforms would be a company's corporate website and their own social media platforms across diverse contemporary online social media (e.g., Facebook, Twitter, Instagram, among others). The company can choose for paid web advertising content through third-party website; however, in terms of free web media, unless the company can make a loyal fan base for their social media platforms, and can interact and engage their fans in their social media through interactive social media (ad) contents, the internet advertising campaign through free web media would be futile. Either using paid web media or free web media, in both cases, the advertiser needs to ensure that their web ad contents

attract sufficient attention from their target audience. In a 2018 study [56] on attracting online shoppers' attention through online banner ads, it is argued that:

- The composition of an online banner ad contents (e.g. text, image or model) and the position of a personalized web ad on the screen generally influence the target audiences' attention
- In terms of presenting a particular product through online banner ad, the ad could generally attract more attention if the title and the product's photo together occupy the top two-thirds of the banner ad and the information related to the product occupies the bottom third, instead of a banner ad that is presented with only a photograph of the product along with a small amount of written information inside the photo
- If an individualized online banner ad is placed next to a content related to the product (e.g., placing an ad of a tourism destination next to a tourism-related lifestyle article), it attracts more attention, in comparison to the online banner ads that are placed next to the irrelevant contents
- If a product's online banner ad is placed with particular information that is closely relevant to the target audiences' interest (e.g., information about discount or other promotional offer), such ads usually attract more attention, in comparison to the ads that do not contain such information
- The composition of an online banner ad contents (e.g., the presence or absence of discount information or a model and perhaps color combination) along with the position of the online banner ad on the screen (e.g., bottom middle, right or left; or top middle, right or left; or in the middle of the screen or middle left or middle right) collectively affects the extent of the target audiences' attention

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Summary

Advertising represents the *talking* part of the dialogue referred to in ► Sect. 12.2. In practice, this process is much more complex, as is hinted at by the *encoding/decoding* model.

Advertising, however, is just one element of the promotional mix, which includes personal selling and word of mouth, particularly in the case of services. It may be just as applicable to many nonprofit organizations. It is also, increasingly, a vehicle for *corporate promotion*. In all these cases, it is a *pull* technique (persuading consumers to pull the product through retailers) rather than a *push* technique (selling by sales promotions, for instance, into the channels).

Promotion provides a *message* to create awareness, interest, understanding, attitudes, and purchase decision. The message should ideally contain a unique selling proposition, although it should also be consistent with past campaigns. Recognizing that this message is also passed by word of mouth may be advisable, with opinion leaders playing an important role.

Media selection and buying require specialist knowledge and skills but essentially aim to achieve satisfactory (cumulative) coverage with the requisite opportunities to see (OTS) at an economic cost. Although different markets may require

different kinds of media to accomplish the same advertising objective, globally minded companies are increasingly employing pattern standardization or globally standardized ads to develop a global image for their products and to reduce advertising costs [57].

The main media are newspaper, television, radio, movies, billboards, and cyberspace. In recent years, an explosive growth of personal computer users with modems has created an electronic form of advertising media through the internet, Prodigy, and other cyberspace linkages. This form of communication promises to create a more personalized, two-way interactive advertising that spans across national boundaries in the near future.

Like other budgets, *advertising budgets* are determined by a number of means, based on (1) affordability, (2) a percentage of sales, (3) competitive parity, and (4) objective and task. Advertising effectiveness can be measured against its objectives, including (1) building awareness, (2) creating favorable attitudes, and (3) maintaining customer loyalty.

Advertising budgets determine whether or not to use an advertising agency. Use of an advertising agency represents a strategic decision because the success of the organization will depend largely on the success of that agency. Therefore, careful agency selection is important.

Key Terms

AIDA model

Consumer advertising

Corporate advertising

Coverage

Decoding

Encoding

Industrial advertising

Narrowcast

Opinion leaders

Pattern standardization

Pull promotion

Push promotion

? Review Questions

1. What are the main elements of the promotional mix? Which may be push and which pull? What are the advantages and disadvantages of personal selling?
2. How does advertising on the internet affect other forms of promotion?
3. What is meant by encoding? What are the main functions of advertising? What does the advertising message need to do to carry out these functions?

4. Is a USP compatible with consistency? What roles do opinion leaders play?
5. What are the main measures of media performance? Why are they important? What are the differences between the two most popular forms of media?
6. How may advertising budgets be set? How may performance be measured?

? Discussion Questions

1. Deregulation is forcing many natural gas utilities to take a good look at every aspect of their business, including customer communication. Gas companies will be hard pressed to maintain their customer base without paying serious attention to when, why, and how they communicate with customers. Customer communication used to mean providing consumer information, sending utility bills, and making announcements in times of emergency. These functions are still important, but they have been joined by a new need: building relationships. Now customer communication includes marketing, brand promotion, image enhancement, and—perhaps most important—eliciting information from customers themselves. What media can utilities use to deliver the right messages to the right audiences? What combination of old and new techniques do you suggest they should use in an environment of advancing technology and exciting changes in vehicles?
2. An experiment was conducted in which subjects were exposed to a special shopping section of a newspaper in the Buffalo, New York, area; this section contained news stories, ads, and coupons for more than 30 area retailers. News stories outperformed the marketer-dominated sources of information (ads and coupons) in recall and number read. Can you suggest a few factors that can account for this fact?
3. Procter & Gamble is changing the advertising strategy for its Pantene Pro-V with a new TV campaign. Breaking away from using supermodels, the commercials feature “everyday” young women with no professional modeling experience. The 22-year-old star of the campaign, who is now the regular face of Pantene, was found in a nationwide model search competition. The first commercial she stars in also features the runners-up. P&G’s idea is to use “real” people to prove that anyone can become the star of a Pantene commercial because everyone’s hair has the potential to shine. Do you think that this switch in the advertising strategy of P&G to break away from using supermodels to “real” people will improve sales of Pantene Pro-V? Provide your reasons one way or the other. You may want to use the concept of brand positioning to check the consistency of the advertising message.
4. What international cultural taboos can you think of that may influence the uniformity of advertising content? If it was possible for an advertisement not to offend any culture’s sensitivities, would it still be an interesting or effective ad?
5. Why can you sometimes remember an ad but not the product, service, or company being advertised? What can advertisers do to limit this occurrence?

6. Part of the way in which a firm adds value for the customer is by keeping costs and prices as low as possible. Unfortunately, advertising can be quite expensive. What is the proper trade-off to the firm in terms of keeping costs and prices low and advertising sufficiently to increase product awareness?
7. Assume you make a product or service with a fairly complex message and your media choices are limited to newspaper, television, radio, billboards, and cyberspace. What percent of your advertising budget would you allocate for each media if your product is in its (a) introduction, (b) growth, (c) maturity, or (d) decline stage?
8. As a PR person or salesperson for a pharmaceutical company, you market your wares to hospitals, doctors' groups, HMOs, and so on. Assuming that (1) each potential customer (the health professional) will purchase the same amount of product from your company for his or her own clientele and (2) you cannot visit every health professional, who would you target and why? What is the marketing term for such a group?
9. The number of new users of your consumer product has been consistently high over the 5-month period of your new ad campaign. However, the overall level of sales has not increased much. Can you be certain from this information whether the problem is with the ad campaign or the product? What are your hypotheses? How urgent is the situation? How many resources should be allocated to it? What steps would you consider?

Practice Quiz

1. The promotional mix includes all the following EXCEPT
 - (a) Direct contact
 - (b) Indirect contact
 - (c) Customized support
 - (d) Complementary support
2. The most important element of the marketing mix is the
 - (a) Product
 - (b) Price
 - (c) Promotion
 - (d) Placement
3. All the following characterize industrial advertising EXCEPT
 - (a) Purchase decisions are short range
 - (b) Advertising supports the sales influence
 - (c) Product usage cycle is long
 - (d) Test marketing is uncommon
4. All the following are part of a consumer's psychological stages for a purchase decision EXCEPT
 - (a) Awareness
 - (b) Interest
 - (c) Opinion leading
 - (d) Buying decision

5. A unique selling proposition (USP) can be found through all the following ways EXCEPT
 - (a) Physical features
 - (b) Intangible features
 - (c) Psychological features
 - (d) Beneficial features
6. Which type of USP message is particularly easy to target, communicate, and monitor?
 - (a) Product features
 - (b) Psychological features
 - (c) Beneficial features
 - (d) Association
7. The cost of cumulative coverage
 - (a) Decreases linearly
 - (b) Decreases exponentially
 - (c) Increases linearly
 - (d) Increases exponentially
8. Which of the following is the major challenge to cyberspace advertising?
 - (a) Cost
 - (b) Coverage
 - (c) Measuring results
 - (d) Extent of interaction
9. The advertising budget can be determined through all the following ways EXCEPT
 - (a) Percent of sales
 - (b) Affordability
 - (c) Parity
 - (d) Quality of product
10. Which of the following is NOT an advertising objective?
 - (a) Informing
 - (b) Introducing
 - (c) Persuading
 - (d) Reinforcing

(You can find the correct answers to these questions by taking the quiz and then comparing your answers with the answers that are provided at the end of the book, under the “Practice Quiz Answers” part of the book.)

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Direct Marketing, Sales Promotion, and Public Relations

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■ Telemarketing and the Invasion of Privacy



■ (Source: ► [pexels.com/royalty-free-images/](https://www.pexels.com/royalty-free-images/))

In this age of information technology (IT), telemarketing is still an effective medium for many small, medium, and large companies to approach their customers. In fact, IT-enhanced customer relationship management (CRM) enables marketers to undertake preparatory work prior to calling a particular customer. However, customers' privacy is a concern in telemarketing. In fact, privacy has been one of the hottest topics discussed by direct marketers, consumers, and legislators in recent decades, and not surprisingly, nearly a third (32.2%) of direct marketers surveyed listed it as a top external challenge. Unfortunately, it is disheartening that few direct marketers are acting to stave off the criticism against them. Only 56% of those who rent their telemarketing lists give an opt-out option, and only 53% maintain an in-house suppression file. More surprisingly, only 7% and 14% of respondents subscribe to the Direct Marketing Association telephone and mail preference services, respectively.

Consumers have long been concerned with privacy, and direct marketers have needed to pay more attention to protecting customers' privacy. Martha Rogers, the influential author of *Marketing one to one*, warned that if direct marketers did not take care of privacy inside the industry, their lack of action would pose an open invitation to get "the Feds" involved. Particularly, telemarketing activities have been considered most obtrusive by many consumers.

This warning came true on 27 June 2003, when the US Federal Trade Commission allowed consumers to sign up for a "do-not-call" registry aimed at stopping most (if not all) telemarketing phone calls to people who regard the sales pitches as invasive and want them blocked. In October 2003, the list went into full effect. US consumers can sign up online at ► <http://www.donotcall.gov> or by

phone. After a number is registered, commercial telemarketers are required to remove that number from their call list within 3 months. Penalties for calling those on the “do-not-call” list can be as high as \$11,000 per unwanted call.

A year after the inception of the “do-not-call” registry in the United States, over 62 million numbers were listed. In a study of the effectiveness of the “do-not-call” list, 87% of those surveyed said that they were receiving fewer calls from telemarketers. By 2004, the list was in full force and has been credited with and blamed for causing some telemarketing companies to close or others, like MCI, to lay off employees.

The United States is not the first country to honor privacy against direct marketers. Europeans have been much more concerned than Americans are in terms of privacy regulations. Indeed, in 1998, the European Union put into effect a law prohibiting American-style buying and selling of personal data, a move that could interrupt electronic commerce with the United States if the two sides fail to resolve deep philosophical and legal differences over protecting privacy. The European Union adopted the law 3 years earlier after a majority of its member nations agreed to issue what is known as a directive. Under European law, each member nation is then required to implement the directive by enacting its own law.

Following their 1998 Act, the European Union took this a step further in April 2016, when they proposed the General Data Protection Regulation (GDPR) to implement in the European countries. The GDPR “is a regulation in EU law on data protection and privacy in the European Union (EU) and the European Economic Area (EEA)...The GDPR’s primary aim is to give control to individuals over their personal data and to simplify the regulatory environment for international business by unifying the regulation within the EU.” The GDPR was implemented on 25 May 2018. “GDPR regulations provide strict guidelines on the use of personal data including phone numbers. It goes without saying that this has an impact on any data-driven marketing channel, not least of which telemarketing.” As a result, there was a concern among the business community to understand whether “they can use personal data to cold call individuals without explicit consent to promote their products and services.” Since the regulation does not undermine any lawful business practice that appropriately follows the standard ethical and privacy policy, the regulation fully permits telemarketing and traditional cold calling, as long as it complies with the set policies, principles, and regulations of the GDPR. For example, “the new legislation does allow businesses to cold call but ensures this is done in a responsible way, only where there is a ‘legitimate interest’ to do so, and where the interest, rights and freedoms of the individual are protected.”

Why are consumers, irrespective of nationality, concerned about the invasion of their privacy by direct marketers? The answer is simple: Telemarketers did not approach would-be customers at a precise time and occasion for what they wanted and when they wanted it; or worse yet, telemarketers might not know what those consumers wanted. Following such issues related to individuals’ privacy and the ongoing governmental support for individuals’ freedom, rights, and privacy across national boundaries, do you think telemarketing and cold calling are still a legiti-

mate and effective marketing tool? How can marketers underpin their customers' rights, freedom, and privacy while undertaking telemarketing? Do you think proactive CRM practice would be useful for marketers to better prepare before a cold call, in order to understand the prospective customers' needs, wants, and expectations, as well as to protect their privacy?



Sources: Andrews, K. J. (2003). State of the industry. *Target Marketing*, 22, 36–40+; Estell, L. (2003). Feds disconnect telemarketers. *Incentive*, p. 9; CNN. (2003, July 27). Hundreds of thousands sign on for “do-not-call” registry. CNN.com.; Mayer, C. E. (24 June 2004). In 1 year, do-no-call list passes 62 million; Complaints about telemarketers pile up. *The Washington Post*, p. E05; Levey, R. H. (2004). DMA study shows industry may be rebuilding. *Direct*, 16, 20–21; Council of the European Union. (2015). *Proposal for a Regulation of the European Parliament and of the Council on the protection of individuals with regard to the processing of personal data and on the free movement of such data (General Data Protection Regulation)*. ► <http://data.consilium.europa.eu/doc/document/ST-9565-2015-INIT/en/pdf>. Accessed 10 Aug 2020; The Telemarketing Company. (2020). *Can businesses still cold call under GDPR? YES THEY CAN!!* ► <https://ttmc.co.uk/knowledge/articles/can-businesses-still-cold-call-under-gdpr-yes-they-can>. Accessed 10 Aug 2020

A firm can use other forms of communication and promotion besides advertising. Some are established, whereas others are newly emerging as part of the revolutionary growth of information technology. Direct marketing, sales promotion, and public relations complement advertising and personal selling. The most important objective for these **complementary promotions** is to identify and approach prospective customers with a promotional message as precisely as possible. Direct marketing activities are substantially increasing with the arrival of new data collection techniques and available computing power for analyzing the massive amount of customer data. Direct mail (including direct email) and telemarketing are such

examples. At the same time, many traditional sales promotion efforts that support members of the distribution channel continue to flourish. Sales promotion includes various forms of promotional pricing and added value, such as discounts and coupons, and nonprice promotional techniques, such as free gifts, sampling, and exclusive deals. Other promotional activities, such as sponsorships and trade shows, also provide broad marketing support. The press and public relations are also of significant importance in an era in which the firm's relationship to society at large becomes an increasingly relevant factor in the acceptance of its products or services. As illustrated in the chapter's opening vignette, marketers may indeed appear too obtrusive to many consumers. The reason is that marketers have limited, and sometimes even wrong, information about potential customers' needs and preferences. Marketers not only need to develop more precise knowledge about their customers but also need to operate in a socially acceptable manner. A rich customer database and effective CRM system would be instrumental for marketers to develop individual customer-specific knowledge, in order to become and remain relevant to the customers' precise needs in terms of product-specific needs, as well as their privacy-related expectations.

Complementary promotions—Activities such as direct marketing, sales promotion, and public relations that complement advertising, selling, and all other marketing initiatives.

13.1 Precision Marketing

13

Until recent decades, suppliers in mass markets were unable to communicate one-on-one with their customers. The cost of employing a direct salesforce was, and still is, prohibitive. What has changed is the increasing availability of much more detailed information on large numbers of individual customers—together with the processing power to handle these data. By using data management, firms can now adapt their marketing efforts to individual customers without face-to-face contact. Although such direct marketing does not provide for personalized interaction, it strives to achieve the benefits of personalization, albeit still imperfect as attested in the opening vignette, by precisely tailoring the sale to the individual's specific needs. The key to such **precision marketing** is detailed information about individual customers. The firm can obtain such information by making use of the increasingly available secondary data related to customers, markets, and industry and combining those with specific data collected at the point of sale.

Precision marketing—A form of direct marketing in which firms make use of the increasing availability of consumers' data and target individual consumers without face-to-face contact.

13.1.1 Availability and Consolidation of Secondary Data

More data are becoming increasingly available from existing sources, such as point-of-sale, electronic payment, itemized dockets for sales data, and the tracking system for individuals' web browsing habits and interests, among others. Summary census data are now available in computerized form. Many organizations have their own databases and membership lists available for sale as well as their own marketing planning purpose. In addition, new techniques and tools have been developed to consolidate various databases and to provide a multidimensional picture of current and prospective customers. For example, the market information provided by consumers who return warranty cards to different suppliers constitutes a useful database to identify the profile of purchasers, and it can be used to predict the purchasing behavior of prospective customers. In the longer term, the consolidation of very large databases will likely provide quite detailed information about many activities of most individuals in the population within a particular target market.

Indeed, many businesses are undertaking their own market research or commissioning research and gathering information from a broad spectrum of companies within the marketing services industry. Buyers of market research now have a wide choice of suppliers, from traditional market research agencies to management consultants, advertising agencies, media planners, direct marketing agencies, field marketing companies, database specialists, and universities. At the same time, many companies are investing more in their own databases and in-house expertise. Market research firms no longer have the monopoly on research.

The fast-growing database sector is enticing research buyers with in-depth lifestyle and demographic data and access to large numbers of consumers. Euromonitor (► <https://www.euromonitor.com/>), for example, has enhanced its web-based Global Market Information Database (GMID) with the addition of the new consumer lifestyles module. While at the beginning of this century, Euromonitor had operations in 60 countries, in 2020, they had operations in 210 countries worldwide that offer expert global surveys, socioeconomic research, industry-specific research, and analytical support to their local clients. This added component offers analysis of consumer preferences and key market drivers to connect their clients' organizational goals with global opportunities (see ► Web Exercise 13.1). Their client support indicates which factors are affecting consumer decision-making and spending habits and provides analysis of the factors that will determine future expenditure patterns. GMID is a business intelligence tool that makes current, vital research and analysis available on any desktop. It is a cost-effective way to locate niche consumer groups in various countries, including the United States.

Research—no matter how in-depth and exact—has to be usable in a business context to be of value. We all have as much information as we need. Through the internet, we can gain access to information that previously would have taken us a long time to obtain. Information itself no longer provides marketing executives any measurable advantage. It is marketing executives' ability to use that information effectively that provides a powerful competitive advantage [1].

Web Exercise 13.1

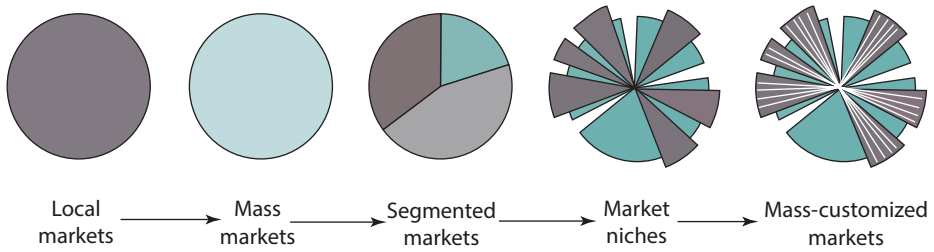
As discussed in ► Sect. 13.1.1, Euromonitor (► <https://www.euromonitor.com/>) offers ongoing market research services and insights to their clients across the world. Please go to Euromonitor's website and browse their different web pages to have a look at the types of services Euromonitor offers to their clients. On their homepage, Euromonitor shares an overview of “Discover, Identify, Strategise, and Grow” in clarifying to their clients how Euromonitor could help them to explore market opportunities. Upon browsing the different web pages linked to Euromonitor's homepage, think about how Euromonitor help their clients with different market solutions including direct marketing. Also, on their homepage, Euromonitor has an option for direct chat for their prospective clients. Upon browsing their entire website, consider the market insight services and ideas that you think Euromonitor could share with their prospective clients through their chat room, as a direct marketing option.

13.1.2 Point-of-Sale Data

One powerful tool has been the major retailers' introduction of **electronic point-of-sale (EPOS) systems**. Using EPOS, retailers can track details of an individual transaction, but not the identity of an individual purchaser. By linking EPOS data with payment information (credit card or electronic fund transfer data), retailers can relate these transactions to specific individuals. In this way, retailers in particular can build up a very detailed picture of the buying habits of individual customers. A number of organizations, ranging from direct mail houses to domestic appliance retailers, have detailed customer information available in their existing records. For example, Sears, Roebuck and Co. uses the computerized database information on its more than 40 million customers to promote special offers to specific target segments.

Electronic-point-of-sale (EPOS) systems—Electronic systems that track the details and buying habits of an individual transaction but not the identity of the purchaser.

The next step is the conversion of such “passive” databases into active real-time ones to extract business value of data in a way that reflects the latest in purchasing trends of an organization's target market. Food and department stores have developed customer loyalty cards. These cards, which are used at the checkout counter, provide a small discount to customers and allow the store to meticulously track what products are purchased when, together with customer preferences and behavior. Safeway, Albertson, and other supermarket chains all use this information to determine most of their stocking policy, as well as to nurture customer loyalty [2].



■ **Fig. 13.1** Types of market development (Source: Davis, S. M. (1987). *Future perfect*. Reprinted by permission of Perseus Books PLC, a member of Perseus Books, L.L.C)

Of equal importance is that this information also allows retailers to understand what customers did *not* buy. Retailers can then take steps to persuade customers to buy something new and different [3]. Overall, such precision marketing approaches result in the mass customization of markets, in which a large number of customers can be reached and treated individually [4]. The result is a different perspective of markets, as shown in ■ Fig. 13.1.

13.1.3 Manipulation of Data

The theory of precision marketing is simple: The marketer matches the requisite marketing approach to the individual. For example, before merging with Wachovian in 2003, First Union Bank decided to triple the capacity of its customer data warehouse to 27 terabytes, enabling the company to deliver customized marketing to its 16 million customers. By upgrading its system to one of the largest commercial installations of an IBM supercomputer of its type in the world, First Union added customer information from five acquisitions and expanded its warehouse to include small business and commercial customers. First Union Bank was able to use the information it collected on both its individual and business customers and their needs to precisely target its banking services as well as to check on their credit status [5]. A salesperson, in face-to-face contact, follows much the same process. Also, the individual client's specific credit status and transaction history in their account that can be retrieved from the database help a salesperson approach the client during an in-person meeting in a way that could be more relevant to the client's needs, which is the part of the salesperson's direct precision marketing initiative.

Until the beginning of this current century, precision marketers found manipulation of vast quantities of data to be an impossible task, but now computers can easily handle the amount of information. Unfortunately, computers cannot make decisions without a very elaborate set of rules applied by computer algorithms to govern every possible situation. The main solution to this problem lies in the development of expert systems, through which computer engineers teach computers how to make the necessary decisions by learning from alternative situations and experience and by using artificial intelligence (AI). Through such AI approaches,

patterns can be recognized, and deviations from these patterns can be highlighted. For example, American Express assesses the spending habits of its customers on an ongoing basis. For routine expenditures, computerized authorization can be granted. If a request comes for an atypical expenditure, a representative can flag and question such a request. Scrutiny does not need to confine itself to unusually high expenditures and can also be exercised in instances where the type of purchase reported does not match the previous purchasing pattern of the client. As a result, clients can be better protected from unauthorized card use, and the number of claims can be reduced.

A few weeks after his return from Rio de Janeiro, Brazil, one of the coauthors of this book received a surprise call at home (in the United States) from Citibank, N.A., about a possible misuse of his credit card. The card was being used to purchase expensive furniture on one day and to pay for a hospital bill the following day in Niterói, a city across the bay from Rio de Janeiro. Obviously, someone in Brazil had obtained a credit card carbon copy and started using the credit card number for payment. The continued illegal use of the credit card was fortunately suspended. Another similar but more advanced experience can be shared here from another coauthor of this book. A week after returning home to the United Kingdom from Italy, he was trying to pay his bill using his Visa debit card. However, the debit card was not activating the transaction to pay the bill. Upon calling the bank, he was advised that following an EPOS transaction from an overseas location the previous week, the credit card had malfunctioned due to an attempt at identity theft. As a result, Visa's security system has blocked all future use of the card, until the card can be reactivated by the bank.

13.2 Direct Marketing Delivery Systems

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A precision marketing system also needs to be capable of delivering promotional effort where it is needed. Many forms of media claim to deliver to tightly defined audiences, and some of the specialist and trade magazines do exactly that. However, the traditional minimum group size that can be targeted is often no smaller than an individual town. Such a general targeting is still far too diffuse for precision marketing. Yet technology makes it increasingly possible to target the individual customer or subscriber, for example, by including magazine text designed for one specific person or by sending customized mails. Although much more precision is desired, significant progress has also been made in the area of direct marketing.

13.2.1 Direct Mail Communication

Direct mail is a large part of the overall direct marketing effort and can make an important contribution to targeted precision marketing campaigns. Direct mail

can be postal mail or email. Direct mail has become very popular as personal data have become easily available, thanks to the proliferation of electronic transactions, including cash register scanner data, use of credit cards, online and offline subscriptions for various products and services, and purchases on the internet. The much-coveted information about consumers' purchase patterns, preferences, habits, and purchasing power is readily available and marketed to companies that want to use such information. Direct mail has become an important personalized means of advertising, particularly in a business-to-business environment. According to research by HP (formerly Hewlett-Packard), however, the average manager has a backlog of around 12 hours' work, so it is little wonder that agencies attempting to get the attention of busy marketers or suppliers hoping to influence agency decision-makers still face an uphill struggle in their direct mail activity [6].

Direct mail—A personalized means of advertising that contributes largely to targeted precision marketing campaigns.

At the heart of most direct mail campaigns is the idea of making better use of time for the salesforce. If the firm provides sales personnel with more and better-qualified leads, they will be able to make more and higher-value sales [7]. One effective way to generate prospects for the face-to-face industrial salesforce is to undertake mass mailings. A response rate of 1 or 2% for such mailings is considered good; when marketers mail to specialized markets with a particularly powerful message, the response rate can reach almost 10%. Whatever part of this very wide range a mailing falls into, direct mailers typically distribute large quantities to obtain reasonable numbers of prospects—it is a numbers game with a vengeance. As with all forms of promotion, marketers have to be clear about specific objectives before conducting any mailing. Most mailings are designed to produce immediate sales inquiries. The marketer may decide to set specific objectives, such as attracting people to a free seminar or offering a free sample to “buy inquiries.” Alternatively, a mailing may be from a local florist to customers reminding them of an upcoming anniversary or birthday or from a shoe store that lets its big-footed customers know about a new shipment that includes extra-large sizes. There are many ways of achieving results, but it is important to know exactly what is to be achieved.

13.2.2 Advantages and Disadvantages of Direct Mail

Like all other marketing tools, direct mail has advantages and disadvantages, as summarized in  Table 13.1. The most important advantage of direct mail is that it can be directed at a specific, individual customer. For example, Porsche was able to target the 300,000 Americans most likely to spend \$75,000 on a German car.

Table 13.1 Advantages and disadvantages of direct mail

Advantages	Disadvantages
Specific targeting	Cost
Personalization	Poor-quality lists
Variation	Image problems
Accumulation of information	
Flexibility	
Circumvention of barriers	

Direct mail can also address the customer personally. If the full benefits of precision marketing are exploited (e.g., understanding the customer’s needs and preferences accurately before sending the mail), the mail can be directly tailored to the customer’s expectations and modified based on prior experience, as recorded in the database. Needless to say, the Porsche mailing was elaborately personalized. Because of its direct response nature, the marketing campaign can also be tested and varied to obtain optimal results. Responses can be added to the database, allowing future mailings to be even better targeted. A direct mail campaign can be mounted quickly on a wide variety of topics within an overall promotional campaign. In addition, it can circumvent barriers to market entry. Particularly during international expansion, firms may encounter uncooperative distribution channels that are unwilling to carry their merchandise. By using direct mail such as catalogue sales, firms can circumvent distribution roadblocks and secure direct consumer acceptance.

A prime disadvantage of direct mail is its cost (unless it is email, for which employees’ workload might need to be considered). The ups and downs in both direct mail response and newsstand sales—all coupled with increases in costs—are hurting the consumer magazine subscription business. In 2003, the direct mail average gross response rate was 1–2%, down from 6.8% in 1997 [8]. However, “in 2018, the average response rate of direct mail amounted to 4.9% for prospect lists and 9% for house lists. This is significantly higher than in 2017, with 2.9% and 5.1% respectively (ANA/DMA response rate report 2018)” [9]. Furthermore, sending larger mail volumes to lists that pull lower response rates naturally translates into higher acquisition costs. The decline in direct mail response rate has since continued to worsen.

The problem is exacerbated if marketers use mailing lists that contain old or duplicate names. Lists are expensive to “clean” and may even offend customers. Perhaps the greatest disadvantage, certainly in terms of consumer marketing, is the poor image that direct mail currently holds, especially because of privacy concerns. It is commonly described as *junk mail*. Mailings have too often been poorly

planned, poorly targeted, and poorly presented. As a result, many recipients see direct mail as an invasion of their privacy. In the United States, for example, more than 430 bills have been introduced in federal and state legislatures to limit direct mail, access to names, and the perceived invasion of privacy.

13.2.3 Structuring the Direct Mail Campaign

When structuring a direct mail campaign, the first question to ask is whom you wish to mail. A key group is probably your own database of customers and prospects. Even though you may have a great many names in your files, it may be worthwhile to be selective, choosing just those who you think would be responsive to the mailing, which you could predict based on the effectivity of your precision marketing efforts. This approach saves on cost and also protects the investment in the database by not exposing recipients to mounds of irrelevant junk mail.

Without a suitable list of prospects in your database, you can use the services of a specialist mailing house that maintains such lists, if your budget permits to do so. These lists are often compiled from customer and prospect lists bought from other suppliers. Mailing houses usually sell a list for one-time use, providing labels or computer-readable data or even a complete mailing service. The most important questions to ask in buying such a list concern its accuracy. The source of many lists may be suspect. Lists may be derived from subscribers to magazines, for example, or respondents to free offers, who may not be the ideal prospects. Lists may also be out of date and may need “cleaning” to remove duplicate entries or to update contacts within organizations. Usually, a quite satisfactory way of finding out how useful they are is to run a test mailing, although doing so represents an investment of time and money.

Sometimes mailing lists are not available, particularly for new products and customers, and frequently in the international marketing arena or even for marketing within a single country if it is highly multicultural, such as Australia, the United States, or the United Kingdom. In those instances, the firm must build its own mailing list from scratch. The most productive mailing list is usually the one that was built in-house. Unfortunately, in-house data are often neglected. For most direct marketing companies, such a list is the single most precious asset—the one whose loss could put them out of business. It is also usually the most responsive list to a company’s additional offers [10]. In all organizations, the data obtained as a result of inquiries, face-to-face selling, exhibitions, EPOS transactions, online interactions, and direct mail should be regarded as precious. These data should be consolidated and protected so that they are usable and useful as a direct input to all marketing activities—especially for precision marketing.

The Direct Mail Offer The basis for a mailing list has to be a clear-cut offer, whether simply a statement about the products or services or a specific promotion. Despite the opportunity to convey large amounts of material to read or view, the offer should be

kept as simple as possible. The material will almost inevitably arrive in the prospect's mailbox with half a dozen other similar mailings. Thus, as with all advertising, the direct mail message will have just a few seconds to grab the recipient's attention. The much-quoted sales acronym KISS ("Keep It Simple, Stupid!") is nowhere more applicable than in mailings.

To predict whether the prospective customers would thoroughly read the entire contents of your mail, comparing a scenario of an art gallery or an exhibition would be useful. For example, imagine a situation where in an exhibition 300 posters are displayed and hundreds of visitors are moving around the exhibition hall to look at the posters. It is said that a visitor would decide how long she or he would spend in front of a particular poster before moving to the next poster, and she or he would decide this within a few seconds of viewing the poster. During these few seconds, the visitor will make sure whether the title, graphics, and any other eye-catching contents of the poster appeal to her or him related to her or his personalized needs (of information), interests, and expectations. Direct marketers need to be just as creative to be able to instantly (within a few seconds) establish a rapport in the mind of their prospective customers, based on designing the mail in a way that the customers would think "yes, this is what I was looking for," before they move to the next junk mail in their mailbox. Otherwise, it is difficult to pursue success through a direct mail campaign. In addition, a clear action must be associated with the message in your mail, such as a suggestion to the recipient to return the reply card or to be prepared for a telephone call from a salesperson, in an attempt to initiate, maintain, and enhance a prospective ongoing chain of relationship between your prospective customers and your company.

The Letter Sending out a mailing without a letter is possible, of course, but evidence suggests that enclosing a concise letter improves the response rate. Enclosing a personalized letter improves it by up to a factor of four. Market research among personal computer buyers showed that between 60 and 80% of them read a letter addressed to them by name, fewer than 40% read one addressed to them by title, and just more than 20% read it when it was addressed to the company. There is some controversy as to the best form of letter. Clearly, a simple price promotion will benefit from a short, punchy style, whereas technical information on a sophisticated new product might be better suited to a longer format. The one point that most commentators seem to agree on is that the areas at the beginning and end of the letter receive the most attention from the recipient. The beginning should encapsulate the overall message in a punchy headline, immediately followed by the hottest offer. The best way to use the area at the end is to include an important postscript. Research has also shown that 79% of all people who open a piece of direct mail will read the P.S. first before reading anything else in the letter. Several studies have indicated other parts of a letter may be read more thoroughly, yet no one disagrees that a P.S. plays an important role in successful direct mail [11].



Because of the powerful effect of personalization, direct mailers are very creative when it comes to finding new ways to express the personal touch. Examples are envelopes that are addressed by hand (or by computer script that looks like handwriting) and return addresses from the recipient's city. The attachment of mock handwritten stick-on notes with remarks like "I really think you would like this, J." has also proven to be very successful. In all these instances, the direct marketer tries to sell only the impression of personalization—which evaporates after the recipient has received a sufficient number of messages using the same technique. Using the full power of information, however, allows the marketer to adapt the content of the message to the customer, which will result in a much stronger and longer-lasting personalization effect.

Timing The timing of mailings can influence their impact. Clearly, they have to be integrated with the overall campaign. During certain periods of the year, particularly July, August, and the holidays, it is traditionally considered unproductive to mail.

Even the day of the week can have an effect. For example, a mailing should avoid reaching an executive's desk on any day following a holiday, when there is likely to be a large accumulation of letters needing attention.

13.2.4 Internet-Based Communications

Increasingly, organizations use the computer in the same way as direct mail. The use of the internet as a marketing communications medium is already well established. This is understandable because, for the majority of internet users, web use has become a daily habit. "With over 312 million internet users as of 2018, it (the U.S.) is one of the largest online markets worldwide. In 2019, it was found that just 10% of U.S. adults said that they do not use the internet. Internet usage in the United States is frequent, with 43% of surveyed adults saying that they used the internet several times a day as of February 2018," compared to just 8% who said they accessed the internet about once a day [12]. Also, "globally the number of internet users increased from only 413 million in 2000 to over 3.4 billion in 2016" [13]. Nielsen//NetRatings' data show that portals and financial service sites are the best at keeping internet users coming back. Consequently, marketers have kept up with their investment in online advertisements [14]. In the United States, the total internet advertising spending in 2003 was about \$6.2 billion, and it is expected to increase at a rate of 20–25% per year [15]. A 2019 report demonstrates that digital ad spending in the "United States exceeded \$100 billion for the first time last year (in 2018), according to the latest internet advertising report from the Interactive Advertising Bureau and PricewaterhouseCoopers. Specifically, total domestic spending reached \$107.5 billion (in 2018), a 22% increase from 2017. Mobile advertising has become increasingly dominant, growing 40% year-over-year, to \$69.9 billion (in 2018). And video ad spending grew 37% to \$16.3 billion (in 2018)" [16]. In fact, according to a survey by InsightExpress LLC and MediaPost Communications, marketers seem to be allocating relatively more advertising budget to online advertising than TV and radio, although TV still receives the lion's share of the advertising budget [17].

Corporate websites can provide a valuable—and cost-effective—customer-care marketing and information tool. These sites are basically electronic catalogues or brochures. However, they usually provide a simple level of interaction via the ability to move from web page to web page. Some sites provide customer request mechanisms for information via online form fill-in, frequently asked questions, or email options. Also, some websites use the chat room option, where companies attempt to instantly answer their prospective customers' questions and collect individual customer data related to their preferences. Websites can also act as a great way of capturing customer data. Some sites utilize "push" technology to email specific information to specific customers [18].

Furthermore, the relatively low cost of developing a website allows smaller firms and even individuals to compete head-to-head with larger firms. As a result, direct

communication via the internet has become a crucial component of marketing outreach efforts. Internet communication is also evolving into direct selling. Also, search engine optimization (SEO) technology is quite popular to bring your company's offerings to the forefront of a web search, when a customer tries to search information on the web related to the products or services that are offered by your company. The SEO operation is useful to sharpen your precision marketing practice. Another one-way virtual communication process is using cookies on websites. Upon notifying the visitors of a website, many companies use cookies to retrieve data about their website visitors' online browsing habits and interests. Collecting and analyzing customer data using cookies is a proactive approach to understanding customers' needs as part of precision marketing. As a result, using cookies on digital platforms has become very popular among today's marketers.

13.2.5 Door-to-Door

Another direct mail marketing approach is to employ a door-to-door distribution company to deliver unaddressed mailings to all addresses in a specific area. This technique loses many of the advantages (e.g., specific targeting, personalization, and wide coverage) of direct mail, but when the area is tightly defined, it can still offer a high degree of precision. In particular, it offers a very good vehicle for sampling new users on a tightly targeted basis that, once again, can be optimized by testing.

13.2.6 Publications

Publications mailed to readers also can be tailored to suit even relatively small groups of consumers. *Farm Journal*, for instance, uses computer-collated binding to send out 8896 different versions to its 825,000 readers. Advertisers are similarly matched to readers on the basis of computerized subscriber profiles [19].

13.3 Telemarketing and Email Marketing

As explained in this chapter's introduction, **telemarketing** has probably been the most obtrusive form of direct marketing activity because unsolicited phone calls tend to intrude on consumers' privacy at home. Due to federal regulations, telemarketing activities have decreased significantly since the national "do-not-call" list came into effect. The Direct Marketing Association (DMA), on behalf of the nation's 5.6 million telemarketers, filed a lawsuit claiming the legislation violates their First Amendment right to advertise and discriminates against the telesales industry. Despite the DMA's efforts, telemarketing will probably become an obsolete form of direct marketing [20].

Telemarketing—The personal and interactive technique of direct marketing in which calls are made to individual potential consumers.

Telemarketing is rapidly being replaced by email-based marketing. In the United States, the largest telemarketers are preparing for a new round of advertising pitches via email (as well as more conventional direct mail) after the advent of the “do-not-call” registry. Telemarketers such as AT&T and Allstate Insurance Co. view this federal registry as hampering their business. Their budgets for telemarketing will be diverted to other methods of advertising and promotion. As a result, unwanted email solicitations are expected to rise [21].

After an email system is set up, the variable cost of sending email messages to a countless number of people is virtually zero. As a result, more than 13 billion unwanted email messages swamp the internet per day worldwide. This tsunami of time-wasting junk email (known as *spam*) costs employers \$1934 a year for each employee through loss of productivity, according to Nucleus Research. Having risen from 8% of all email in 2000 to more than 40% by the end of 2002, spam has now reached a majority, according to studies from several antispam software companies. Another report in December 2019 reveals that “45% of all emails are spam. This translates into more than 14.5 billion messages globally per day. While this figure is the general consensus, there are some spam traffic statistics that suggest as many as 73% of all emails are unwanted promotions for products and services” [22]. A fundamental problem with email advertising is that legitimate email direct marketers are overwhelmed by so many illegitimate or unscrupulous businesses sending email advertisements to consumers at large. Again, direct marketers should be aware of the social consequences of email marketing [23].

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13.3.1 Network Marketing

A direct salesforce is ideal but very expensive. This problem has been nicely side-stepped by some organizations that have recruited part-time agents at low pay (see ► Web Exercise 13.2). **Network marketing** refers to retail selling channels that use independent distributors not only to buy and resell product at retail but also to recruit new distributors into a growing network over time [24]. Avon Cosmetics and Amway have successfully developed this network marketing approach, with reportedly a million representatives worldwide. The friendly relationship between seller and buyer, who often know each other socially, reinforces the sale and also motivates both parties. These techniques can be considered precision marketing in that they involve a very direct—and often a very knowledgeable—approach to the customer. On the other hand, because the organization employing the seller does not have access to this knowledge, but depends on the informal relationship of its agents, it encounters some problems in terms of applying the other techniques of precision marketing.

Network marketing—Retail selling channels that use independent distributors not only to buy and resell product at retail but also to recruit new distributors into a growing network over time.

Web Exercise 13.2

Mary Kay Cosmetics is known for its “Pink Army” of pastel Cadillacs. One International Convention brought 40,000 businesswomen from around the world to meet and share ideas and strategies for selling the line. A very clear system of rewards and advancements unites the members of this expansive network and ensures peak efficiency. Go to ► www.marykay.com to get a feel for the company overall; then go to ► https://www.marykay.com/en-us/sell-mary-kay?iad=topnav_sellmk to see how this structure works.

13.4 Sales Promotion

Sales promotion is normally an adjunct to personal selling or advertising. It can be directed either at the consumers, the salesforce, or the channel members carrying a product. Typically, such promotions are a relatively short-term activity used to stimulate some specific action. Because of the cost and clutter of media advertising, better targeting capabilities, and easier tracking of its effectiveness, sales promotion budgets have overtaken advertising budgets in both the United States and Europe. ■ Table 13.2 lists the wide range of possible sales promotion activities.

Sales promotion—A short-term activity used to stimulate some specific action by the consumers, the salesforce, or the channel members carrying a product.

13.4.1 Advantages and Disadvantages of Sales Promotion

Despite its widespread use as the most important element of communication campaigns, at least in terms of money spent, the essence of sales promotion is that it is intended as a very short-term influence on sales. It typically has an insignificant long-term effect but may be a powerful additional factor to sway short-term sales in the supplier’s favor or to advance sales that would have been made later.

The advantages of sales promotion are as follows:

- *Sales increase*—This is the main short-term benefit.
- *Defined target audience*—Sales promotion can be targeted to specific groups, especially selected retailers and their customers.
- *Defined role*—It can be targeted to achieve specific objectives, such as increasing repeat purchases.
- *Indirect roles*—Other objectives include wider distribution and shelf space.

Table 13.2 Types of sales promotions

Money		Goods		Services	
Direct	Indirect	Direct	Indirect	Direct	Indirect
Price reductions	Coupons	Free goods and samples	Stamps	Guarantees	Cooperative advertising
Cash refunds	Vouchers	Premium offers	Coupons	Group participation events	Vouchers for services
Loyalty schemes	Money equivalent	Free gifts	Vouchers	Free services	Contests
Incentives	Contests	Trade-in offers	Money equivalents	Risk reduction schemes	
Bonuses	Extended credit	Tied offers	Contests	Training	
Commissions	Delayed invoicing			Demonstrations	
	Return policies				

These are the disadvantages:

- *Short term*—Almost all the effect is immediate. There is rarely any lasting increase in sales.
- *Hidden costs*—Many costs, not least the management and salesforce time and effort, do not appear in the direct costs.
- *Confusion*—Promotions can conflict with the main brand messages and confuse the customer as to what the image really is. For example, during the health and fitness craze in the United States, turkey was aggressively promoted as a low-fat meat with various forms of sales promotions including in-store coupons and loss-leader pricing before Thanksgiving. Sales promotions were intended to encourage consumers to eat more turkey year round but unfortunately strengthened turkey's image as a Thanksgiving meal. However, turkey consumption has dropped because many consumers consider turkey as a health food. The National Turkey Federation always promoted it as a low-fat meat, but it is consumers who have redefined it as a health food [25].
- *Price-cutting*—This effect can cause users to expect a lower price in the future and damage quality perception.
- *Postponement effect*—Too many sales promotion efforts in a product category can result in customer refusal to purchase a product at full price and the willingness to defer purchases until the next promotion.
- *Significant governmental regulation*—Much sales promotion is regulated by governments. As a result, a particular incentive may be permissible in one mar-

ket but illegal in another. In Scandinavia, for example, every promotion has to be approved by a government body. In France, a gift cannot be worth more than 4% of the retail value of the product being promoted, subject to a maximum of 10 francs. In Germany, it is not permitted to insist on receiving proofs of purchase as a condition of contest entries [26]. All these differing regulations make it very difficult to carry out global sales promotion efforts.

Perhaps the greatest disadvantage of sales promotions is their lack of effectiveness. Researchers have reported that only 16% of the trade promotion events studied were profitable, based on incremental sales of brands distributed through retailer warehouses. For many promotions, the cost of promoting an additional dollar of sales was greater than 1 dollar [27]. Yet promotions have become so popular that they now account for more than 65% of typical communication budgets.

In line with its essentially short-term impact, a promotion may be expected to achieve certain limited objectives. Some promotions are expressly planned to induce consumers to make a trial purchase of the product or service. Examples include money-off coupons or samples of the product, possibly linked as a free gift with a related product. Other promotions are designed to achieve extra volume by stimulating the user's decision at the point of sale; on-package coupons are the obvious example. Another alternative is to offer more of the product (e.g., 20% more free) for the same price. Promotions can also be designed to build repeat business. A good example is a coupon for money off the next purchase. Competition among retailers or the salesforce may lead to a better display at the point of sale, but it is the extra shelf space that sells the product rather than the promotion itself.

Sales promotion and advertising should be complementary. The most effective campaign often includes an integrated mix of several types of promotion. Although such an effort may be expensive, corporations such as AT&T, IBM, and HP have found that by synchronizing their advertising, direct mail, telemarketing, and field salesforce, they can increase response and customer satisfaction [28].

Customer satisfaction is important because it costs five to seven times more to find new customers than to retain the customers a company already has. Most dissatisfied customers never complain; they just switch to other competitors. The bright side is that totally satisfied customers are six times more likely to repurchase a company's products over a span of 1–2 years than merely satisfied customers [18].

13.4.2 Promotional Pricing

One of the most frequently used sales promotion techniques is offering promotional discounted price to buy extra sales—albeit only in the short term. This technique can be grouped into a number of main categories.

Price Reductions The simple money-off promotion imprinted on the packaging is the most direct method and may have the most immediate impact on sales levels.

Because the price reduction is shown on the package, it is nearly impossible for any retailer to avoid passing it on to the consumer. This technique is the most expensive, because to be effective it usually needs to represent 15–20% off the regular retail price. Restoring the price to its original level at the end of the promotion may also prove difficult because consumers may decide to stockpile to hold off on additional purchases until the next promotion. This type of promotion may also do considerable damage to the image of quality products or services, especially when the price-off sticker visually dominates the label. Even though price reductions present many drawbacks, researchers have found that in spite of the success of the everyday low pricing scheme of Walmart and other retailers such as ALDI, a high–low pricing scheme works more profitably for most firms. At the same time, however, they concluded that price is not a defensible point of differentiation for a firm unless it is driven by an existing advantageous operating cost structure [29].

Free Goods The offer of more products for the same price (e.g., two for the price of one) has several advantages. It forces the customer to buy more than usual for the same price during the sale. However, this free goods strategy clearly signals what a normal price is and that such a discount is temporary. Therefore, it has less impact on the image of the product and its established price.

Tied Offers Two or more kinds of products often shrink-wrapped together and offered at a lower price (e.g., tying a laptop with an additional external data storage device). This packaging requires retooling of the assembly process and changes to the production and assembly lines with considerable reductions in productivity. In addition, larger or different shelf space may be required at the retail store. This promotional campaign could be dangerous if cooperation was not assured in advance from the retailer. In general, tied offers can be of two types: vertical tying and horizontal tying. For vertical tying, unrelated products or services are offered together with the main product or service (e.g., tying a restaurant buffet and a concert ticket), whereas in horizontal tying, relevant products or services are offered together (e.g., shoes and socks, toothpaste and toothbrush, or airline ticket, hotel room, and leisure activities together as a holiday package) [30].

Coupons and Virtual Coupons Coupons are often used when the aim is to extend the penetration or trial of the product to new customers. They are most effectively delivered door to door, where they achieve high redemption rates. Increasingly, coupons are also delivered via freestanding inserts, which are books full of coupons. Coupons can also be incorporated in press advertisements, which are cheaper to run but have a considerably lower redemption rate. Depending on the generosity of the offer, the coupon is supposed to tempt consumers away from the brands they use to try a new one. This type of promotion can be very effective if coupon redemption levels are high enough and may be more cost-effective than sampling.

The use of traditional coupons, along with other forms of sales promotion, has not been without controversy. Procter & Gamble, probably the most successful

packaged goods marketer with a wide array of sales promotions in the United States, came to realize how difficult the company had made it for consumers over the years to make a purchase decision. In 1996, the company began standardizing product formulas, eliminating marginal brands, cutting product lines, and reducing complex deals and coupons. Gone are 27 types of promotions, including such outlandish tactics as goldfish giveaways to buyers of Spic and Span (unfortunately, many fish froze to death during midwinter shipping). Although it is not possible to attribute the results solely to reduced use of coupons, the company increased its business by a third. P&G executives attribute this outcome to the power of simplicity. Obviously, the reduced use of coupons has not hurt sales at all [31]. In terms of virtual coupons, there are specialized companies who partner with a number of manufacturers to offer special price for all their partners' products and services through their website. For example, RetailMeNot (► <https://www.retailmenot.com/coupons/virtual>) is one such company who offers virtual companies in association with their partner brands.

Marketing in Action 13.1

A Coupon Program Backfires at General Motors

US automakers occasionally run a loyalty coupon program in their attempt to attract prospective automobile purchasers to their dealerships. These coupons are the automakers' response to price pressures from Japanese companies, stagnant demand, and excess capacity. For example, General Motors launched a \$500 loyalty coupon Dog Publishing All Rights Program. This program, which expired at the end of February 1999, proved to be very successful in encouraging customers to rush to buy cars—albeit a month earlier than they intended. As a result, GM car sales dropped 11.6% in March; its share of the car market also fell to 26.5% from 31.8% in March. GM and its dealers blamed the successful \$500 loyalty coupon program in February for dragging down March car sales.



Using coupons in conjunction with low interest rates and/or dealer incentives, automobile buyers should expect incentives totaling around \$1500 per vehicle purchase. Some industry experts think, however, that auto manufacturers should just cut prices instead of having to administer incentive programs. Even the automobile manufacturers are not certain that incentive programs are good for the companies' brand images.

Do coupons, rebates, and various other consumer promotions tarnish an automobile company's brand image? Rent-a-car companies, such as Avis, continue to offer coupons for selling used cars. Do you think that automobile coupons will become as popular as traditional grocery store coupons?

Source: Miller, J. (2000, April 10). GM says coupon program hampered March numbers. *Automotive News*, p. 47; Xoo, C. (2020). *Avis used cars sales coupon*.

► <https://www.couponxoo.com/avis-used-car-sales-coupon>. Accessed 11 Aug 2020

Coupons can also meet with cultural resistance. When Nielsen Holdings tried to introduce money-off coupons in Chile, the firm ran into trouble with the nation's supermarket union, which notified its members that it opposed the project and recommended that coupons not be accepted. The main complaint was that an intermediary such as Nielson would unnecessarily raise costs and thus the prices charged to consumers. Also, some critics felt that coupons would limit individual negotiations because Chileans often bargain for their purchases [32].

Emerging forms of coupons permit more precise targeting and therefore result in less waste. Today, online coupon services allow shoppers to print or scan their own coupons for packaged goods, while safeguards prevent coupons from being altered or copied. In the past few recessionary years, the online coupon redemption rate has been up—to 3.1% in 2002 from 1.1% the year before. A 2015 report reveals that “the widely-accepted rates for coupons obtained from free-standing print insert is 5–2%,” whereas the “redemption rates for email coupons delivered through desktop channels is around 2.7%” [33].

Grocery stores have also started to see the web's targeting and tracking potential. Unlike traditional coupons, each online coupon is unique, theoretically letting the manufacturer match the redeemed coupon to the shopper, who has supplied demographic data to retrieve the coupons. Thus, about 10% of their 600 packaged-goods-maker clients are “actively experimenting” with online coupons [34]. With such greater precision, the coupon tool becomes less expensive and more efficient and is therefore likely to be used more. It can be problematic, however, for some industries, as ► Marketing in Action 13.1 describes.

Cash Refund A cash refund (from the retailer or by mail), usually on the basis of a coupon that is part of the packaging, is another way of offering a controlled price reduction. However, the redemption procedures may be complex and unwelcome to the trade because proper monitoring is required to ensure that cash refunds are issued only for sales that have actually been made. Unless there is a matching of inventory

held, products sold, and refunds issued, manufacturers may expose themselves to the possibility of retailers claiming cash refund reimbursements without having sold the merchandise. Cash refunds can also be expensive. Sometimes the refund may be as much as the whole purchase price.

Money Off the Next Purchase The method of providing money off the next purchase may be used to extend buying patterns and build customer loyalty. Such offers are often part of the product label and require some effort to use. For example, the label may have to be soaked off the bottle, or the packaging may have to be preserved. Sometimes, the hassle of such requirements can result in customer dissatisfaction rather than promotion.

Loss-Leader Pricing A product may actually be priced below cost to attract customers into a store, in the hope that they will buy other products or services that are profitable. This loss-leader pricing strategy was discussed in detail in ► Sect. 10.4.2.

Credit If credit is offered, lower-priced or even free credit may be used instead of a simple price reduction. This strategy may be cheaper to the vendor who has access to lower-cost credit, although the cost of bad debts must also be covered. Such offers are often seen in the furniture business and electronic products (e.g., 90 days same as cash; pay nothing until the end of next 6 months or so), where low financing rates are advertised. Low-cost credit and delayed invoicing can also be used as important tools to get retailers to carry a new product. By offering payment terms of 120 days, for example, many Japanese manufacturers and wholesalers achieve high acceptance levels from their retailers, who can keep the funds for some time after the sale and earn interest [35]. Low-cost credit may also introduce the consumer to the use of the supplier's credit facilities.

13.4.3 Nonprice Promotions

Other forms of promotion offer added value but are not directly price related.

Contests In the case of contests, the purchaser receives the right to one or more entries in a competition. Because the size of the top prize reportedly determines the interest of the customer, a large prize can be a very attention-getting form of promotion. Contests can be easy and cheap to mount and have a guaranteed fixed maximum cost. Retailers can also use them as incentives for the salesforce in the form of bonuses or prizes, such as participation in special top production meetings in a desirable resort area.

Free Gifts Free gift offers can be designed to lure customers and channel members from the competition or to build loyalty. Banks, for example, offer home equity loans without charging financing points or advertise that they will pay for any legal expenses of the closing costs. Customers are thus encouraged to change banks. The airline industry's use of frequent-flyer miles is an example of a customer loyalty builder.

Here, customers are encouraged to fly regularly on a specific airline to receive, after a number of flights, a free ticket. On the internet, there is a ubiquitous virtual gift. For example, InternetPerks' IncentiveWare is an internet promotional piece that companies can use to keep their names in front of customers while giving them free desktop applications. As the use of salesforces declines, the internet becomes a valuable tool with which to reach customers. IncentiveWare consists of applications for the desktop. These applications, called droplets, can be sent as virtual gifts attached to email, downloaded free from a website, or put on disks to be handed out at trade shows and sales calls. IncentiveWare is meant to replace promotional gifts, such as hats, coffee mugs, and T-shirts bearing the corporate logo, that companies frequently use [36].

Self-Supporting Offers In the case of a self-supporting offer, the offer is not free, which is why it is also called a premium offer. The impression is usually given that the supplier is subsidizing the offer so that the customer will obtain a good deal on the item. In practice, the intention is usually to cover the cost with the amount paid by the customer, in effect offering the customer only the benefit of the supplier's buying power. Marlboro sweatshirts are one example. Such offers can be difficult to administer, and the forecasting of inventory levels can be problematic.

Manager's Corner 13.1

A Frequent "Surfer" Program on the Internet

Is there a way to apply the frequent-flyer model and thus reward loyalty on the internet? Roughly 56% of online consumers reported in a survey that they would be more likely to purchase from a given e-commerce site if a loyalty program was available. That is good news for online retailers fed up with dismal returns on banner ads and struggling to drive traffic and sales to their home page.

Today's online consumers can hoard free merchandise, frequent-flyer miles, and cash rebates. Of course, they have to do something to get these rewards. At Cybrgold (► www.cybrgold.com), a network incentive program, members earn cash by filling out surveys, reading ads, trying out a particular product or service, and purchasing items from affiliated merchants. The company tailors emails about new incentives based on a member's past activities in the program. There was an offer that if you are willing to sign up for a 30-day trial membership with the American Homeowners Association (► www.ahahome.com), Cybrgold will pay you \$5. Similar other offers are also offered from time to time.

But network programs can become expensive. Compare the variable costs of a network program to that of a referral program. Associates of a referral program display a link to the merchant on their websites; whenever a customer accesses the merchant through an associate's page, the associate receives a commission from the purchase. Sparks.com (a website that sells cards, gifts, and flowers) associates receive a 20% commission. It is usually a one-time commission because the next time that customer wants to shop at Sparks.com, he or she will go there directly. You can give a 100% commission if you think you can keep that customer for life. Customers who

are members of a network program, however, cost the merchant every time they buy something because of the incentives attached to the purchase.

Such online frequent surfer programs are now adopted by different sectors such as social care, health care, and the nonprofit sector as well. For example, “frequent (online) surfing on social health networks is associated with increased knowledge and patient health activation.” Do you think that such online frequent surfer programs are useful to attract your target audience? What would be the key differences in designing such online promotional programs across different sectors, industries, and markets?

Source: Lach, J. (1999). Carrots in cyberspace. *American Demographics*, 21, 43–45; ► www.sparks.com. Accessed 24 Aug 2004; and Swan, P. (2003, June 16). A search engine for TV. *Television Week*, p. 8; Grosberg, D., Grinvald, H., Reuveni, H., & Magnezi, R. (2016). Frequent surfing on social health networks is associated with increased knowledge and patient health activation. *Journal of Medical Internet Research*, 18(8), 212.

Multibrand Promotions In the case of multibrand promotions, a number of brands, typically from one supplier, share a single promotion to maximize impact for given costs. Marketers can use this technique to recruit new users to these brands. For example, Taco Bell promotes Six Flags amusement parks with a “Buy One Get One Free” discount ticket. Taco Bell has booths and restaurants at Six Flags parks to boost its sales as well.

Guarantees and Services Trade promotion can also take the form of special guarantees or services, either to consumers or to channel members. For example, to increase sales for online retailers, much emphasis has been placed on network and referral programs, as seen in ► Manager’s Corner 13.1. Consumers may also be offered a 30-day trial period. Frequently, such promotions are used for magazine subscriptions, allowing customers to cancel the subscription after trying out one or more issues. However, similar guarantees are emerging in many other sectors, where customers can return merchandise liberally. The same tool is also applied to channel members, where manufacturers may desire that retailers stock up in expectation of large demand. Liberal return privileges facilitate such overordering. Special services, such as offering restocking assistance, cooperative advertising, or display stands, can also be used as enticements.

13.4.4 Sampling

Sampling is generally the most powerful form of promotion in the early stages of a new product launch, the immediate aim being to obtain trial by users. Sampling is most appropriate for products that offer some unique feature other than price. The experience of a new taste or different product performance can best be com-

municated by sampling. For example, when Ocean Spray decided to introduce its cranberry juice internationally, the company quickly discovered that it was introducing an unknown fruit and an unknown brand into unfamiliar foreign markets. Lots of samples had to be given away to help people acquire a taste for cranberries [37]. Most consumers who receive a free sample will try it. Distributing free samples of consumer products is an effective way to get consumers to read product information. In the pharmaceutical industry, sampling is a common practice, as we see that medical representatives frequently offer free samples to doctors and drug stores to promote their brands. Also, wine tasting is another common example of sampling, where we see that before officially launching a new wine, wineries invite people to taste the new wine, in order to promote it as well as to obtain suggestions from their customers for any last moment adjustment in packaging, bottling, etc. According to an online survey of 3400 Americans conducted jointly by NFO WorldGroup, the Promotion Marketing Association, and the Brand Marketing Magazine, more than 70% of survey respondents who recalled receiving at least one free sample in the past year said they either “always” or “usually” looked at product information included with samples. In addition, more than half of the consumers who recalled receiving coupons with free samples in the past year reported that they either “always” or “usually” redeemed the coupons [38].

Sampling—The most powerful form of promotion in the early stages of a new product launch, which has the immediate aim of obtaining trial by users.

Sampling is a very expensive promotional device, but it is the most effective, direct, and immediate way of obtaining consumer trial. Retailers also recognize its power to pull in customers and that it may accordingly help to achieve distribution. Sampling is often combined with a money-off voucher to ensure that a successful trial is rapidly followed by a purchase.

Most forms of promotion have a cumulative effect in the long run and can therefore be thought of as an investment. Sales promotions, however, are almost always developed to have a direct and immediate effect, so the extra sales should be linked to the promotion. Each sales promotion effort should have specific performance objectives. The performance should be monitored both to ensure that these objectives are attained and to judge the usefulness of similar promotions in the future.

13.5 Sponsorship

Sponsorship is a very specialized form of promotion. It can be very expensive and is typically found in the arts or in sports marketing. It requires careful justification and is all too often based solely on the private interests of the members of the board. However, sponsorship can be very productive for those organizations, such as alcoholic beverage and tobacco companies, that have limited access to the media or those that have more complex objectives, such as arranging

events to meet customers. In the United States, not only is the Super Bowl one of the most watched shows on TV, but it is also the most expensive. The TV advertising rate charged during the Super Bowl was about \$2 million per 30-second spot in 2003, which was about \$5.1 to \$5.3 million in 2019 [39]. Anheuser-Busch, the Super Bowl's exclusive malt-beverage advertiser, once locked up the equivalent of 10 30-second ad spots or 5 minutes of airtime for Bud, Bud Light, Michelob, and a responsible drinking message. In addition, Anheuser-Busch cross-promoted its products on retail displays with Procter & Gamble's Pringles and Torengos snacks [40].

13.6 Trade Shows

Marketing goods and services through trade fairs is a European tradition that dates back to A.D. 1240. At a trade show, manufacturers, distributors, and other vendors display their products or describe their services to current and prospective customers, suppliers, other business associates, and the press. The firm can achieve the two benefits of demonstration and personal contact because prospective buyers can see and handle the product, try it out for themselves, and ask questions. Shows can target the consumer market or, more often, the business-to-business market. Generally, the more sophisticated the product, the more sales depend on **trade shows**, where the product can be thoroughly explained in person. Many companies overlook the cost of human resources committed to planning and participating in a trade show. Besides sales personnel, experts such as engineers, designers, and project managers should be present at trade shows to provide immediate answers to the questions of serious prospects, who will buy a company's products or services as a direct result of its trade show participation. Add to this the cost of direct mail promotion, free gifts or samples, catering, accommodation, and follow-up, and it becomes less surprising that the exhibit space fee accounts for only 10–15% of the total budget for participation [41]. Today, trade shows are a quite common promotional practice in industries like computer and other technological products, automobiles, heavy manufacturing machineries, construction, and development and even in the education industry, especially for the promotion of international education in other countries.

Trade shows—Trade fairs for manufacturers, distributors, and other vendors who display their products or describe their services to current and prospective customers, suppliers, other business associates, and the press.

Trade shows provide powerful benefits, but, like any other promotional activity, they demand careful planning—and not a little expertise—to reap rewards. The main considerations in planning a trade show are as follows:

- **Objectives**—One of the most important and frequently neglected activities relating to exhibitions is deciding the objectives. Why are you there? ■ Figure 13.2

	Selling Objectives	Nonselling Objectives
Current Customers	Maintain relationship Transmit messages to key accounts Remedy service problems Stimulate add-on sales	Maintain image Test products Gather competitive intelligence Widen exposure
Potential Customers	Contact prospects Determine needs Transmit messages Commit to call back or sale	Contact prospects Foster image building Test products Gather competitor intelligence

Fig. 13.2 Trade shows and market constituencies (Source: Exhibit from Bonoma, T. V. (1983). Get more out of your trade shows. *Harvard Business Review*, 61(1), 82. Reprinted by permission of *Harvard Business Review*)

provides a range of possible objectives across a matrix that compares prospects with current customers and direct selling objectives with more indirect ones [42]. Carefully plotting your objectives is the necessary first step for measuring the success of your trade show exhibit.

- **Selection**—Every exhibition organizer thinks that his or her offering is essential, but few of them really are. Most organizations need to select very carefully those trade shows they must attend. Clearly, the organizers should be able to provide statistics of attendance at previous events, and the exhibitor list for the forthcoming one should convey the best flavor of that show. If the main vendors in the industry are not attending, then ask yourself why.
- **Booth location and design**—The main requirement, whatever the chosen size and shape, is to obtain the best position. As with retail outlets, the three main priorities at a trade show are location, location, and location. The best positions are typically along the central aisles, as close as possible to the largest, most spectacular booths.

13.7 The Press and Public Relations

Face-to-face selling, advertising, and sales promotion can all be described as primary sources of communication. They are under the firm’s direct control and are paid for. But there are also secondary sources of communication, including word

of mouth, editorial comment, and personal recommendation. These secondary sources may not be under the firm's control but can still be influenced by promotional activities. In turn, because of their supposed impartial nature, they may carry considerable weight with consumers, possibly even more so than direct primary sources. The most important secondary source of communication is the media: newspapers, magazines, radio, television, and internet (e.g., when a company lists their press releases on their corporate website). They can be a very effective part of the marketing mix, particularly because it is through the media's characterizations that the public develops an understanding and an image of the company. Often an investment in secondary communication can be many times more productive than that spent on other types of promotions. In spite of this importance and effectiveness, though, firms often neglect these secondary sources of communications. However, these secondary sources are instrumental for a company's image-building initiative in the long run, if the company's contribution to the society (e.g., reduced carbon emission, worker-friendly work culture, etc.) is attributed by the mainstream national media.

Public relations (PR) is a particularly valuable promotional device for services because the authority offered by independent recommendations in editorial matters can add vital credibility to an intangible service. It is also an easy promotional device for nonprofit organizations to use. In ► Sections 13.7.1, 13.7.2, 13.7.3, and 13.7.4, we will explore the wide range of vehicles available to PR professionals.

Public relations—A valuable secondary source of communication that is based on impartial, independent recommendations.

13.7.1 Media Contact

One of the most important PR tasks is to maintain contact with key journalists in the relevant media. This is a two-way process: The PR professional learns about, and can contribute to, features that will appear in the media, while journalists become more receptive to news stories from the PR professional. It is an investment process in which the relationship with the media—and especially with individual journalists—has to be cultivated until a mutual trust has been earned. A survey revealed that more than 90% of US journalists rated candor as the primary quality they required in an executive responsible for public relations; the same percentage said they were more likely to deal with PR people whom they knew personally [43].

13.7.2 News Stories

The backbone of PR is the interesting and entertaining news item that shows the client or product in a good light. Such stories are best placed by personal professional contact. For more general distribution, carefully written press releases also

demand expert attention. Public relations handbooks stress good writing skills in delivering such stories, but that is only the starting point. PR is like any other form of marketing. You must know the customers—here the journalists—and provide the right product: the story they want. For example, KFC’s “All-American Salute to Mothers” promotion and announcement “A 12-year-old girl from Fargo, North Dakota, won \$5000, and Kosovo refugees will receive up to \$10,000 in aid from KFC” caught a lot of attention from media journalists in 1999. A sixth grader was chosen from thousands of students as the winner of the nationwide promotion, in which children designed cards for Mother’s Day. Her card was placed for sale in Hallmark Gold Crown stores. For every one of the Mother’s Day cards sold, KFC agreed to donate \$1, up to a maximum of \$10,000, to the Kosovo relief effort sponsored by the relief agency Save the Children. It was KFC’s greatest public gesture [44].

13.7.3 The Press Office

It is important that a firm be able to react to press inquiries. A press office that can handle any level of questioning from journalists and is almost effusively enthusiastic to help is essential if PR is to be taken seriously. It is worthwhile to ensure that all senior executives who come into contact with the media are trained in handling such interviews. Many executives wish to shy away from contact with the press, yet in this era of increased public scrutiny of corporate actions, it is part of executive responsibility to work with the press. It is also a sound investment to have suitable executives who are professionally trained in the techniques of handling radio and television interviews, because doing so requires some skill.



Volvo construction equipment officials at ConExpo, the largest construction equipment exhibition in North America, discussing company activities with industry trade publication journalists. (Source: By kind permission of Volvo Construction Equipment North America, Inc.)

13.7.4 Corporate Public Relations

PR is often used as a term to cover a wide range of activities. Of these, perhaps the most important is the corporate interface with both internal and external stakeholders. This aspect of PR is much more likely to be the province of corporate PR personnel. Some of the routine tasks include communications to shareholders, such as annual reports, newsletters, company magazines, and sponsored industry-specific journals. These communications not only let shareholders know what their company is doing but also, and perhaps more important, help the diverse members of the workforce share in the corporate culture. To be part of an organization, employees must receive additional information on issues not necessarily related to their jobs but important to the firm. The better the communication vehicle can satisfy the information needs of employees, the less they will have to rely on informal sources, rumors, and the grapevine. The corporate PR function also supplies the various speeches and presentations in which senior management becomes involved and acts as the channel for the “corporate citizen” activities that organizations believe, usually with some justification, will help their image in the community.

There are two types of corporate public relations: The first deals with anticipating and countering criticism of the corporation and is often called defensive, or reactive, PR. The second tries to enhance the image of the firm and its products or services and is labeled as proactive PR.

Defensive Public Relations Organizations are often exposed to the activities of large, effective external pressure groups. For example, Greenpeace has more than 2.8 million supporters worldwide and national as well as regional offices in 41 countries [45]. Such groups can cause significant problems for a corporation if they believe that the firm’s activities violate or inhibit their goals. Their actions can result in boycotts of the firm’s products and in damage to the firm’s image and its employees’ morale. The corporate PR department defends the organization against these onslaughts and handles the external interface with such groups. Indeed, the corporate PR group may be the source of the organization’s knowledge of such groups. It is the responsibility of the PR adviser to understand the position of all important external groups—particularly those trying to exert pressure for change, such as a campaigning consumer body or a group of dissident shareholders. What is their case? Is it factually based? Who are they trying to influence? How are they attempting this? If the PR adviser feels there is validity in their claims, it becomes his or her responsibility to advise management and to try to institute appropriate policy changes within the organization.

Good defensive PR does not just consist of circling the wagons, but also of acknowledging and understanding the other side’s position. In times of crisis, the instinctive reaction may be to seek shelter and wait for the noise to die down, but any organization should think very carefully before refusing to communicate in sensitive areas. Openness about corporate activity, preparedness to utilize the reach and power of the firm to swiftly counter criticism, a reputation for integrity, and

clarity in communication go a long way toward diffusing difficult situations. Research has shown that the side getting to the news media first tends to be believed more. But such early action also needs to be accompanied by past efforts at building credibility with the media and important constituencies and even adversaries [46]. When the makers of Tylenol learned about possible outside contamination of their product, a swift and open public response helped preserve much goodwill and market share. Conversely, when Mercedes-Benz's A-Class car failed in a rollover test, the carmaker publicly ridiculed the results by issuing the sarcastic statement, "You can tip any car in the world if you really want to." In continuing with its disbelief, the company officially announced that the A-Class was absolutely secure and started to blame its wheel producer, Goodyear, for the car's apparent failure. Clearly, Mercedes was unable to admit its own failures in the production and engineering of the A-Class. By resorting to such tactics, Mercedes counteracted to save its reputation but brought about a strong disapproval reaction from the media and consumers alike. Its initial reaction added considerably to the public disapproval and negative attitude toward the German carmaker [47].

Facebook has been attracting ongoing criticism and governmental and nongovernmental scrutiny because of their failure to protect their users' privacy. In an industry conference, "Facebook CEO Mark Zuckerberg expected laughs when he joked about the company's poor record on protecting the privacy of its customers at its annual developer conference" [48]. Mr. Zuckerberg probably wanted to present the privacy issue based on a hilarious environment in the conference. However, the audience took it seriously, and in response to the silence from the audience, he tried to defend, clarifying that: "Now look, I get that a lot of people aren't sure that we are serious about this," a grinning Zuckerberg told the audience at F8. "I know that we don't have exactly the strongest reputation on privacy right now, to put it lightly" [48]. This is also an example of defensive PR by Facebook, considering that the CEO of the company was addressing an industry event.

13

Proactive Public Relations Few organizations use PR to influence external activities to their advantage. However, those that do may gain considerable benefits. Users of proactive PR should plan to set a clear immediate PR objective, identify audiences and media, and make sure to stay in touch with the person in charge [49].

Proactive PR, however, need not confine itself to short-term promotions. It can also be used to achieve market success against overwhelming odds, as in the case of Ben & Jerry's ice cream (see ► Web Exercise 13.3). Early in the life of the company, Ben & Jerry's was confronted with a distribution problem. As it attempted to enter larger metropolitan markets in the Northeast, Pillsbury, which markets Häagen-Dazs ice cream, threatened to withdraw Häagen-Dazs from those distributors that agreed to carry Ben & Jerry's ice cream. Of course, the foreclosure of distribution is illegal because it is a constraint on fair trade. But how was a tiny company like Ben & Jerry's going to fight a huge corporation like Pillsbury with its large staff of lawyers? The answer was found through proactive PR.

Printed on each Ben & Jerry's carton was a toll-free number with the provocative question: "What's the doughboy afraid of?" When customers called the 800 number, they were played a message describing the particulars of the problem. They were then sent a bumper sticker (also with the question "What's the doughboy afraid of?") and a form letter that they could sign and send to their member of Congress protesting the actions of Pillsbury. Needless to say, the effective use of the PR weapon got the attention of Pillsbury's lawyers, who suggested that Ben & Jerry's be "allowed" to expand distribution of their ice cream in the Northeast if Ben & Jerry's agreed to stop the doughboy campaign! For a small company, the use of PR proactively was an effective weapon against a large corporation. Intensive personal effort on the part of the owners of Ben & Jerry's overcame the vast marketing resources of a much larger competitor.

Web Exercise 13.3

Ben & Jerry's fight against recombinant bovine growth hormone (rBGH) and other genetically modified ingredients is both reactive and proactive. Since settling an Illinois lawsuit that allows the company to use cautionary labels on its products, Ben & Jerry's has regularly mounted an offensive against the use of rBGH. The state initially objected to a label reading "rBGH-free" because it implied that something was wrong with products containing rBGH milk. Go to the Ben & Jerry's website at ► www.benjerry.com/ and read about the company and its other nutrition and social concern stances. How many of them appear to be proactive? How many are reactive? How does Ben & Jerry's handle environmental and social issues? What kinds of PR are undertaken to promote the company's messages?

Summary

As a method of promotion, precision marketing is likely to expand significantly because of the explosive growth of the internet and data collection techniques needed to drive it. Precision marketing is best evidenced by direct mail activity and telesales.

Sales promotion should be used almost exclusively in support of other promotional activities because it offers essentially short-term gains, whether or not it takes the form of price-based promotions. Despite its limited effectiveness, however, this form of promotion accounts for a greater proportion of the overall spending than advertising.

Trade shows and sponsorships are specialized activities that may have much to offer to some organizations because of their dual benefit of demonstration and interaction.

Public relations is a neglected resource in most organizations. In terms of press relations, it offers a very cost-effective vehicle for promotion. In terms of corporate relations, it is the vehicle for dealing with many of the contacts with the external environment, in both a reactive and a proactive way.

Key Terms

Complementary promotions

Direct mail

Electronic point-of-sale (EPOS) systems

Network marketing

Precision marketing

Public relations

Sales promotion

Sampling

Telemarketing

Trade shows

? Review Questions

1. Why is precision marketing growing in importance?
2. What are the main advantages and disadvantages of direct mail? How is it used?
3. What are the main elements of a direct mailing? How may they be optimized?
4. What are the advantages and disadvantages of sales promotions? How are they best used?
5. What price promotions and nonprice promotions are available? How is a sampling used?
6. What are the main elements of public relations? How can its effect be optimized?
7. What are the defensive aspects of corporate PR? What are the proactive elements?

13**? Discussion Questions**

1. Database marketing builds and maintains a fruitful and voluntary consumer base. Conversely, careless or aggressive database marketing efforts come across as intrusive and unwelcome, raise the hackles of furious customers, and send them running. Consider, for example, the case of CVS Corp. and Giant Food Inc., two of the country's largest pharmaceutical chains. The companies hired Woburn, Massachusetts, database marketer Elensys to send refill reminder letters to pharmacy patients and, in some cases, suggest other products for their conditions. When word of the deal made it into the pages of *The Washington Post*, consumers nationwide angrily complained to the corporate offices of both stores, calling the program an unauthorized release of private prescription records. As a result, the situation spurred at least one lawsuit. Elensys explained its program as more patient compliance than marketing but was fired anyway.

Then there is the case of the Nevada woman who, according to a story in *The Wall Street Journal*, bought a used computer and discovered personal records of

thousands of patients with mental illnesses and AIDS still on the hard drive. The pharmacy from which the computer came had forgotten to erase the information from the computer before selling it. Many people were appalled.

What are some ethical implications of maintaining customer databases for the purpose of precision marketing? Can companies acquire fuller and more accurate customer information and uphold an ironclad standard of privacy at the same time? Would you agree with the notion that the more privileged information a company can acquire about a consumer's need for a product, the more value the company can provide in meeting the long-term needs of that person? Provide your reasons.

2. Marjorie Thompson, a director of Cause Connection, Saatchi & Saatchi's cause-related marketing arm, suggests that the way to counteract bad publicity is to go on the offensive by using advertising showing the benefits of financial contributions to charities, such as after-school care for children. She adds, "It's not just about marketing the brand, but marketing what the brand believes in." Another company that could have used good works in an advertising campaign to counter bad publicity is McDonald's, claims writer Hamish Pringle. He says, "If more people had known about Ronald McDonald House Charities for underprivileged children, I doubt the company would be suffering as much from McLibel now."

Pringle, who has written a book with Thompson on cause-related marketing called *Brand Spirit*, thinks the market is in the "third wave of branding," having been through the promotion of practical product-related benefits in the 1950s and the emotional aspects of brands in the 1980s. He says, "Consumers want a brand that works, that gives them thoughts and feelings, but they also want to know what it believes in."

Should companies embark on cause-related and ethical programs and embrace the activists' suggestions on business practice to improve their public image?

3. Database marketing allows us to do precision marketing, to find out what the audience tends to respond to, and to find out what kinds of ads draw them in. Coaxing information from wary or indifferent customers for use in a marketing database requires skills of its own. A common point of contact between potential consumers and pharmaceutical companies is the toll-free number—the phone numbers through which readers or viewers can ask for more information on a free offer. The goal at that point is keeping potential customers on the phone. Respecting the person's privacy and time is important. Too many questions will make the consumer on the other end hang up. To prevent that, keep the person on the line only long enough to get their most critical marketing information.

A *call center* is a term for the automated capture of a caller's number and address. From that information, a company can deduce general demographic profiles based on the census and other public records, such as the caller's estimated educational level, age, household income, and approximate family size. By using that process, companies can focus on asking for the information they can't get anywhere else. For example, pharmaceutical companies can focus on

information such as prescription use and medication attitudes. There is a trade-off for making demographic generalizations about callers. But you can lose the customer if you ask too many questions. It's more important to keep them on the phone.

Pick a branded product of your choice marketed by a reputable company and design a questionnaire for soliciting information from consumers through a call center. Discuss the success potential and ethical aspects of your questionnaire.

? Practice Quiz

1. Which of the following has most contributed to the viability of precision marketing?
 - (a) Minimized costs
 - (b) Higher coverage
 - (c) Increased data
 - (d) Larger market
2. Which of the following is the aim of direct mail communication?
 - (a) Personalized messaging
 - (b) Immediate sales inquiries
 - (c) Increased market share
 - (d) Greater salesforce efficiency
3. All the following are advantages of direct mail EXCEPT
 - (a) Personalization
 - (b) Variation
 - (c) Cost
 - (d) Specific targeting
4. Which of the following has been shown to significantly increase the direct mail response rate?
 - (a) Offer
 - (b) Timing
 - (c) Letter
 - (d) Sample
5. The door-to-door approach of direct mailing has the advantage of
 - (a) Specific targeting
 - (b) Personalization
 - (c) Wide coverage
 - (d) Precision
6. _____ refers to retail selling channels that use independent distributors to recruit new distributors over time.
 - (a) Telemarketing
 - (b) Network marketing

- (c) Channel marketing
 - (d) Direct marketing
7. All the following are advantages of sales promotion EXCEPT
 - (a) Lower costs
 - (b) Sales increase
 - (c) Defined target
 - (d) Defined roles
 8. Which type of sales promotion is often used to extend the penetration or trial of the product to new customers?
 - (a) Free goods
 - (b) Tied offers
 - (c) Coupons
 - (d) Cash refund

(You can find the correct answers to these questions by taking the quiz and then comparing your answers with the answers that are provided at the end of the book, under the “Practice Quiz Answers” part of the book.)

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Selling and Sales Management

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■ A Changing Landscape of Customer Relationship Management



■ (Source: ► [pexels.com/royalty-free-images/](https://www.pexels.com/royalty-free-images/))

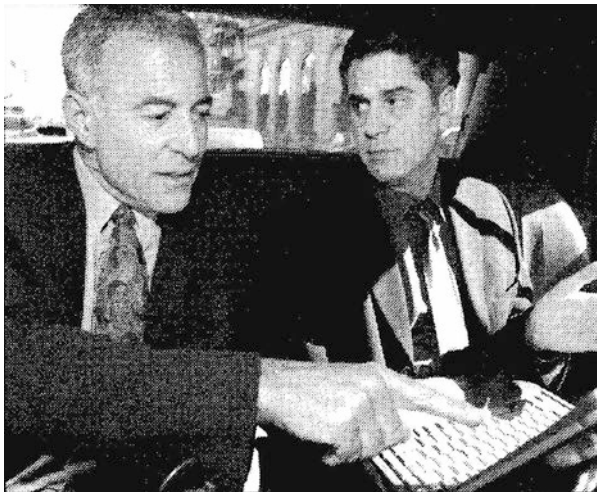
Could the new manufacturing trend and the digital channels signal the end of the traditional salesperson—the product-oriented, territory-based representative carrying a sample case or product catalogue and earning commissions on sales volume? For most leading manufacturers, the answer is increasingly yes. The role of the salesperson has evolved dramatically, reflecting changes in purchasing practice and in the contemporary competitive environment, and is supported by rapid advances in information technology.

The pressure on sales and sales target comes from both increasing commoditization and increasing complexity in terms of product choices and product applications to satisfy the customers' needs, wants, and expectations. Manufacturers could not say that their product is different (at least generically in comparison to the competitive products). The embryonic customer relationship management enriched by database marketing has been changing such that sales is no longer a matter of only selling products, but is rather a matter of selling solutions, solving problems, and helping customers get superior competitive value out of a product.

The new breed of salesperson has to be a problem-solver who can identify and define customer needs, problems, and inefficiencies and offer solutions that will solve those problems and eliminate those inefficiencies. As part of customer relationship, a sales team also needs to proactively liaise with customers after sales service. The features-and-benefits approach to sales, a model that served manufacturing companies well when business was product-driven, will no longer work in a customer-focused marketplace. These salespeople have been further assisted by customer relationship management (CRM) software that was developed to help them track leads and keep records of their interactions with customers, in order to customize sales leads and after sales services. However, these salesforce automation—or front-office—applications lacked the connections to the back-end business systems that are required for managing an order, which for most manufacturers are key to customer management to achieve their sales target.

For example, Siemens cannot sell one of its large industrial motors without getting input from its engineering department (the back-end business systems). When its customers start shopping for a motor, they already have started construction on the building—a factory, a power plant, or some other facility—in which that motor will be installed. Siemens has to guarantee that the motor will arrive when they need it, that it will fit into the building, and that it will work as expected. Until recent decades, the only way to make that guarantee was for Siemens' design engineers to review the requirements for each motor and generate custom designs that customers would approve before the motor was built. To connect customers' product needs directly with its back-end design engineers, Siemens has installed a CRM software system powered by technology from Cincinnati-based Cincom.

This CRM system enables Siemens to analyze the cause and consequence of their customers' relationships and interactions to proactively understand their customers' requirements as part of their customers' causal scope analysis. For example, through this system, Siemens could analyze the causes (e.g., the need for error-free engineering input in Siemens' products, competitive price, and after sales service, among others) that propel their current and potential customers to interact with them and to understand how they could more competitively proffer their products to meet those customers' needs as a consequence of their customer interactions. In order to implement such customer (or stakeholder) causal scope analyses, Siemens' customer service reps plug a customer's requirements (specific customized needs, wants, and expectations) into a software that can mimic a design engineer's thought processes for creating a new motor, for example. As a result, Siemens is more proactive and efficient in closing sales deals for new motors in a matter of minutes, rather than weeks. Manufacturers expect this type of transformation from their investment in CRM software.



■ **Source:** Hill, S.Jr. (2003). Making CRM Work in Manufacturing. *Manufacturing Systems*, 21, 34–37; Shams, S.M.R. (2016). Capacity Building for Sustained Competitive Advantage: A Conceptual Framework. *Marketing Intelligence & Planning*, 34(5), 671–691

14.1 Introduction

The most important elements of marketing for the majority of organizations (irrespective of their organizational types, e.g., government, private, and third-sector organizations such as nonprofits) in building and maintaining the dialogue between the company and its customers (or their target audience) are selling and sales management. In all cases, the customer sees only the salesperson and the product, and through the salesperson, the customer develops an opinion of the company. The success or failure of the company rests largely on the ability of the salesforce. The importance of making good decisions when those decisions affect the quality and ability of the company's salesforce cannot be overstated. As illustrated in the chapter's opening vignette, the role of salespeople has also been changing as the nature of the product changes over time. An understanding of sales, in its widest sense, and of sales management is, therefore, an essential requirement for most managers.

The sales role itself revolves around a variety of management processes. The basic building block is sales territory management, the territory being in many respects a small business in its own right. This involves a considerable degree of resource management, but the most important element is that of managing customers and prospects—though project management is also required. The heart of the sales process, which, accordingly, is explained in some detail, is the sales “call.” However, this often has more to do with myth than reality, particularly in “industrial sales,” where “relationship marketing” and “account management” come to the fore.

At the sales management level, people management skills and motivational skills are most important, if little recognized in practice. Recruitment, motivation, control, and training all have their part to play in an area of management that poses considerable challenges.

In most organizations, more money is spent on personal selling than on advertising and sales promotions combined. Accordingly, many organizations are prepared to spend a high proportion of their communication budget on personal selling (which also indicates just how expensive it is). Furthermore, think about further investment in customer relationship management projects to underpin your sales management process. With an average implementation costing about \$1 million and almost three-fourths of those CRM projects failing to achieve a return on investment, the sales management role of generating higher revenues, better service, and greater customer loyalty has proved to be a tall order. The biggest mistake companies make when rolling out CRM is an excessive focus on the customer without adequate business processes in place. A rule of thumb dictates that for every \$1000 companies spend on CRM software, they should allocate \$250 for sales training [1]. Such trainings enable the back end (e.g., the engineering department) and the front end (e.g., the sales team) of a business system to connect together, in order to understand each other's input (e.g., both market and engineering requirements and solutions) in the development of such CRM systems.

Personal selling is qualitatively different from almost all other aspects of marketing, being much more dependent on relationships between individuals, between

sales personnel and customers, and between sales management and their sales personnel. It is generally the management of these human relationships, communications, and information flows, rather than the logistics, which are most important. Therefore, sales and salesforce management tend to be culture-bound activities and could vary from country to country.

For example, international marketers are beginning to understand that the difficulty of making inroads into the Japanese market may have little to do with its trade barriers. Japan generally does not impose any tariffs on foreign cars and eliminates nearly all nontariff barriers to automobile trade. Rather, the difficulty is attributed to the way cars are sold in Japan. Unlike the United States where customers visit car dealers, a majority of cars are still peddled by door-to-door salespeople in Japan, much the same way Avon representatives sell personal care and beauty products [2].

As with most other management tasks, the management of the selling process (at the sales management level) starts with a definition of how the sales activities are to be organized. Although different sales and salesforce management may be needed in different countries or regions of the world (because of different cultural values, norms, and perceptions), sales management *procedures* are generally transferable (with minor adjustments) across national boundaries, especially considering that most countries today around the world are influenced by a standardized global culture because of ongoing globalization efforts.

14.2 Territory Management and Planning

The most important decision in sales management is how to allocate responsibilities within the sales team focusing on the entire target market. The traditional basis for this allocation decision uses the building block of the individual territory. In fact, the concept of sales professionals being entitled to their own territory is a relatively recent one. It was only just before the First World War that John Patterson instituted the concept of territories as a fundamental aspect of the NCR sales operation; shortly afterward Thomas J. Watson, then at NCR, took it to IBM—and used it as a basis for building that company’s legendary salesforce. Prior to that time, there had been no “territories”: All prospects were fair game for all salespeople, and their main competitors could just as easily be from the same company as themselves.

Although such territories are normally thought of as geographical areas, they can be structured using several other bases, such as by industry and by product.

14.2.1 Geographical Territories

Most territories are based on a geographical area, ranging from a whole country all the way down to a single zip code area. One advantage of such an approach is that the areas are relatively easy to define and hence should avoid unnecessary contention. On the other hand, very few sales professionals rigorously check what their territory is. This situation may be complicated by the fact that such territories often split along main roads, with one sales professional calling on the businesses on one side and another on the opposite side.

An alternative geographical approach may be to explore which parts of these purely geographical territories have the most potential and allocate the “territories” on this basis. This potential may be immediately evident—in the form of large residential areas, shopping centers, or office complexes. But it may also require considerable research in terms of searching through the various lists and directories to determine where individual large prospects are located. At the end of the day, however, no such system can beat the exploratory eye of the individual salesperson walking or driving along every street of his or her territory, particularly because this is the only way of finding the new businesses that are just moving in—who must normally be some of the hottest prospects.

Other factors, however, can complicate the picture considerably. For example, traffic patterns can mean that physical distances are much less important than traveling times, and it is the latter that must be allowed for in plans, by drawing contours of equal traveling time, just like the altitudinal contours on a map.

By Industry A territory split that is used much less frequently than geography is by industry, but this choice can be very powerful. For example, IBM organizes sales staff into 14 industry groups, such as banking and retail, rather than by region or country. This structure has two great benefits. First, the sales professionals dedicated to each industry are steeped in the knowledge and folklore of that industry—although their geographical range is wider. Second, for globe-trotting companies such as Microsoft and Sony, this structure helps break down national barriers inside the company, moving toward a global organization [3].

By Product The by product approach is often necessary because getting to know the products in sufficient depth may be time-consuming and sales personnel may not have the personal resources to apply equal expertise to all products in the range. This is the case, for example, with General Electric’s product lines ranging from healthcare products to jet engines. Sales professionals specialized in a certain product line have a broad geographical coverage. For highly specialized, high-tech products such as jet engines and power-generation turbines, sales professionals may have a responsibility around the world.



14.2.2 Territory Plans

After these territory decisions have been made, management should be in a position to plot those areas of highest potential on their maps, to give the true shape of the territories. Based on the sales potential of each territory, sales managers need to determine what resource will be required to tap it and what is actually available. The essential resource is, of course, sales personnel and their expert knowledge about their products and their market.

To manage this resource plan, sales management first needs to know how much its sales personnel cost per hour, which is usually far more than sales management thinks—hence the reason for expanding on it at this stage. Sales activities are *very* expensive. The following factors are included in sales personnel cost:

- Salary
- Commission
- Bonuses
- Direct expenses
- Indirect expenses
- Overhead costs

Overhead costs cover the cost of support staff and management and can typically double the costs attributed to individual salespersons. Thus, the total cost of maintaining a salesperson is much higher than management may think. A typical cost of face-to-face selling time for account managers is estimated at up to \$500 per hour and for direct sales representatives an average of \$300 per hour. ■ Table 14.1 shows a breakdown of a salesperson's yearly workload in a typical industrial product company.

In recent decades, however, the computer revolution has ushered in a more flexible working environment for many sales professionals with the aid of laptop com-

■ **Table 14.1** Breakdown of a typical salesperson’s yearly workload

	Frequency	Unit cost	Activity cost
Sales presentation	30 times	\$2100.00	\$63,000.00
Calling customers	9000 times	\$3.25	\$29,250.00
Report preparation	250 hours	\$20.00	\$ 5000.00
Sending information	700 packets	\$10.00	\$ 7000.00
		Total	\$104,250.00

Source: Developed from Dickinson, V., & Lere, J.C. (2003). Problems Evaluating Sales Representative Performance?: Try Activity-Based Costing. *Industrial Marketing Management*, 32, 301–307

puters or other mobile devices such as iPad or Tab. These tools allow sales professionals to allocate more time to traveling and visiting their clients and new prospects with more analytical insights about the prospects’ needs, wants, and expectations. For example, the 600 sales representatives based in IBM’s sales office in Cranford, New Jersey, do not have offices. They come in to pick up mail and see associates once or twice each week, and their tasks are computer-assigned and communicated with their office online [4]. Lagging behind in this computer revolution can be costly. Rubbermaid has lagged behind in computer systems and communications with its salesforce and thus has difficulty replenishing supplies based on actual sales rather than on forecasts, and has not been able to contain costs for major cost-conscious retail customers such as Walmart and Home Depot [5].

Several software programs have been designed to support sales efforts within companies. For example, MarketSoft Corp. introduced eLeads, software that helps businesses pass leads to internal salespeople and channel partners. It can track the leads, letting managers see what a salesperson has done with them and which salespeople are most effective. Sales leads, such as those garnered from trade shows, are often wasted because no one follows up quickly enough and the leads become stale. A company can spend a large amount of money to get a booth, and the list is still sitting there a month later. The software is designed to help salespeople get those leads almost instantaneously and contact potential customers within 24 hours. It lets companies transmit leads electronically to the appropriate salesperson via front-office and contact management packages such as Microsoft Outlook, rather than through slower telephone, mail, and fax services [6].

14.2.3 Annual Calls Available

In preparing these resource plans, perhaps the most important calculation is determining how many calls the salesforce will be able to make in a year. The basic element of this measure is the day. For many sales professionals, at least for those in

the area of capital goods such as workstations and earth-moving equipment, booking more than two or three calls a day may be difficult; predicting exactly how long they will last also is difficult. Depending on industry structure, however, it should be possible to supplement this rate by ad hoc or “cold” calls and to at least double the rate. Some retail salespeople can easily achieve rates of ten times this level.

This rate assumes an ideal sales day, which rarely happens. Many sales professionals have to spend a great deal of time preparing for calls, conducting in-person customer meetings, supporting customers, and writing proposals. In the past, sales professionals used to spend about half of their work hours at their desks in the branch office. Today, thanks to notebook computers and various digitally enhanced communication software that create a virtual office, sales professionals are no longer confined to their traditional offices. This flexibility has enormously improved sales professionals’ productivity.

Allowance for the sales team must be made for their training and development, refreshment and holidays, and so on. In general, it can be assumed that any staff member will be available for just 200 days a year for work. Therefore, if 50% has been allowed for office work, a simple calculation shows that the effective time available for face-to-face selling can be reduced to as little as 100 days a year. At perhaps two calls a day, this gives just 200 possible calls a year. It is a sobering experience for most sales managers when they first come face to face with the true figures. They become much more aware of how important *each* call is. They realize that they cannot afford to let their sales personnel miss any calls or to achieve anything less than their optimum performance in each call they do make.

14.2.4 Sales Personnel Plan

The most important decision for any sales manager to make (and then justify to the board) is how many sales personnel are needed. Avon established a 400,000-person salesforce just for Brazil! [7]. The complex decision of how many sales personnel are needed can be based on a number of different approaches.

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Resources Needed to Exploit The sales manager will need to calculate the amount of sales time needed to support the projected number of customers and prospects. This may be done on the basis of experience, allowing for the fact that customers should, against most salespersons’ natural inclinations, be given a greater amount of support than prospects—and large accounts considerably more. Alternatively, the calculation may be based on the resources needed to support the specific accounts (although this is rare, except when account planning is implemented).

The resulting total sales time is then divided by the realistic sales time available per person to give the number of salespeople needed. A number of alternative models (based on market penetration or sales response factors, for instance) attempt to provide more accurate estimates.

Marginal analysis follows the same principles as marginal costing. Extra salespeople are added to the payroll until the profit generated by the marginal salesper-

son exactly matches the cost of this person. In view of the difficulties of determining what the cost of an individual salesperson is, let alone what his or her profit might be, this approach is little used in practice, no matter how attractive it is in theory.

Marginal analysis—The decision of determining that the cost of each additional salesperson is equal to the marginal profit generated by him or her.

Few salesforces are ever allowed to recruit to the levels deemed necessary by such calculations. This may not necessarily be a bad thing, depending on the scale of the underresourcing. It is better—in terms of morale and management control—to have a salesforce that is overworked, by a small margin, than one that has too little potential for its members to work toward.

Resources Needed to Meet Target The most popular technique among the few organizations that actually produce a sales plan is to determine the resources needed to meet the target. It may follow the calculations used to determine resources needed to exploit potential, but it is more likely to be based on experience: How many salespeople, in the organization's experience, will be needed to meet next year's targets?

An extension to this process involves negotiations (e.g., as a division justifying its sales plan to the group headquarters) for extra sales personnel in return for increased targets:

- *Affordability*—Following the same principles as those for the overall promotional budget, the organization decides—usually on the basis of historical precedent—how much it can afford after all the other costs and the planned profit have been deducted from revenue.
- *Percentage of revenue*—Alternatively, sales can once more be allocated on a (often arbitrary) percentage of the planned revenue.

Negotiated Levels Negotiation is, by default, the most widely used technique for making changes to the numbers in the salesforce. The sales manager negotiates with the board (or sells his or her “package” to them, usually on the basis of emotional rather than rational arguments) to increase the numbers of sales personnel. We have yet to hear of a sales manager who has proposed a reduction in the size of his or her overall salesforce. However, in order to be cost-effective, sales managers should justify their proposed sales team, in relation to the sales target, available resources, and market estimations.

Business as Usual In most cases, no change is proposed. The company has a fixed pattern of territories, and sales personnel are simply replaced when they leave. The only exception is those territories that have moved so far out of line that they have to be split or combined. The main force for salesforce planning is therefore that of inertia.

14.3 The Sales Professional

The actions of the individual sales professional will produce the overall sales impact. ► Sections 14.3.1, 14.3.2, and 14.3.3 will, therefore, look at individual sales activities. Conventionally, they are not treated as management activities, but they are as much marketing tools as any of the other techniques we have described. Accordingly, you should appreciate what they imply and thus understand what lies behind one of the most important operations of almost all commercial organizations and many nonprofit organizations as well.

14.3.1 Individual Management of Sales

The traditional view of selling has been that it is a professional role rather than a managerial one (very few sales professionals manage teams of subordinates). In practice, however, much of the sales professional's role is actually concerned with management. The typical competent sales professional should manage a number of resources and processes:

- *Territory*—The sales professional is typically solely responsible for his or her territory. He or she is responsible for everything that happens in this territory, for all activities, with the range of responsibilities comparable with those normally assumed by a brand manager or even by the chief executive of a subsidiary.
- *Sales plan*—Within that territory, a sales plan that is usually a simplified version of the marketing plan has to be created. Performance against that plan will have to be monitored and tactics changed to allow for deviations against target, just as in the overall organizational plan.
- *Organizational resources*—Every sales professional will have some organizational resources available, including service support, marketing support, and, possibly, even budgeted amounts of territory-based promotional funding. All these resources will have to be managed.
- *Support personnel*—Most sales professionals do not manage people; indeed, as mentioned earlier, very few actually have formal responsibility for subordinates. Yet many indirectly control the activities of support personnel. What is more, they have to achieve this management control, often under difficult circumstances on customer premises, without any formal authority.
- *Customer interface*—Above all, the sales professional manages the customer interface or goodwill, which is the most important asset of any organization. This demands a great deal of skill and is a role that contains many of the key elements of management.

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14.3.2 Territory Sales Plan

The sales plan for an individual sales territory should define the customer and prospects and contain sales forecasts.

Defining the Customer and Prospect Sets At this stage, the customer and prospect database will usually be built because each will require individual attention.

Without a doubt, the most important split in almost all territories is that between (current) customers and prospects. Customers are almost universally more productive than prospects and indeed more productive than many sales professionals (or their management) allow for. Customers and prospects could simply be differentiated as follows: The person who has already used a particular product at least once in the past is the customer of that product and a prospect is yet to use but would be interested in using the product. Assuming that the organization has previously offered good service, customers are already loyal to it; they already know about the pros and cons of the product in relation to their needs. Competitors will have to justify breaking these links before they can even begin their selling process. For such customers who are loyal to a product to some extent, the organization already has an existing base on which it is natural to build. A contemporary business philosophy is that it is easier and thus more profitable to maintain existing customers than to try to increase market share by acquiring new customers. Indeed, getting a new customer costs five times more than keeping a current one [8].

Many—if not most—sales professionals, however, devote little time to customers. The “macho” stereotype discussed in ► Sect. 14.6.2, “Cultural Generalization,” persuades them to spend their time unproductively, touting for new business, when common sense should tell them to spend at least adequate time defending, and developing, their customer base.

This problem was particularly evident in the earlier days of the personal computer market. All the research showed that the one group almost guaranteed to buy a new system was the existing customers, who had already bought a previous system—typically within the past year. On the other hand, cold prospects were unlikely to show a better than 10% chance of buying a new system. Yet most sales professionals sadly neglected their customers, and the industry had an appalling reputation of poor customer service.

The first priority of any sales professional therefore must be to allocate resources to the customer set, but also to differentiate between customers according to what they are worth. Some will be “bankers” and will bring in a large part of the easy 80% of business—and these investments must be cosseted. On the other hand, some will be totally unproductive, demanding resources for little return, and in these cases, the plan must be to “stop the bleeding.”

“A” prospects. The sales team should know their customers well enough to predict the sales performance of each, but the real skill comes in being able to separate the sheep from the goats among the prospects. The question of which are the 10% or so who will bring in 50+ percent of the new business is partly a function of their size (in terms of potential business) and partly of their probability of closing. These prospects should have first claim on the resources left after the planned support of customers.

“B” prospects. Similarly, the sales team will have to determine the remaining prospects who will bring in the remaining 50% of new business. Determining these prospects requires careful planning and a ruthless determination to control

expenses to ration out the small amount of resources remaining after customers and “A” prospects have been catered to.

Losers. All other prospects have to be treated as outcasts. No matter how much certain prospects plead, the productive salesforce will have to be ruthless and refuse to fritter away resources on unproductive areas. The true sales professional must insist that they *prove* their good intentions. This advice sounds like the reverse of good salesmanship, but at times good salesmanship is as much about managing scarce resources as it is about winning friends and influencing people.

As we indicated, husbanding resources, for the 20% of accounts that will bring in 80% of business, is a critical aspect of all territory and account planning. It is one of the management aspects of professional salesmanship that many sales professionals find most difficult to implement; they more naturally rush to the account that immediately demands attention, without considering the long-term implications. The old saying “The squeaky wheel gets the grease” summarizes this pitfall. Planning is often the activity that distinguishes the senior sales professional from less professional juniors.

Sales Forecasts—The most productive phase of any planning usually starts with the forecasts of where future business will come from.

The easiest part of any forecast should be to deal with the “bankers”—those major accounts that the sales personnel know will soon complete the formality of signing the order. Even then, forecasting exactly when they will sign is not necessarily very easy. Paradoxically, it is somewhat more difficult to control if they have already stated that they will be placing the order. As far as they are concerned, they have already given their sales contact the order and see their formal signature as a petty administrative detail. However, bankers are still the easiest to predict and should form the core of any forecast.

“Probables” and “possibles” fall into three main groups. Those accounts labeled “80% chance of closing” can usually be regarded as genuine “probables”; sales professionals tend to be unduly optimistic, but an 80+ percent confidence level is usually indicative of a good chance of success.

Below 50%, however, the “possibles” that most sales professionals would hope for are likely “losers.” The main question to be asked of this category is whether putting any more resource into them is worthwhile. The experienced sales professional (and, in particular, his or her manager) will usually include in the overall forecast only the businesses rated as having a better than 50% chance.

In any event, the wise sales manager will then still divide the aggregated forecasts of the sales team by a factor of two when making his or her own submission to senior management.

14.3.3 Sales Objectives

The specific sales objectives should be derived in part from the investigations described in ► Sect. 14.3.2, but they will also emerge from the overall marketing plan, which will be discussed in ► Sect. 14.5.2, “Account Planning.” They should include at least three major elements:

- *Total sales to be achieved*—This number is quoted in terms of volume or value or possibly both, for example, 400 cases (volume) or \$2,000,000 (value).
- *Product mix*—This element is the relative contribution of each product to total sales, for example, 80% of sales to be product A, 15% to be product B, and 5% to be product C.
- *Market mix*—This element is the proportion of total sales in each market, for example, 10% in New York, 20% in Pennsylvania, and 70% in Ohio or 80% to the financial services sector, 15% to retailers, and 5% to the rest of the industry.

Call Targets The basic building block of any sales campaign has to be its calls. Generally speaking, numerous calls are needed to secure the business, and it is certainly true that the more calls are made, the more business will be booked. This process is often described in sales circles as the “numbers game.”

For example, for every 1000 promotional flyers sent out, there will be a certain percentage of returns that justify a sales call. Telesales and cold calling will also generate proportional results. From these subsequent calls, a proportion will turn into serious prospects (some of whom will progress to demonstrations and proposals), and out of these serious prospects, a proportion will place orders. Finally, a proportion will place those orders with the organization undertaking these activities rather than with its competitors.

At each stage, therefore, there is a conversion ratio. It is clearly the sales professional’s personal skills (backed by sound account management) which ensure that this conversion ratio is as high as it can be. Converting a good prospect into a customer requires all the skills that a sales professional possesses (as does converting a return postage-paid card from a promotional flyer into a prospect). It is a basic fact of the sales game that providing the numbers of prospects to feed into the “machine” that eventually converts them into business is just sheer hard work.

14.4 Industrial (B2B) Sales

The sales professional is more likely to come into contact with industrial sales, known also as business-to-business (B2B) sales, in which a number of individuals are involved in the buying decision and the sales campaign extends over a number of calls, followed by sales presentation on most occasions for successful calls.

In industrial sales, salespersons have short-term and long-term objectives. In the short term, they must close as many individual deals as they possibly can and

as quickly as possible. In the long term, salespeople want to maintain healthy relationships with the customers signing the deals, so the customers will be willing to make purchases in the months and years to come.

In many ways, this environment is very different from that of the single-call sale, which has been the staple diet of many sales trainers, though it is a rapidly declining aspect of selling. Because most sales-training programs emphasize tactical rather than strategic skills, even very good salespeople sometimes find themselves cut out of a sale at the last minute because they failed to locate or cover all the real decision-makers for their specific sale.



14.4.1 Industrial Buying Situations

Some marketing researchers identify different industrial buying situations [9]:

- *Straight rebuy*—This is the repeat purchase of an existing product or service that has given satisfactory performance. No new information is needed for the buying decision. The existing supplier is usually difficult to displace in such

situations because buyers favor existing (known risk) suppliers and much of their buying is routine on an ongoing basis, based on the existing relationships.

Straight rebuy—The repeat purchase of an existing product or service that has given satisfactory performance.

Modified rebuy—The buyer may be dissatisfied with the existing product or service. In this case, the buying decision has to be reevaluated. This is the occasion when new suppliers are most likely to make changes to existing purchasing patterns. However, it does imply that in many markets it is the existing supplier who loses the business by incompetence or inattention to the changing market environment, and not the new one who wins it.

Modified rebuy—The reevaluation of a previous buying decision that resulted in dissatisfaction.

New task buying—In this situation, there is no previous history of a relationship between an industrial buyer and its supplier, so the buyer has to start from scratch, and all suppliers begin with the same chance of winning a job contract, based on how competitive their offerings would be to meet the buyer's specifications.

New task buying—The buying situation in which there is no previous purchase history; therefore, all suppliers begin with the same chance of winning the contract.

Naturally, new task buying requires the most effort by both buyers and sellers. Buyers have to assess their corporate needs accurately and get purchase approvals from a layer of decision-makers before soliciting business from prospective sellers. Product quality and reliability, credit terms, and postpurchase service contracts are some of the issues that industrial buyers have to deal with. Accordingly, sellers need to be able to handle the high-level technical aspects of buyers' inquiries and specifications. After their business relationships are established over time, the industrial buying process will become routinized from modified rebuy to straight rebuy.

14.4.2 Decision-Makers and Influencers

Regardless of the buying situation, in industrial sales, persuading just one buyer is no longer sufficient; instead, sales professionals have to convince a whole range of individuals, all with different (and often contradictory) requirements, related to various departments (e.g., engineering, design, etc.) of an industrial buyer.

The first problem that this situation poses is quite simply that of identifying who the various buyers are. In industrial sales, identifying the buyers is no longer an easy task: The “buyers” involved can range from the chief executive officer to members of the various departments.

The convention is to split these “buyers” into **decision-makers** and **influencers**, with the clear implication that the small group of “decision-makers” should be the prime target—although “influencers” should not be neglected. This distinction is useful, in that it correctly focuses the sales professional’s attention on the key decision-makers and forces him or her to contact them, whereas too many sales personnel remain bogged down among the influencers. In the early days of the personal computer market, it was certainly true that dealers rarely contacted more than one person in their prospect (even in the larger corporations). He or she was usually a buyer in the purchasing department and was usually only an influencer. The real decisions were made elsewhere, though, because the only sales message was price; the lack of face-to-face contact with the decision-maker was not really a critical factor.

Decision-makers—Individuals in the buying decision who determine the purchase transaction.

Influencers—Individuals in the buying decision who can affect the decision-maker in his or her purchase transaction.

The problem with this two-way split is that both decision-makers and influencers are very general categories, probably too general (and too confined within the sales perspective) to best help the sales professional target the exact decision-making structure. In their book, Heiman, Sanchez, and Tuleja [10] identify four buying influences, the first three of which relate to the more conventional structure:

- *Economic Buyers*—The “economic buyers” are the ultimate decision-makers. These individuals—or a group such as a board—hold the “purse strings” and *must* approve the decision. Clearly, this buyer is the most important in the whole structure. However, almost by definition salespeople cannot reach the decision-maker who gives final approval far up on the corporate ladder.
- *User Buyers*—These are the people who are going to use whatever is being offered. In the more conventional model, they would lie between “decision-makers” and “influencers.” A virtue of the more complex model is that it allows sales professionals to handle this important group most effectively. As someone who will actually use (or supervise the use of) a product or service, the user buyer is responsible for making judgments about the impact of that product or service on the job to be done.

Economic buyers—The ultimate decision-makers; these people or this group holds the “purse strings” and must approve the purchase decision.

User buyers—Those in the buying decision process who will use whichever product is being offered.

- *Technical Buyers*—These are the true “influencers” of the simpler model, but with a strong power of veto, which could still be fatal for the sale. They often come from the engineering department of the industrial buyer to examine the specification for technical conformance. Also, in many industrial sales situations (certainly in the case of machine tools), the purchasing department staffed with quality engineers falls into this category.
- *Coach*—The sales professional should identify a contact who is willing and able to serve as a guide through the complexities of the sale. The coach gives the salesperson the information that he or she needs to manage the sale to a close—thus guaranteeing not only the order but satisfied customers and repeat business as well. This contact could be anyone who is aware of the purchasing process in that company.

Technical buyers—Those in the buying decision process who examine the specifications of the product or service for technical conformance.

Coach—The person in the buying decision process who provides the salesperson with information needed to close the sale, thus guaranteeing not only the order but satisfied customers and repeat business.

These categories are not a function of the titles on the doors; they are a result of specific relationships to the purchase. Even more importantly, the structure is not fixed. The relationships change for different purchases, and people move from one category to another. Also, we have seen in ► Sect. 4.5.2 (Decision-Makers and Influencers) in ► Chap. 4 (Understanding the Buyer) that a salesperson might need to deal with six different types of stakeholders within an industrial buyer’s organization in an industrial selling environment. In comparison to individual buying decisions for consumer goods (e.g., toothpaste), the industrial or commercial buying decision-making process, and simultaneously the industrial sales process, is more complex, as in industrial buying more than one individual is involved in the overall decision-making process [11]:

- Users, who will actually use the industrial/commercial product within the industrial buyer’s organization, e.g., the machine operator in a factory. It is usual that the industrial buying decision-makers in an organization consult with their experienced machine operators before buying a new machine. Therefore, an industrial salesperson should be aware of the need of a machine opera-

tor in terms of operating the machine when selling that machine to that ultimate user or to the user's organization.

- Influencers, particularly technical personnel from the industrial buyer's engineering department, e.g., an expert in the field who has technical knowledge about the machine or even a highly experienced expert user of the machine who have been operating it for a long time. Such people know the technical issues of the machine very well in comparison to others.
- Approvers, who formally authorize the purchasing decision and forward the commercial purchasing decision file to the decider's table who ultimately decides on whether to buy or not to buy the machine. Usually, the departmental heads in a company are the approvers in such a buying decision-making process.
- Deciders or the actual decision-makers. Upon receiving the purchasing file from the approver (e.g., the head of the department), usually the CEO, COO, or executive at that level undertakes the final decision on whether to buy or not to buy.
- Buyers or the department with formal purchasing authority in the company. If the CEO decides to purchase the commercial product (e.g., a forklift or any other machine), then she or he forwards the purchasing file to the purchasing department in order to ultimately buy the product.
- Gatekeepers, who have the power to stop sellers from reaching other members in the buying center or the buying decision-making process. For example, the head of the department or the purchasing department could stop a prospective forklift supplier from reaching the company CEO with their (the supplier's) selling proposal. Therefore, before approaching a company to sell an industrial product, a salesperson should develop prior awareness about the prospective individuals who would be involved in the overall buying decision-making process of that company.

In practice, the decision-making process is normally deeply embedded in the user process. Users have a great deal of delegated power. Although the final decision may have to be approved by higher authority, in many cases, it is in reality only a power of veto (any board that saddles its user departments with an unwelcome choice is asking for trouble).

14.4.3 Project Management

Perhaps the most important skill in handling customers, as part of industrial sales, is that of project management. Industrial sales tend to run as a series of projects, and each sales campaign can be thought of as a separate project and managed as such. But after an order is won, the next project—the installation (of a machine that is just sold)—is the most complex of all and requires the highest management and technical skills. In addition, other smaller projects, such as training or extending product or service use into new areas, can also benefit from project management skills.

14.4.4 Proposals

Proposals often form a major element of the industrial sales process. The skills needed for producing proposals are similar to those needed for project management and, in particular, relate to those of surveying—a good survey is almost a prerequisite for a proposal.

The first question the sales professional or manager has to ask is: “Does this sale (or proposed management action) need a proposal?” Often, the answer is “No” because proposals are time- and resource-consuming. It is much better to confirm the agreements with a short letter or memo and use the time saved to build the prospect base or continue the project.

Occasionally, the salesperson needs to produce a full proposal, particularly if the sale is competitive or, for management, if approval for an internal project is difficult to obtain. A well-prepared, well-presented proposal is very impressive; it is unlikely that the competitors will have produced one (or at least not one as effective), so it may well give a competitive edge. It also serves as a very useful record of all the agreements.

The content of the proposal should directly reflect the sales campaign. If that sales campaign has a sound structure, so too will the proposal. The one rule, however, is that all the main material in a proposal should have been previously agreed to by the prospect or, in the case of managers, with the others involved in the project. Nothing should come as a surprise. A suggested format is as follows:

1. Executive summary
2. Prospect or senior management requirements (in brief)
3. Background (including a review of the problems to be solved)
4. Proposed solutions (e.g., a forklift brand as a product to solve the buyer’s in-house goods or instrument movement problem in their factory or big storage location)
5. General benefits
6. Value-added benefits
7. Financial justification and costs
8. Competitive value of the product
9. Appendices
 - A. Detailed background (survey results)
 - B. Detailed solutions (including flowcharts)
 - C. Product or concept descriptions
 - D. References (descriptions of similar systems with customers or—for internal proposals—use of similar approaches by other organizations)

14.5 Interorganizational Relations

Selling has traditionally been seen as a confrontational activity, with the salesperson “hierarchically” subservient to the buyer—the former trying to persuade the latter to buy something (perhaps) not wanted or needed. This process is seen as a

zero-sum game in which each of the participants can gain only at the expense of the other. A proactive approach to selling, known as relationship marketing, attempts to change this pattern to a win–win situation and long-term outlook. As David Ulrich puts it:

» In the turbulent and increasingly competitive (environments), firms need to go beyond customer satisfaction. Firms earn customer satisfaction in the short term by assessing and meeting needs; they earn customer commitment in the long term through hundreds of small, heroic acts that create loyalty and devotion ... committed customers look beyond short term pleasures and develop an allegiance to the firm ... committed customers become interdependent with the firm through shared resources and values [12].

Relationship marketing is gaining acceptance as a valuable tool for many firms because it helps build an opportunity share, if not immediately a market share [13]. Because this type of relationship requires a higher level of personal support, from a more skilled sales professional (a “relationship manager”), it will typically be limited to the most exclusive important customers. In fact in a corporate selling environment, it is “a business relationship as an interaction process between two companies partly performed by managers representing their firm” [14]. “Buyer–seller relationships (in corporate selling environment) are thus regarded as social phenomena” [15] between the buyer’s and the seller’s organizations and their sales and purchasing personnel.

14.5.1 Relationship Marketing and Corporate Sales Management

In the past few decades, an increasing number of US companies, such as Bose Corporation, Hewlett-Packard, and Motorola, have been influenced by Japan’s vertical *keiretsu* (a closely knit group affiliation among the principal company, upstream suppliers of components and other materials, and downstream retailers for its finished products along the value chain). As a result, they have begun to station their engineering personnel in their independent parts suppliers for more effective product development and to station their sales personnel work in the retailer’s offices. The principal companies can track demand at store levels directly and place orders on a just-in-time (JIT) basis. Both upstream and downstream involvements by the principal companies along the value chain can manage information flow from the retailers and customers more effectively and step up the pace of new product development [16].

Relationship marketing—An interdependent buyer–seller relationship that helps build an opportunity to share in the future, if not a market share immediately.

This type of buyer–seller relationship is a win–win situation because both sides gain from the deal (albeit in different ways). Thus, they start out with the intention of producing a mutually beneficial arrangement. An increasing number of organizations have, indeed, come to see the relationship as one of interdependence; the two sides adopt a peer-to-peer relationship.

Indeed, the relationship between a seller and a buyer seldom ends when the sale is made. In an increasing proportion of transactions, the relationship actually intensifies subsequent to the sale. This becomes the critical factor in the buyer’s choice of seller the next time around. How good the seller–buyer relationship is depends on how well it is managed by the seller [17]. Again, many companies found that adoption of the personal computer technology in maintaining product, pricing, and technical data for effective customer relationships is crucial for their success.

It has been more than a decade since management consultancy Bain & Co carried out its groundbreaking research into the key differences between customer acquisition and customer retention. By considering the real costs and long-term returns, the company found that acquisition costs were often understated by most companies, while cross-selling to an existing customer costs one-sixth of the price of making a sale to a prospect. Bain introduced one of the most famous equations in marketing: a 5% increase in customer retention would increase the value of each customer by between 25 and 100%. The potential implied in that finding led directly toward customer relationship marketing [18].

■ Table 14.2 illustrates the point by comparing the typical reactions of the seller versus those of the buyer at the time of the purchase. Regular contact is essential to maintain rapport and to maintain the partnership. It is also very productive in terms of developing the account. The investment in a satisfied customer may not show immediately on the balance sheet, but it creates commitment and trust relationships and contributes handsomely to the bottom-line performance, whether the organization is for profit or not [19].

■ **Table 14.2** When the sale is first made

Seller	Buyer
Objective achieved	Judgment postponed, applies test of time
Selling stops	Shopping continues
Focus goes elsewhere	Focus on purchase, wants affirmation that expectations have been met
Tension released	Tension increased
Relationship reduced or ended	Commitment made, relationship intensified

Source: Adapted from Levitt, T. (1983). After the Sale Is Over. *Harvard Business Review*, 61, 87. Reprinted by permission of *Harvard Business Review*

Let us take a look at AT&T Inc. as an example. In the past, AT&T spent hundreds of millions of dollars per year trying to attract prospects to use its long-distance telephone service. Most prospects received similar offerings regardless of their specific needs. As a result, AT&T Inc. started sending out millions of pieces of largely undifferentiated direct mail solicitations several times a year. Despite such an effort, less than 5% of the cases resulted in conversions, and even worse, many of these conversions were lost because of a high rate of turnover. Later, AT&T analyzed its relationships with its customers and tracks, in particular retention and termination characteristics. Through conscientious modeling efforts, AT&T Inc. attracted seven times as many customers as it had several years earlier. Even more important, these customers have a different quality in their retention behavior. By analyzing the factors that drive retention, AT&T Inc. is much more efficient in (1) keeping their corporate customers who are at risk of defection and (2) better pinpointing the customers who are likely to be life-long customers in its acquisition campaigns. Thus, AT&T Inc. embraced the core of relationship marketing. Again, it has proved to be considerably more profitable to keep and satisfy existing customers than to constantly renew a strongly churning customer base [20].

14.5.2 Account Planning

The most important activity in developing relationship accounts is a sound account plan. Unlike the overall sales plan, which deals with groups of customers, each account plan concerns just a single customer.

An account plan should match (at least in its scope of content) the overall marketing plan. It should detail the specific objectives, which will be individually related to the customer's needs and wants, and the activities that are planned to meet these objectives and to build the relationship.

If such a plan is produced within the selling organization, it will be a productive exercise. If it is produced in cooperation with the customer so that the resulting plan becomes a shared plan, it may make a major contribution to the development of a genuine peer-to-peer relationship. Key account management is popular in overall sales management of a company.

For example, 3 M takes the novel approach of surveying its customers to have them specify what training the 3 M salespeople require and treating its customers as a “relationship” account as opposed to a transactional account by presenting itself as a resource. Forming a close relationship with IBM as a corporate customer

helped 3 M determine that one of IBM's biggest business problems involved a significant product loss of giant magnetic resistive (GMR) heads, thanks to electrostatic discharge. Bringing in 3 M's sales engineers enabled IBM to redesign the GMR manufacturing process with less static-sensitive materials—and considerably reduced IBM Storage's GMR loss, saving millions of dollars for clients [21], which also enriches the existing buyer–seller relationship.

Major account management is a team effort. The ideal team would consist of not only dedicated sales and marketing people but also financial, management information system, logistics, manufacturing, customer service, technical support, and international contract coordinators. The account manager must be the leader and point person of the cross-functional support team assigned to the customer. A customer more often will measure its satisfaction on the total efforts of the team rather than the individual performance of the account manager. Therefore, strong interpersonal and organizational skills are must-haves for successful account management [22].

As we have already stressed, account management (covering prospects as well as customers) is the essence of professional salesmanship. Customer account management, in particular, is probably the most important single skill (apart from selling itself) required of a sales professional, yet it is almost entirely neglected by sales trainers.

Not surprisingly, however, banks are at the forefront of this trend for customer account management, particularly as they merge with other financial institutions. The very nature of financial services requires that banks always have a lot of information on their customers. Selling products like loans requires an ability to understand risk and the ability to assess it—all that ties back to understanding customers and their likelihood of being able to make payments. But telecommunications, retail, and media—highly competitive industries with a lot of customers, in which brand differentiation can be difficult—are also becoming proponents of this strategy [23].

14.6 Sales Team Management

In some respects, sales team management has been a neglected element of management training, yet the sales manager's responsibility—managing the entire interface with the customer—is probably the most critical of all in terms of ultimate success for the organization. Because the role of managing a sales team is very complex, in ► Sect. 14.6, we will look at those aspects that are the province of sales management alone.



14

14.6.1 Marketing Management

In many organizations, the sales manager is responsible for all marketing activities. Even in those organizations where there is a parallel marketing structure, the sales manager is usually responsible for a range of marketing activities beyond those of simply managing the salesforce. In this context, therefore, the sales management role often requires an appreciation of the range of marketing management principles and techniques described throughout this book to underpin sales team man-

agement. Marketing in Action 14.1 describes how a changing marketing strategy may greatly affect successful sales management.

The struggle between sales and marketing departments for mutual respect and proper credit has been waged constantly. Despite such a struggle, sales and marketing departments depend on each other. And now, with globalization and e-commerce having taken hold at many companies, this reliance is especially important. The market is changing so fast that if marketing and sales organizations do not know what each other is doing, a company could be in real trouble. As Marketing in Action 14.1 describes, an internal system of constant communication is required to avoid such a situation. For example, Eastern Transport Company, a shipping and logistics company based in Quebec, Canada, ensures this type of communication in a couple of ways. First, all sales meetings include every member of the company's marketing department. When the company's salespeople see marketing reps in sales meetings, the message is that they are involved in the sales process and in how their ideas are implemented. Second, the company also sets this tone by having a number of salespeople each go to lunch with a marketing employee at least once a month. This lunch meeting gives them a chance to exchange ideas to underpin their mutual collaboration.

Technology has enhanced the need for a cooperative relationship between salespeople and marketing representatives. With websites, database marketing, electronic data interchange (EDI), big data management, and artificial intelligence all becoming major parts of companies' business processes, leads and sales are coming from many directions. If an organization's salespeople are not in tune with everything that marketing is putting out, they can easily be caught off guard and miss out on deals. For example, D. A. Stuart Company uses an intranet system to keep salespeople up to date on promotional material or other projects that marketing is working on. Any time a change is made to its website or a promo piece is mailed out, a memo is put up on the intranet so salespeople can always get the information [24].

Marketing in Action 14.1

Avon Goes to the Mall

Founded in 1886, Avon (► www.avon.com) is the world's premier direct seller of beauty and related products. Although Avon divides its products into four major categories (cosmetics, fragrances, and toiletries; apparel; fashion jewelry and accessories; and gift and decorative products), it is the category of cosmetics, fragrances, and toiletries that accounts for more than half of Avon's revenues. And nearly all the company's revenues were generated by a direct salesforce of 6.5 million active representatives operating in more than 100 countries worldwide.



Despite annual revenue of more than \$10 billion for its worldwide direct selling effort, however, Avon has been expanding its tried-and-true independent sales network with retail outlets. Meant to serve women either who do not know an Avon representative or who do not want to be served by one, the retail outlets are positioned to capture the estimated 20 to 30 million women who fall into either of these categories.

Retail outlets and shopping mall kiosks are only one part of Avon's growth strategy, which also includes geographic expansion and the use of the market analysis software *Tactician* to finely tune its direct mail and recruiting efforts (among others). The entire reengineering plan is underpinned by information provided from the field by an army of Avon salespeople. The data that the network shared with the marketing department were invaluable in the company's plan to meet its goal of 8 to 10% sales growth per year.

Increasing the effectiveness of Avon's direct mail business, its one-on-one generated business, and its geographical expansion hinges on leveraging the direct selling channel, and Avon executives feel that there is even more potential to further leverage this successful channel to sell more of its nonbeauty-related products, as a cross-selling initiative (e.g., persuading Avon beauty products' customers to buy nonbeauty-related products). Expanding access to its products through strategically placed retail outlets will enable Avon to go beyond the traditional one-on-one sales call and reach those 20–30 million potential American customers.

How will expanded access methods such as retail kiosks in shopping malls, direct mail catalogues, and online ordering affect the company's relationships with its direct sellers? Could such outlets adversely affect the salesperson's profitability?

Sources: ► <http://www.avon.com/>; and McGinn, D. (28 April 2003). “The CEO’s Challenge,” *Newsweek*, 50–55. Goudreau, J. (2013). New Avon CEO vows to restore the 126-year-old beauty company to former glory. *Forbes*. ► <https://www.forbes.com/sites/jennagoudreau/2013/02/27/new-avon-ceo-vows-to-restore-126-year-old-beauty-company-to-former-glory/#152293f66377>. Accessed 22 Aug 2020; Avon (2020). Avon 2019 annual report. ► <https://www.annualreports.com/Company/avon-products-inc#:~:text=Avon%2C%20the%20company%20for%20women,active%20independent%20Avon%20Sales%20Representatives>. Accessed 22 Aug 2020.

14.6.2 Cultural Generalization

In general, a company’s human resource practices closely follow the local practices of the country in which it operates [25]. The age-old saying “When in Rome, do as the Romans do” generally applies to sales management. For international sales executives, some understanding of cultural differences is crucial (see Manager’s Corner 14.1). Such cross-cultural understanding is important even for domestic sales executives today, considering that the domestic markets across the world also have been expanding their cultural horizon with customers in local markets from diverse cultural backgrounds. These human resource practices (e.g., understanding cross-cultural customers) include time off, benefits, gender composition, training, executive bonuses, and employee participation in management. Human resource practices also depend on the strategy desired, the culture of the company, and even the country from which the company originated. Although we can say that the sales management process *should* adapt to the local environment of the target market, we acknowledge the difficult give-and-take involved in adapting a US company’s culture and procedures to the sales and management practices of a foreign country. As Thomas Donaldson put it succinctly:

- » When host country standards seem substandard from the perspective of the home country (manager), the manager faces a dilemma. Should the multinational corporation (MNC) implement home country standards and so seem to lack respect for the cultural diversity and national integrity of the host (country)? Or, should the MNC implement seemingly less optimal host country standards? [26]

For decision-making in such cases, a common marketing practice is either to completely adopt the home country’s standard, to completely adopt the host country’s standard, or to seek an appropriate balance between the home and host countries’ standards based on the specific situation of a particular target market. However, on many occasions, seeking an appropriate balance between the home and host countries’ standards in sales management would mostly be useful. This is because adopting some host country-specific standards would be useful to demonstrate a company’s (and its sales team’s) awareness of and respect for the host country’s business standard (e.g., norms, values, etc.), while adopting some of the home country-specific standards (that are not contradictory but supplementary to the

host country-specific standards) would be instrumental for branding purposes as a marketing effort, e.g., distinctively presenting the company and its product in comparison to the local products in the host country.

Manager's Corner 14.1

Cultural Sensitivity Is All the More Important in an Era of Global Competition

You don't need an MBA from Harvard to figure out that many of today's opportunities for growth lie overseas. However, when it comes to developing a global workforce, most managers feel lost. In that case, what does it take to be a global manager?

Particularly, selling at a retail level is a very local activity. French salespeople will sell to customers in Paris. Similarly, Indonesian salespeople will, in all likelihood, sell in Jakarta. This does not mean that sales take place only at a retail level. Many US sales managers engage in "selling" to corporate clients in other countries, as illustrated by the country's export boom in recent years. Also, because of the progress of e-commerce, e-tailing (online retailing) needs to be managed for cross-cultural customers as well.

A global mindset is the capacity to appreciate the beliefs, values, behaviors, and business practices of individuals and organizations from different regions and cultures. Generally, European and Asian executives tend to be better at developing a global workforce than US executives. According to one study, some 25% of the US managers who take on foreign assignments fail in their task and are sent back home prematurely, whereas the failure rate for European and Asian executives is about 6 to 7%.

So, what should you do? First, globalize your career paths. If you have an opportunity to be assigned to an overseas position (which usually lasts for 3 years) in your company, take it now, and don't wait until you become a 45-year-old manager. Make sure that you take some language and cultural training before the foreign assignment. Cultural sensitivity is very important.

Before any typical business negotiation, the Japanese go through an elaborate litany of rituals involving dinners and parties with their business partners, which seems never-ending to many US executives. In the actual negotiation setting, then, the Japanese go through another ritual of exchanging business cards with their business partners. To the Japanese, their business card represents their status and dignity at a negotiation. To US executives, business cards are just a piece of paper with a name and an address on it that can be used among different stakeholders for future communication purposes. Not liking the slow pace of business card exchange, one American executive tossed (without any malicious intent) some of her business cards across the negotiation table to Japanese "would-be" partners. This act stunned the Japanese executives—and, of course, the deal never went through.

Second, now as a globally minded manager, you should make sure that you share your expertise with the rest of your organization. Unilever, for example, has 25,000 employees using digital devices to exchange their international business experiences over a global computer network. Even anecdotal stories will help sensitize people.

Source: Dumaine, B., & Ready, D. (1995). Don't Be an Ugly-American Manager. *Fortune*, p. 225

It would be wonderful to provide a diagram that could help managers plot the appropriate solutions for each country or market. Although such a diagram is too much to hope for, we can look at some common generalizations and categorizations of cultural traits and think about how they might affect our sales approach. We must take care, though, not to imply that any culture can be described accurately in a few words or categories.

As an example of a cultural generalization with both helpful insights and misleading oversights, consider the foreign view of Germans. Germans are typically viewed as scientifically exacting and industrious people. We might therefore approach sales in Germany by building a small core of technically trained, independent sales agents to deal with technically exacting German customers. But if we think Germans look at work the same way Americans do, we would be misguided! The typical German manufacturing work week is only 30 hours. And Germans jealously guard their free time and show little interest in working more to earn more [27].

We must also be careful not to group people from what may appear to us as very similar cultures, but who consider themselves, and react to situations, in a very distinct manner. Consider, for example, South Korea and Japan. We may think that Koreans would be accustomed to the same bottom-up, consensual decision-making approach for which the Japanese are known. Korean workers, however, tend to work within a top-down, authoritarian leadership structure [28] and require a higher level of definition in their job structure to avoid suffering from role conflict. A Korean salesperson might accept as normal a short-term position with few prospects for long-term progress, whereas a Japanese salesperson would not dream of it [29].

Another example is the differences in the orientation of salespeople in Australia and New Zealand. Most of us tend to think that their cultures are very similar. However, salespeople in New Zealand tend to be more committed to, and generally more satisfied with, their work than their Australian counterparts. Additionally, there are differences in preferences toward compensation (Australians preferring greater security in the form of a larger salary) and special incentives (New Zealanders having a much higher preference for travel with other prize winners and supervisory staff) [30]. In a way, salespeople in New Zealand share more similarities in their value system with their Japanese counterparts than their Australian neighbors.

Another generalization context in sales management is following a standardized global culture. For example, when we show the sign “thumbs up,” today it generally means a positive sign, an okay sign, or a sign of approval across the world because of ongoing globalization. However, the sign “thumbs up” used to be meant differently in various countries even within the European region [31]. Therefore, a TV commercial or a salesperson could use the “thumbs up” sign in a foreign market if it is assumed that the market has sufficiently accepted the standardized global culture. Otherwise, using or demonstrating a particular sign, gesture, or idiom as a verbal expression in a TV commercial or sales transaction should be avoided in a foreign market. For example, using some sexual expression would be acceptable in

a TV commercial in America but may not be socially acceptable in some countries in the Middle East.

One of the most widely used tools for categorizing cultures for managerial purposes is Hofstede’s scale of five cultural dimensions (see ■ Table 14.3). Hofstede’s scale uses a large number of questions to determine where countries stand on each dimension.

■ Table 14.3 Five cultural dimensions

Dimension	Definition	Examples
Power distance	The concentration of power (physical and intellectual capabilities, power, and wealth) in certain groups and the acceptance of it	High power distance: Korea, India, Japan, Mexico Low power distance: Australia, the United States, Germany
Individualism versus collectivism	The importance of the individual versus the group or the pursuit of self-interests versus subordination to group interests. That is, “I” versus “we” orientation	High individualism: the United States, Australia, Great Britain, Canada Low individualism: Japan, Venezuela, China, Pakistan, Thailand, Mexico
Masculinity versus femininity	The need for achievement, assertiveness, and material success versus the need for relationships and modesty. Masculine cultures have segregated roles, consider big beautiful, and need to show off. Feminine cultures care more for quality of life and environment than money	Feminine: Sweden, France, the Netherlands Masculine: Japan, Mexico, Britain, Germany
Uncertainty avoidance	Extent of the ability to cope with uncertainty about the future without stress	High uncertainty avoidance: Japan, France, Mexico Low uncertainty avoidance: the United States, Hong Kong, Great Britain
Long-term orientation	Values-oriented toward the future, thrift, and perseverance	Long-term orientation: Hong Kong, Japan Short-term orientation: the United States, Great Britain, Germany

Source: Hofstede, G.H. (1991). *Cultures and Organizations: Software of the Mind*. New York: McGraw-Hill

14.6.3 People Management

The most obvious, and crucial, role of any sales manager is managing sales professionals. The same applies almost as forcefully to the managers of service and support personnel (including the very large numbers in the service industries). A successful sales manager *must* have the following qualities [32]:

- Wants to be a manager to undertake crucial responsibilities
- Has the ability to lead and motivate others including people management skills
- Is a good organizer and planner
- Is capable of control and administration
- Fully understands the implications of finance
- Has the skills to recruit, train, motivate, and develop those who will form part of the team

To be successful, sales managers must inspire teamwork and cooperation while motivating salespeople to achieve their own peak performance. ■ Table 14.4 lists ten skills effective sales managers need.

Recruitment Recruitment is a particularly difficult process in which sales personnel are concerned because quality sales skills are all important. Yet there are relatively few good sales professionals and considerably more mediocre ones, many of whom hamper their performance even more by an unnecessary (and often enthusiastic) commitment to the stereotype. The success of a sales team therefore almost entirely depends on the number of high-quality sales personnel who can be recruited. Fortunately for college students, “many sales managers who recruit at colleges say they found their best salespeople on campus” [33].

The recruitment process is probably the single most important task for sales management, and yet it is often the most neglected. The first requirement for successful recruitment is that it must be taken seriously by giving it the resources, including sales management time, that it deserves.

Recruitment can be broken down into a number of stages: (1) generation of prospects, (2) creation of a short list, (3) final selection, and (4) persuasion. Recruitment is also a sales process: The candidate will be buying an organization just as much as a customer, and for him or her, it is a very important decision for their career. Therefore, the whole recruitment process should entail continuously selling the organization and the job. In fact, continuous recruiting may be costly, but it costs less than constant high turnover [34].

Motivation and Compensation Even the above average salesperson rarely works at more than 60% of his or her capacity [35]. This problem is very different from that of “managing” teams of other employees, for a number of reasons, including (1) lack of contact, (2) complexity of role, and (3) entrepreneurship. These challenges are dealt with (or perhaps, more accurately, evaded) by the traditional tools of salesforce moti-

Table 14.4 The ten skills effective sales managers need

Treat your salespeople the same as you would treat your best client. Salespeople treat their best clients very well, listening to their needs and responding to them. Make your salespeople feel special. Give them your undivided attention when talking to them.
If you have to do something that is unpopular with the salespeople, explain why you are doing it. Let the salespeople see the overall picture. They need to feel they are a part of the whole organization and see how their efforts impact the growth of the company.
Give salespeople immediate recognition for sales made. Ring bells, write memos, and make announcements. People are not working just for money, but for the rewards, challenge, and excitement of winning. Show confidence in your people. If you expect them to win, they will.
Praise in public but reprimand in private. Give your salespeople a chance to explain before you criticize. You may have the facts wrong. Begin with a question, not an accusation. Show your concern for their welfare. Express your appreciation. When you give praise, be specific.
Hold short sales meetings often and focus on the positive. Talk about sales made. This technique inspires confidence. Remain positive. Your attitude is contagious.
Encourage your salespeople to set their own goals. Often salespeople will set goals for themselves that are higher than you would set for them. And people work harder to make their own goals.
Hit the streets with your salespeople once a week. They will respect you for it. Also, you will see what they are doing, right and wrong. Give them feedback. You will motivate them by taking an honest interest.
You need to role-play. Sales meetings should be for learning and practicing sales techniques. Role-playing involves everyone and promotes team spirit as it instructs.
In handling disputes, don't talk to each person separately. Bring salespeople into your office together, so each person tells his or her side in front of the other person.
Have your salespeople listen to motivational tapes in meetings or in cars. They face rejection daily and need the boost. Maintain an appreciation for their perspective. Salespeople respond to a teacher, team builder, and coach. Assume those roles, and your billings will soar.

Source: Lontos, P. (1999). 10 Laws for Sales Managers. *Executive Excellence*, 16, 12

vation, which concentrate almost exclusively on the single task of motivating sales personnel to achieve their narrow short-term targets. Examples are commission payments (often seen as the basic motivator behind overall sales performance), sales competitions (used to stimulate short-term interest), and leadership.

Financial compensation is one of the key motivators for employees in all cultures. However, successful sales programs make use of a wide variety of motivators. The sales manager will want to adapt the incentive structure to best meet local desires, regulations, and situations. For example, the devaluation of the Mexican currency in the past posed problems for many sales compensation plans. Electrolux's 250-person-strong Mexican salesforce switched from a pure commission system to a combined salary–commission plan as a result of the 45% decrease in sales as a result of the devaluation [36].

Unlike in the United States, in many countries, the use of commissions in motivating salespeople is not publicly acceptable. Commissions reinforce the negative image of the salesperson benefiting from the sale, with no regard for the purchaser's well-being. Salary increases may substitute for commissions to motivate salespeople to consistently perform well. However, under certain circumstances, large salary discrepancies between employees are also not acceptable. Strong unions may tie a company's hands in setting salaries. The "collectivist" culture of a country such as Japan may not accept that one person should earn substantially more than another in the same position. Koreans, for example, are used to working under conditions in which compensation is not directly contingent on performance, but rather on seniority.



■ (Source: ► [pexels.com/royalty-free-images/](https://www.pexels.com/royalty-free-images/))

When financial rewards are not acceptable, the company must rely more heavily on nonfinancial rewards, such as recognition, titles, promotions, and other perquisites (e.g., gift of a holiday package, etc.), for motivation. Foreign travel is another reward employed by international companies. For example, to encourage its more than 350 dealers to sell 4 of its high-ticket copiers, Konica Minolta, based in Windsor, Connecticut, gave the top seller for each month of the 5-month program a choice of 16 trips—including such adventurous activities as dog sledding and skiing, as well as more traditional tennis and golf excursions. To promote the program, each month Konica Minolta sent dealers oversized postcards promoting that month's vacation package offer and announcing the previous month's winner. Reps used an 800 number to report the model, price, and customer each time they made a sale. The system also helped Konica Minolta track the success of the program. Sales of the targeted copiers increased 26% during the months of the program [37].

Leadership The personal characteristics—and in particular, leadership qualities—of the sales manager are probably the most important motivator. Some oft-cited qualities that make an effective leader are enthusiasm, courage, self-confidence, integ-

ity, interest, equality, respect, entrepreneurial skill, and a sense of humor. Charisma, ability to delegate, and communication ability are also often mentioned.

Control Controlling sales personnel is complicated by the same factors as discussed in ► Sect. 14.6.2. There is one further complication: time. Most sales campaigns now take a number of calls over several months. The sales manager has to manage this process by controlling the interim stages without the measure of the final result by which to judge the effectiveness of these actions. But sales management does have, in the final outcome (the sale itself), the ultimate measure of performance. The performance of sales personnel, more than that of almost any other employees, can be measured with some degree of accuracy—at least in the longer term.

The salesperson's performance is typically measured by numbers and in particular by sales volumes. These numbers may be compared with (1) past sales, (2) performance of other sales personnel, and (3) sales targets. In practice, many other judgments are qualitative. The sales manager judges his or her subordinates on the basis of what they seem to be doing and how they are doing it. This is particularly true of those involved in the sale of capital goods, in which long periods may elapse between orders and management becomes almost an act of faith. However, such subjective judgments are notoriously unreliable [38].

The manager may define the employee's roles explicitly and require a standardized sales pitch. Alternatively, the manager may set broad, general goals that allow salespeople to develop their own skills to pursue their career goals, which is important to keep motivating the best sales personnel in a company. A number of studies have found that the best management approach varies by culture and country. For example, Dubinsky et al. [39] found that role ambiguity, role conflict, job satisfaction, and organizational commitment were just as relevant to salespeople in Japan and Korea as in the United States and that role conflict and ambiguity have deleterious effects on salespersons in any country. However, specific remedies for role ambiguity, such as greater job formalization (or more hierarchical power, defined rules, and supervision), have a distinct effect on the salespeople in different countries.

14

One generalization is that greater formalization invokes negative responses from the salesforce in countries in which the power distance is low and individualism is high (such as in the United States). Greater formalization invokes positive responses from the salesforce in countries in which the power distance is high and individualism is low (such as in India) [40]. For example, Kraft Foods' sales reps used to visit fewer stores than before the company's restructuring, and most serve a single retail chain rather than different retailers in the same area. They have more freedom to set up more displays and build better relationships with store managers on their own. This incentive program generated some 30% more time that Kraft sales reps will spend at each store [41].

Ethical Perceptions Culture, or nationality, also influences salespeople's beliefs about the ethics of common selling practices and the need for company policies to guide those practices. Why is this knowledge important? Salespeople need to stay within the law, of course. More importantly, to maintain the respect of customers, salespeople

must know what is ethically acceptable in a culture of their target market. For example, in the United States, giving a bribe is tantamount to admitting that a product cannot compete without help. However, in some cultures, receiving a bribe is seen as a privilege of having attained a position of influence. An understanding of the ethical norms in a culture will help the company maintain a clean image and will also help the company create policies that keep salespeople out of the tense and frustrating situations in which they feel they are compromising their ethical standards.

As an example of differences in ethical perceptions, consider the results of a study by Dubinsky et al. [42]. The study presented salespeople in Korea, Japan, and the United States with written examples of “questionable” sales situations. Examples of the situations used are:

- Having different prices for buyers for which you are the sole supplier
- Attempting to circumvent the purchasing department and directly reach other departments when it will help sales
- Giving preferential treatment to customers who management prefers or who are also good suppliers

The salespeople were asked to rate to what extent taking part in the suggested activity was unethical. The results indicated that, in general, American salespeople felt the situations posed fewer ethical problems than did the salespeople from Japan and Korea. The study also disproved the assumption that Japanese gift-giving would extend into the sales realm. In fact, the Japanese felt it was more of an ethical problem to give gifts to a purchaser than did US salespeople. For Koreans, however, gift-giving was less of an issue.

Paradoxically, US salespeople indicated that they wanted their companies to have more policies explicitly addressing these ethical questions! Why? Apparently, they feel more comfortable when the ethical guidelines are explicitly stated, whereas in Korea and Japan, the cultural exchange of living in a more community-oriented society provides the necessary guidelines.

14.6.4 Technological Management

With the progress of the contemporary technologies, sales managers and sales personnel need to be well-trained with the new technologies, because different standardized and customized sales software are used today to manage sales teams. For managers, such technological devices help them to communicate, monitor, and evaluate their subordinates. For sales personnel, such devices are instrumental for communication and reporting. Another very important entrepreneurial virtue of such sales software is that its calculation system enables a sales team to analyze existing sales data to evaluate the ups and downs in sales history, target markets’ needs and preferences, and even monitoring competitors’ activities in different sales territories. As a result, such ongoing analyses (often on a periodical basis, e.g., monthly) enable a sales team to forecast their sales prospect and to plan (including any adjustment in the plan), monitor, and evaluate the plan, in order to underpin their sales performance.

Summary

In most organizations, the main marketing resource is the salesforce. This resource is qualitatively different than almost all other marketing activities because of its dependence on relationships between individuals. The role of the salesforce mainly covers prospecting, selling, and supporting.

The building block of a sales organization is the territory, which may be defined by geography, by industry, and by product. Territory plans should, at least in theory, take into account annual costs (including direct and indirect expenses/overheads, which may be high, as well as salary and commission) and annual calls available, which may be as low as 200 per year.

The overall sales personnel plan may, however, be derived in a number of ways:

- Resources needed to exploit the potential—equivalent to objective and task
- Resources needed to meet target—usually based on affordability or percentage of revenue
- Negotiated levels—a major selling task for the sales manager
- Business as usual

The whole of the selling operation revolves around the individual sales professional, whose role holds many similarities to management in general:

- Territory management
- Resource management
- Management of support personnel
- Management of the customer interface

The last aspect, the customer interface, may represent the major investment of the organization, although it may be unrecognized.

The territory sales plan will include:

- Identification of customer and prospect sets—A, B, and losers
- Sales objectives—including product and/or market mix
- Sales forecasts—totals, with bankers, probables, and possibles
- Call and activity targets—for example, mailings

Prospecting (generating new customers) is a numbers game: The more mailings sent out, the more prospects, and ultimately customers, will be generated. On the other hand, much of the work of sales professionals revolves around industrial sales. This type of sales employs long-term sales campaigns to multiple personnel in an organization. Accordingly, relationship marketing and account planning are important activities—and with them project management skills.

Sales team management is a specialized form of human resource management, but it differs in terms of recruitment, motivation, control, and training. Motivation is usually linked to compensation (commission), although other factors, such as leadership, may be the main requirement for a sales manager. Sales managers should also be aware that because sales activities are local activities, they tend to be strongly affected by cultural differences (e.g., shopping habit, negotiation style) around the world, making it difficult, if not impossible, for the international marketing manager

to integrate overseas sales operations. The development of an effective sales organization requires salesforce objectives and salesforce strategy adapted to local differences and calls for careful recruiting, training, supervising, motivating, and compensating of local salespeople.

Two major forces are reshaping sales management. First, a recent trend toward downsizing and restructuring across corporate America, and increasingly around the world, has put mounting pressure on sales personnel to perform more effectively. Second, the computer revolution has ushered in an officeless working environment for many sales professionals with the aid of laptop computers, modems, and fax machines. Although these tools allow sales professionals to allocate more time to traveling and visiting their clients and new prospects, managing them effectively has become increasingly an important issue.

Key Terms

Coach

Decision-makers

Economic buyers

Ethical perceptions

Influences

Marginal analysis

Modified rebuy

New task buying

Relationship marketing

Straight rebuy

Technical buyers

User buyers

? Review Questions

1. What are the main roles of the salesforce? What are the main differences between prospecting and selling/supporting?
2. How may territories be organized? What should territory plans take into account? Under what circumstances should the salesforce be organized into territories? What are some of the alternatives to territories as a basis of salesforce organization? What may be the bases for the overall manpower plans?
3. What are the main management aspects of the sales professional's role? What is the investment in the customer interface?
4. Which parties may be involved in industrial sales? Which categories of individual sale may be involved? What are the differences from consumer goods purchases?
5. How does account planning support relationship marketing? What skills does this require? How does the salesperson stereotype impact the process?

6. Which people management elements have a different emphasis in the sales manager's role? Do compensation plans alone provide the necessary motivation?
7. Which factors should the sales manager take into consideration when managing a sales organization abroad?
8. If your firm is considering changing the shape of certain territories, what actions would you take to lessen the protests of the salesforce who may be upset about this type of change?

? Discussion Questions

1. "The Japanese market is quite different from the US market," says Mr. Eiji Iwakuni, who was appointed president of Ford Motor Co. (Japan) Ltd. last March, an engineer who spent 32 years with Honda in marketing, sales planning, and production control. "With 9 or 10 attractive Ford models (such as the Ka, a 1.3L three-door compact hatchback produced in Valencia, Spain, and 1.6L Ford Focus sedans and wagons), we can sell 60,000 to 100,000 vehicles a year in Japan within five years," he says.

To reach that goal, his priority is an overhaul of the dealer network in which possibly 10% of Ford Japan's 248 outlets will have to close. A rival foreign car executive, pointing out that some of these outlets sell only four or five vehicles a month, says scornfully: "They're a hobby, not a business." Mr. Iwakuni is embarrassed that Ford Japan salespeople currently average fewer than 20 cars a year each, not even half that of competitors.

Too many of them, he says, are "ignorant about product, don't keep proper records, forget who they sold to and treat new car customers like used car customers."

New training is planned to change attitudes and improve performance, and "students" will have to shape up or ship out. The break-even point for Ford Japan's 107 dealers is 250 to 300 sales per outlet per year. Although most are losing money, Mr. Iwakuni is confident that new products, properly marketed, will turn them into profitable businesses. In time, he aims for 300 outlets.

Japan's sales of imported Fords, never significant, plummeted 50% in 2000 to about 7000. Even when Ford-badged cars made by Mazda Motor Corp. are lumped in, as Mr. Iwakuni does to reach his 0.5% share, the total is only 22,000, a decline of 37.5% from 1997.

In this challenging Japanese car market, evaluate the strategy of Mr. Iwakuni to overhaul the dealer network for selling Ford cars.

2. Getting a sales team going early in the year can be tough. If reps have just finished a strong push to hit the past year's targets and the next big goal is still 12 months away, it should not be a surprise when January fatigue sets in.

Curt Tueffert, vice president of sales for JBS, a computer distributor, says motivating a staff early in the year requires setting intermediate goals and then clearly communicating them. He uses January to announce a quarterly bonus and preview the president's club incentive. To keep reps' interest, he periodically sends small gifts related to the prize. If it's a trip to a tropical location,

he'll send sunglasses, suntan lotion, and beach towels, for instance. Tueffert also sends gifts to salespeople's spouses to get them into the spirit.

How effective are these "extrinsic" ways to motivate salespeople as opposed to "intrinsic," which, according to some theories of management, may require enrichment of the sales job itself? In contrast to the system of extrinsic compensations, can you think of ways of making selling creative and challenging to ensure performance?

3. Within the next 3–5 years, the size of many salesforces may be reduced by as much as 40 to 50%. Dick Canada, director of the Center for Sales Studies and Market Intelligence, Indiana University, Bloomington, says perhaps the single biggest factor influencing this change is being directed by the way people buy. "For example, copiers, long distance carriers, and financial services are now being purchased based on price. Why? The customer doesn't perceive a value difference between these products due to heightened competition and product commoditization." "Tomorrow's salesforces will have to create value for customers rather than just communicate value," he argues.

Pick a specific product area (such as the personal computer market) to identify ways that a salesperson can create value for customers in the given new environment of heightened competition and product commoditization.

4. A sample of the National Association of Purchasing Management buyers reported their perceptions of salespeople who called upon them on overall sales performance, buyer trust of the salesperson, product expertise, sales presentation ability, and so on. Males were evaluated more highly on two performance dimensions and one specific sales behavior but not on overall performance, and they were paid more. There is some evidence that buyers use a different evaluation criterion for men and women. The results were consistent across both male and female buyers. Overall, results indicate that gender bias remains a part of the industrial sales environment.

Can you identify some specific product markets where the gender bias may be more prominent? Can you suggest some remedies to overcome such bias if you, as a sales manager, had several saleswomen in your sales team?

Practice Quiz

1. Which of the following is a characteristic of geographical territories?
 - a. Steeped salesforce knowledge
 - b. Absent national barriers
 - c. Decreased contention
 - d. Ease of defining territories
2. All the following are benefits of territory based on industry EXCEPT
 - a. Steeped salesforce knowledge
 - b. Absent national barriers
 - c. Decreased contention
 - d. Ease of defining territories

3. “A” prospect customers should have first claim on resources left after planned support because they
 - a. Constitute the largest target market
 - b. Have the highest sales performance
 - c. Maintain the strongest market penetration
 - d. Require the fewest resources
4. The specific sales objectives should include all the following elements EXCEPT
 - a. Total shares to be achieved
 - b. Product mix
 - c. Market mix
 - d. Promotion mix
5. The product mix element of the sales objective states
 - a. The volume to be achieved
 - b. The relative contribution of each product to total sales
 - c. The proportion of total sales in each market
 - d. The percentage over competitors to achieve
6. The market mix element of the sales objective states
 - a. The volume to be achieved
 - b. The relative contribution of each product to total market
 - c. The proportion of total sales in each market
 - d. The percentage over competitors to achieve
7. Which of the following industrial buying situations requires the most effort by both buyers and sellers?
 - a. Straight rebuy
 - b. Dissatisfied rebuy
 - c. Modified rebuy
 - d. New task rebuy
8. Which of the following buyers is the ultimate decision-maker?
 - a. Economic
 - b. User
 - c. Technical
 - d. Direct
9. All the following are benefits of sales proposals EXCEPT
 - a. Increased competitiveness
 - b. Time efficiency
 - c. Documented agreements
 - d. Better communication
10. All the following are elements of Hofstede’s scale of cultural dimensions EXCEPT
 - a. Power distance
 - b. Individualism
 - c. Masculinity
 - d. Purchase power

11. Motivating a team of salespeople can be difficult for all the following reasons EXCEPT
 - a. Complexity of roles
 - b. Entrepreneurship
 - c. Lack of contact
 - d. Lack of motivation techniques

(You can find the correct answers to these questions by taking the quiz and then comparing your answers with the answers that are provided at the end of the book, under the “Practice Quiz Answers” part of the book.)

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The Future of Marketing

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■ Knowledge Is Power



■ (Source: ► [pexels.com/royalty-free-images/](https://www.pexels.com/royalty-free-images/))

The value of firms no longer comes from physical or financial assets shown on the balance sheet, but from intangibles such as brands, patents, franchises, software, research programs, ideas, innovation, innovative marketing, and management expertise. These soft assets, rooted in human qualities, have been increasingly overtaking hard assets as the most important sources of a company's value. Microsoft's (► www.microsoft.com) former boss, Bill Gates, said, "Our primary assets, which are our software and our software development skills, do not show up on the balance sheet at all." Similarly for the late Steve Jobs, the former chairman, CEO, and cofounder of Apple Inc., such soft skills were the key to his success. "Jobs didn't possess the technical wizardry of his closest business partners, but for him to succeed, he stuck with what he knew, skills anybody can learn. Communication, collaboration and decision making are all soft skills anybody can easily pick up and implement right away."

There is a growing gap between firms' stock market value and the book value of their assets. The biggest difference is found in companies that have the highest spending on research and development (R&D).

The preservation of a firm's intangibles as its competitive advantage is highly complex because they differ from normal physical assets in a crucial way: Most of a firm's intangible assets are locked in the brains of its employees as their soft skills, who can come and go. At the beginning of this current century, practitioners at the former Mellon Financial Corporation (which has merged with the Bank of New York to form BNY Mellon) developed an approach to human capital measurement to help companies answer previously unanswerable questions: What is our investment in people? Are we making the right investments in the right people?

By explaining the value of the individual employee as the difference between the present value of future contribution and the present value of future costs, the Human Capital Value Metric can be used to determine where value is being created in the organization. But there still are difficulties in valuing such intangible assets. While virtually all companies can access cost information about their employees, contribution has been harder to estimate because the information does not readily exist nor has there been a practical method for creating a baseline from which to extrapolate forward and then discount back to the present.

It is, however, difficult to accurately measure the return on investment of soft skills; there are some assumptions to predict the value of soft skills, based on tracking employees' engagement and productivity rates, interviewing employees and customers, and comparing staff turnover. Nevertheless, work is going on in different disciplinary and cross-disciplinary domains to effectively measure the exact value of soft skills.

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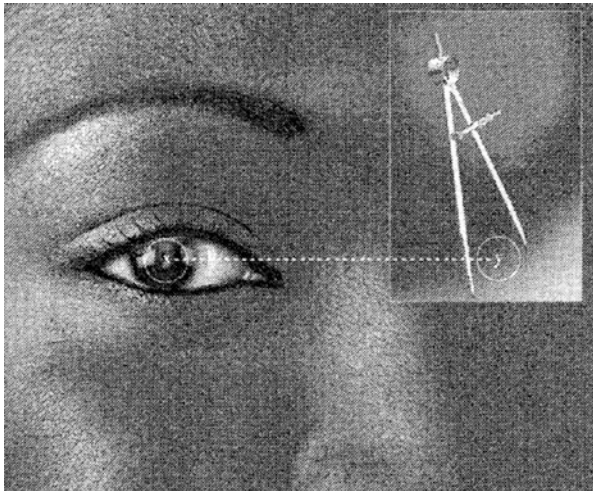
15.1 Introduction

Marketers are constantly faced with change in their wider market environment. Because of ongoing environmental changes, the strategy that was effective to win a market yesterday may not be applicable or need modification of the same strategy to influence same market today. A common example is that supermarkets have been replacing plastic bags with bags that are made from more eco-friendly materials because of the changing awareness on sustainability. This situation is neither new nor one to be feared because change provides the opportunity for the emergence of new marketing activities and market positions. For example, in response to sustainability concerns, supermarkets in Thailand started to use natural leaves to pack their goods, which adds competitive advantage to their promotions as an eco-friendly company. In Bangladesh, an alternative to plastic bags was made from jute (a natural fiber) that is 100% biodegradable. However, changes in the market environment are a continuous process; the aforementioned examples demonstrate that changes also drive innovation and competitive advantage. Recognizing the importance of change and adapting creatively to new conditions are the daily bread of marketing professionals. In recent decades, however, changes are occurring more frequently and more rapidly, with more severe impacts. As a result, the past has lost much of its value as a predictor of the future. The source of what defines a company's value is much different today than it was in the past, as the chapter's opening vignette illustrates.

To assist in forward thinking, this chapter discusses possible future developments in the marketing environment. It highlights the implications of these changes for marketing management and offers suggestions for a creative response.

15.2 Environmental Changes

Although the environment of firms is composed of many interacting elements, we will focus on just some of the changes occurring in the technological, financial, regulatory, societal, competitive, geopolitical, and postpandemic environment because it is in these areas where the impact of change has its most profound effects on marketers.



15.2.1 The Technological Environment

The concept of the global village is commonly accepted today and indicates the importance of communication in the technologically enhanced digital environment. Globally, society is rapidly reaching a watershed in terms of individual technology orientation. Just consider: In the United States, the number of adults with internet access in 2002 was 140 million and increasing at a rate of 2 million users per month, that is, in fact, 67% of the total US adult population over age 18 were regular internet users, and the average user spent 7 hours a week online [1]. Now, let's have a look at the more recent progress of internet usage in the United States. In 2019, there were 313 million internet users in the United States, with 152,069 available active Wi-Fi hotspots across the nation, along with an internet usage penetration rate of 87.3% [2]. As of January 2020, there were 288.1 million active internet users, 246.3 million active mobile internet users, 230 million active social media users, and 225.4 million active mobile social media users in the United States

[3]. What are the implications of this progress of the digital environment for marketers? Let's undertake Web Exercise 15.1 to explore the major similarities and dissimilarities in the design of the websites of major online retailers, their offerings, and the market challenges and opportunities they have been exploiting through the marketplace (internet-enhanced market that replaces the traditional physical market).

The demographics of the online populations are also changing. Although initially the majority of internet users were male, women, who constitute 52% of the total population, accounted for 50% of those going online at the beginning of this century. During 2001, the young and affluent were a disproportionate percentage of internet users, now older and lower-income people are increasingly represented. People over age 50 now make up 36% of internet users [4]. Between December 1998 and September 2001, internet use by individuals earning less than \$15,000 per year increased by 25%, while internet use by individuals in households with incomes of more than \$75,000 per year increased by only 11% [5]. In 2019, 90% of males and 91% of females used the internet in the United States, which means that in comparison to 2001, females exceeded males in using the internet in terms of gender-specific total population in 2019 [6]. Also, today the younger population are generally more tech-savvy than older adults. In 2019, 100% of people between 18 and 29 years old, 97% of people between 30 and 39 years old, 88% of people between 40 and 49 years old, and 73% of people who were 65 years old or older in the United States used the internet [7]. In terms of income level in 2019, 82% of people who earned less than \$30,000 per year, 93% of people who earned between \$30,000 and \$49,999 per year, 97% of people who earned between \$50,000 and \$74,999 per year, and 98% of people who earned more than \$75,000 per year used the internet in the United States [8].

In Japan, 54.4% of people used the internet in 2003, a 10% increase over 2002. Contrast this number with 1997, when only 1 out of 10 Japanese were internet users [9]. In 2018, 91.28% of Japanese used the internet [10]. The rapid transformation of the telecommunications infrastructure, combined with an appetite for the communications and commerce applications offered by the internet, has been propelling simultaneous online explosions in Mexico, Central and South America, and in fact all over the world on both sides of the Atlantic Ocean, in the Mediterranean, Eurasian, and Oceania regions.

15

For both consumer services and business-to-business relations, the internet is democratizing global marketing. The internet has made it easier for new global retail brands—such as Amazon.com, eBay.com, and Alibaba.com—to emerge and expand. It is also helping specialists such as Australia's high-sensitivity hearing aids manufacturer Cochlear to reach target customers around the world without having to invest in a distribution network in each country. The ability to reach a worldwide audience economically via the internet spells success for niche markets who could never make money by just servicing their niches in the domestic market. The internet also allows customers, especially those in emerging markets, to access global brands at more competitive prices than those offered by exclusive national distributors [11]. In fact, because of the progress of the digital marketplace, we have seen many “born-global” small and medium enterprises in the last two

decades, who have launched their businesses targeting the global market instead of selling before to their domestic customers.

Starting a business with a new idea will be much more competitive. Small- and medium-sized enterprises, as well as large multinational corporations, are now full participants in the global marketplace. Businesses in developing countries can now overcome many of the obstacles of infrastructure and transport that limited their economic potential in the past. The global services economy will be a knowledge-based economy supported more by soft skills, and its most precious resource will be information and ideas. Unlike the classical economic factors of production—land, labor, and capital—information and knowledge are not bound to any region or country but are infinitely mobile and infinitely capable of expansion [12]. Progress in technological capabilities will also make available vast amounts of data worldwide.

With the availability of this huge amount of data, the management of information becomes as important as the information itself. The premium is on the organization, maintenance, and use of huge, current, and accurate databases on customers, other vendors' products, regulations, and standards [13]. Mark Twain put it succinctly: "There is a road ahead of us. If we stand still, we will get run over." This analogy still holds true in today's competition. Technological developments are crucial for firms. Through their investments, they can make technology more valuable, but technology itself also makes investments more valuable [14]. Firms therefore cannot afford to rest on the laurels of their temporary technological advantage, but rather must continue to invest to preserve their edge. They must also invest to restructure their processes to reflect new consumer capabilities and desires that will affect the ways products are developed, advertised, priced, distributed, and serviced.

Because many of these investments require large amounts of capital, often beyond the internal capabilities of the firm, the dependence of firms on worldwide financial markets will continue to increase. In light of rising global competition for funds, one of the prime occupations of corporate executives will be to position their firm as a market leader and worthy of attracting funds. Marketing in Action 15.1 gives an example of how data management through software innovations is increasing in value.

Web Exercise 15.1

Amazon.com, EBay.com, and Alibaba.com are three major global competitors in the contemporary marketplace as the giant in the online retailing industry. A key virtue of online retailing is that it overcomes the national boundary to target the entire world as a single target market that can be segmented into different subsegments based on diverse segmenting criteria. Browse the websites of these and other online retailers, and explore the major similarities and dissimilarities in the design of their websites, their market offerings, and the market challenges and opportunities they have been exploiting through the digitally enhanced marketplace.

Marketing in Action 15.1

The Right Marketing Effort, the Right Customer, the Right Time

Founded in Dulles, Virginia (USA), MarketSwitch Corporation (marketswitch.com) was the industry leader in enterprise marketing optimization (EMO). MarketSwitch has now been acquired by Experian PLC (► <https://www.experianplc.com/>). This acquisition optimizes the Experian PLC software's analytical and decision-making capabilities to expand their EMO market. EMO helps marketers use multidimensional data-rich analytical tools to fully implement one-to-one marketing campaigns. Two major components of the EMO system are data-mining and decision support systems.

EMO software products contain an arsenal of tools to optimize marketing for outbound marketing, for example, using a rich customer database to determine the best allocation of marketing resources—in other words, who should receive what through which channel—to achieve the maximum return on customer acquisition, cross-sell, and retention campaigns. Such software for credit optimization helps companies maximize the return on credit offers to customers by calculating the optimum amount of credit and interest rate for each customer. Software users can provide the right marketing effort to the right customer at the right time—optimizing the value of each customer relationship.

Insurance and financial services firms have been the primary users of such data-mining and data-warehousing tools. EMO has allowed these firms to identify trends earlier than ever before, find the most profitable customers, and better understand the composition of individual customers. The ultimate key to success has been the development of targeted customer acquisition campaigns that proactively initiate communications with the customer.

The price for such EMO software packages depends on the software's marketing capability, with prices ranging from \$50,000 to \$800,000. The main purpose of using such EMO software packages is to collect, store, retrieve, and analyze the right datasets at the right time targeting the right target audience, in order to design, deliver, and monitor enhanced customer value that could bring additional competitive advantage for a company. Today, we have enormous flow of data across different sectors, industries, and markets across the world. However, data analysts are concerned to simplify the overall management structure of such enormous inflow and outflow of data to recognize the actual value of a particular dataset for a specific problem at a given time. The crucial questions in today's data management processes are which data we should collect/explore/detect/capture/store, related to our different marketing management organizational issues, how long we should store specific datasets, what would be the sequence and duration of data inflow and outflow to visualize and analyze the right data, how big data tracking systems could be exploited for pattern-mining to explore stakeholder behavior, and so forth, in order to neutralize a prospective variance and factual error in data analytics. The overall aim here to explore these questions is to avoid any marketing management myopia and to undertake the right decision, at the right time, based on the right dataset, and targeting the right stakeholders. In support of this view, a 2017 study reveals that big data and analytics are also challenging existing modes of business and well-established companies. Yet, there is limited understanding of how organizations need to change to embrace these technological innovations, and the business shifts they entail. Even more, the business value and strategic relevance of big data and analytics technologies still remain largely underexplored.

As a result, the challenge for today's marketing analysts is to enhance our understanding of how analyzing different data sources would be instrumental in establishing noncomplex strategic data-mining patterns for particular marketing management problems targeting a specific target audience, as a practice of stable, effectual, and interactive data exploration and visualization methods from multiple data streams and as a practice of evaluating large preexisting databases and embryonic data sources in order to generate new information, which is scalable and offers novel socioeconomic and business value of existing and new datasets.

Can data-mining and customer data-analysis tools be the key to future marketing success (if yes, why)? Where should companies such as Experian PLC target their marketing efforts? How can marketing analysts address the data analysis challenges to determine the actual value of data?

Sources: Cleaver, J. (1999). Marketing in the New Millennium. *Business and Management Practices, Responsive Database Services, Inc.*, 34–36; and ► www.marketswitch.com. Accessed 15th June 2003; Experian PLC. (nd). ► <https://www.experianplc.com/media/news/2004/16-02-2004>. Accessed 30 Aug 2020; Chen, P., & Zhang, C.Y. (2014). Data-intensive applications, challenges, techniques and technologies: A survey on big data. *Information Sciences*, 10, 314–347; Bikakis, N., Papastefanatos, G., & Papaemmanouil, O. (2018). Big data exploration, visualization and analytics. *Big Data Research*. ► <https://www.journals.elsevier.com/big-data-research/call-for-papers/special-issue-on-big-data-exploration-visualization-and-anal>. Accessed 4 Jan 2018; Bello-Orgaz, G., Jung, J.J., & Camacho, D. (2016). Social big data: Recent achievements and new challenges. *Information Fusion*, 28, 45–59; Mikalef, P., Pappas, I.O., Pavlou, P.A., & Krogstie, J. (2017). Big data analytics and business value. *Information and Management*. ► <https://www.journals.elsevier.com/information-and-management/call-for-papers>. Accessed 15 Nov 2017

15.2.2 The Financial Environment

Because of improved communication flows and a decrease in government regulations, financial flows have begun to take on a life of their own. No longer is capital confined to the narrow borders of a nation, forced to select only from domestic investment choices. Today, financial markets have become thoroughly globalized, moving capital with lightning speed to those areas where the expected return is highest. Through the actions of thousands of participating money managers around the globe, exchange rates can fluctuate substantially in very short time periods and exercise major, often unforeseen, influences on trade and investment flows. Private sector financial flows vastly outnumber the finances that can be marshaled by governments, even when acting in concert.

As a result, governments will have to carefully measure the effect of their actions on global financial markets or risk depriving domestic firms of capital and creating domestic as well as international financial dislocations.

15.2.3 The Regulatory Environment

Influenced in part by financial flows, governments are increasingly recognizing the limits of their power in shaping the business environment. Many financial influences on business emanate from offshore activities, such as the eurodollar market, which are not under the regulatory control of any government. Major changes of fiscal or monetary policies can quickly extract a hefty price due to the resulting movement of capital. Shifts in regulations that are unwarranted and onerous can precipitate the exodus of firms into other countries that present a more desirable competitive platform or can place domestic firms at a significant disadvantage to their competitors from abroad. For example, US legislation that created the Environmental Superfund requires payment by chemical firms based on their production volume, regardless of whether the production is sold domestically or exported. As a result, US firms are at a disadvantage internationally when exporting their commodity-type products because they must compete against foreign firms that are not required to make such a payment in their home countries and therefore have a cost advantage.

When foreign competition is entering domestic markets and exerting pressure on domestic firms, governments often discover that traditional tariff and nontariff measures, which have been successfully used in the past to protect domestic firms, are no longer available. International trade agreements that are enforced through the World Trade Organization often restrict such actions. As a result, governments individually have become less powerful in taking effective policy measures, even when they know what to do. Consequently, a closer collaboration between governments and businesses in the regulatory domain has been emerging, in order to try to reconcile domestic regulatory needs with global competitive requirements. In addition, closer coordination of regulations between governments and public sector organizations (e.g., International Chambers of Commerce) will be attempted, to negotiate the neutralizing aspects of the competitive effects of necessary regulatory shifts [15].

15.2.4 The Societal Environment

15

Many societies are undergoing major transformations. In some, rapid population growth is a major issue; in others, population decline is a peril that has many implications for the number of workers available to firms. In many countries the aging of its society also poses particular problems. For example, in many European countries and Japan, the next few decades will see a large number of retired individuals who will depend on a shrinking base of workers to support them.

Both immigration and migration also have distinct effects on society and on the marketing task. Immigration can affect the composition of a society. For example, since the 1990s, immigration to the United States has risen to its highest point since the beginning of the twentieth century. As a result, the face of America today is vastly different than it was in 1900. In the United States, at the end of the last century,

Hispanics made up 13% of the population; African Americans made up 12%. Asians made up 4%, and non-Hispanic whites made up 70%. However, in the United States, in 2016, Hispanics were 17.8%, which is estimated to increase to 27.5% in 2060, non-Hispanic whites were 61.3% in 2016 and predicted to decline to 44.3% in 2060, African Americans were 13.3% and could go up to 15% by 2060, Asians were 5.7% in 2016 and could be 9.1% in 2060, populations with two or more races were 2.6% in 2016 that could go up to 6.2% in 2060, American Indians and Alaska Natives were 1.3% in 2016 that could increase slightly by 2060 to 1.4%, and native Hawaiians and other Pacific Islanders could increase to 0.28% in 2060 from 0.24% in 2016 [16]. Another notable fact for marketers is that the immigrants who arrived in the United States at the beginning of the twentieth century came mostly from Europe, whereas immigrants at the beginning of the twenty-first century come primarily from Asia and Latin America [17].

As a result of these immigration shifts, the marketer must understand that Latino teens are the fastest-growing youth segment in the United States and they will redefine the mainstream American culture in the future. Forty percent of Hispanics are under 21, versus 30% of the entire population. Hispanics' share of the population under 21 has grown by 61% since 1990, totaling 17% of the nation's youth under 21 in 2000 [17]. In fact, "youth is a defining characteristic of the U.S. Latino population. About six-in-ten Latinos (61%) in the U.S. were 35 or younger in 2016. The number of young Latinos – 35 million – increased 20% from a decade earlier, making it one of the largest and fastest-growing youth populations in the country" [18]. If the trend continues, Hispanic youth will be the largest ethnic youth population in the United States, affecting marketing in terms of customer value systems, communication, media, and language [19].

The effects of migration are most clearly visible through urbanization. In many nations, large migration movements bring ever-growing portions of the population to urban centers while abandoning rural areas. The increasing number of megacities of more than eight million inhabitants illustrates the change. In 1950, only London and New York were that size. In 1975, there were 11 megacities, including 6 in the industrialized countries. In 1995, there were 23, most of them (17) in the developing countries. "Of the world's 33 megacities—that is, cities with ten million inhabitants or more—in 2018, 27 are located in the less developed regions or the 'global South'. China alone was home to 6 megacities in 2018, while India had 5. Nine of the 10 cities projected to become megacities between 2018 and 2030 are located in developing countries" [20].

Urbanization is taking place at different speeds on different continents. In North America, the number of city dwellers overtook the rural population before 1940. In Europe, this happened after 1950 and in Latin America at the beginning of the 1960s. Today, these three continents are almost equally urbanized (according to UN estimates, 75% of Europeans and Latin Americans and 77% of North Americans are city dwellers). A similar process is occurring in Africa and Asia, which are still mainly rural. Their proportion of city dwellers rose from 25% in 1975 to 35% in 1995 and to a little more than 37% in 2000 [21]. The turning point, when the figure will top 50%, is predicted for around 2025. Such movements and concentrations of people are likely to place significant stress on economic activity

and the provision of services but will also make it easier for marketers to direct their activities toward customers.

In many countries, a key societal change results from a reprioritization of values. The aim for financial progress and an improved quantitative standard of living may be giving way to other priorities based on newly resurging core values such as religion or societal relations. For example, it has been argued that in Japan, firms put people instead of profits first. Firms do their best not to fire workers; government protects weak firms and industries, even if doing so hurts the overall efficiency of the economy [22]. This clash of values has been exacerbated since the disappearance of the Iron Curtain. The demise of the Soviet system has again united the world into one global market. However, the central values of market economies, such as competition, risk, profit, and property, are not universally shared, and also the geopolitical issues have been transforming further since the beginning of this current century, which also affects the societal environment of a market. The marketer must therefore consider novel approaches in such economies in transition, fully cognizant of the limits to change and the many societal constraints that result from decades of ideological pressures fundamentally opposed to the core aspects of marketing. Marketers should be challenged by the potential to nourish the emergence of a new and better world order. By working with these societies, marketers can become a true change agent for society [23].

Globally, business decisions are increasingly evaluated based on their impact on specific population groups and may be challenged when they are seen as too selectively detrimental. Furthermore, a wider ethnic distribution of consumers in the market will require more fine-tuned target marketing to diverse ethnic groups (see Web Exercise 15.2). For example, a 2003 increase in New York City subway fares had to be rescinded when a judge decided that poor minority riders would be disproportionately affected by the increase.

The emergence of new orientations, together with easy ways of communicating, has also given rise to a more activist societal environment. Greenpeace can now mobilize thousands of loyal supporters in a matter of days to protest corporate actions. Consumer boycotts of corporate products can be developed and implemented quickly, to the major detriment of firms. Dubious corporate actions can no longer be hidden even in the farthest corners of the earth. The bright light of public scrutiny can rapidly expose labor exploitations or unethical practices worldwide. This risk of exposure, combined with the rising capacity of individuals to manifest their displeasure with unacceptable practices through decisive actions, is likely to make firms more cautious, more ethical, and more socially oriented in their activities.

Web Exercise 15.2

Already part of our global awareness and expected to continue into the future is the issue of human rights. This part of the societal environment will challenge the business sector as more and more multinationals move operations to developing nations in an effort to drive down the costs of goods sold. Some companies are taking proactive stances on this issue, while other groups protest the companies' strategies. How

is Royal Dutch Shell (► www.shell.com) addressing this issue? How do human rights groups such as Human Rights Watch (► www.hrw.org) and Amnesty International (► www.amnesty.org) call attention to business practices that violate human rights?

Closer ties between individuals and better methods of communication also work to the firms' advantage. Just as public outrage can depress sales or block permits for new facilities, public approval of a company's association with good causes can create customer and public goodwill and can even allay local concerns about foreign companies. British Airways raised funds for UNICEF on international flights. Timberland created City Year Gear, casual clothing reflecting its support of City Year, a youth service corps. EDS, a large systems integration company, has run a Global Volunteer Day (GVD) since 1993; in India, the new relationships and positive aura created by GVD were a main factor in successful market entry. IBM's Reinventing Education initiative puts IBM engineers, systems integrators, and consultants on significant projects in partnership with public schools, such as developing new voice recognition technology to teach reading. In Brazil, IBM teams up with local companies to improve education. In South Asia, in association with their local suppliers (e.g., garments' factories), the buyers who retail garments in the West have established community schools and medical and recreation facilities for the garments' workers. These activities bear no resemblance to traditional charity; they apply a company's skills and innovation processes to increase quality of life [24]. The result is new opportunities for both customers and firms.

15.2.5 The Competitive Environment

All the factors described in ► Sects. 15.2.1, 15.2.2, 15.2.3, and 15.2.4 and in ► Sects. 15.2.6 and 15.2.7 shape the overall competitive environment of firms. Three additional dimensions, however, directly affect the ways firms compete. They are changes in corporate structure, shifts in corporate location, and the emergence of new leadership premiums.

Corporate Structure One key restructuring strategy employed by firms in the services as well as the manufacturing sector is that of mergers and acquisitions. The merger of Citicorp and Travelers created the world's largest financial services group. Daimler-Benz's takeover of Chrysler in 1998 created another global automotive giant. However, both of these two mergers separated again at a later stage; worldwide mergers and acquisitions reached \$1.2 trillion in 2002 and \$3.8 trillion in 2018 [25, 26].

Through these activities, firms attempt to buy market dominance via the acquisition of distribution presence, manufacturing prowess, customer contacts, or knowledge primacy. In addition, the synergy between the merging institutions brings higher competitive efficiency—mainly through the elimination of jobs and sharing soft

skills and other resources between the two merged firms. In reality, such synergies are often difficult to implement or fail to materialize altogether. The 1998 merger between Daimler and Chrysler is a good example of differing corporate cultures in a cross-border marriage in which egalitarian Germans dislike big wage differences, whereas Chrysler managers may quit their jobs if their pay is cut. The departure of key personnel often reduces the hoped-for benefits. However, the fact remains that marketers, particularly in the industrial field, are witnessing a decline in the number of their large customers due to these mergers and are learning that competition from larger firms is often harsher and fought with deeper pockets. As a result, we have seen the divestment of Chrysler in 2007 from DaimlerChrysler, which is now operating as Daimler AG (► <https://www.daimler.com/en/>).

Many firms are also shrinking themselves to what is considered a “lean and mean” level. Again, such reductions are focused mainly on the personnel side, with the consequence that some corporate functions either are no longer performed or are delivered differently. For example, the installation of voice mail systems will reduce the need for personal assistants or secretaries; the restructuring of corporate hierarchies will reduce the demand for middle management. Such steps tend to have direct marketing implications. Voice mail will serve the customer less directly. Although routine calls can indeed be handled more efficiently through automated equipment, the treatment of nonroutine cases is likely to suffer. Similarly, the elimination of middle management is apt to reduce the extent of corporate memory and the firm’s ability to draw on an inventory of human capital for innovation, creativity, and adaptation to change. As a result, the firm’s reservoir of capability to respond to future change is diminished.

Many firms also attempt to lengthen their reach either by forming strategic alliances or by developing new outsourcing relationships. Strategic alliances are a form of business agreement between companies to exchange their respective strengths in pursuit of mutual benefits. They may or may not involve equity participation. A Toyota–GM joint venture in Fremont, California, involved equity investment in which Toyota could learn about management of American labor and GM could learn Toyota’s just-in-time (JIT) production know-how. Similarly, IBM and Apple Computer, threatened by Microsoft’s encroaching domination of operating standards and software applications, agreed to enter into a joint venture alliance to develop a dominant operating system that will work on both systems [27]. Corporations also increasingly form temporary ventures as a collaborative effort to manage large projects and to develop overwhelming competitive power for mutual benefits. It has been predicted that the corporation of tomorrow will be less a physical, localized entity than a network-based consortium, with an ad hoc-oriented rather than a hierarchical culture, constant redeployment of its professionals, and semipermeable boundaries with its partners and competitors [28]. Such an approach allows a firm to significantly increase its geographic reach and to participate in projects that would have been too resource-intensive for one firm alone to carry out. In addition, it minimizes investment in areas that are not considered central to the firm’s mission and maximizes the capital available for core activities. Conceptually, there appear to be few limits to the emergence of virtual corporations who act as idea brokers and research coordinators.

At the same time that some firms head in the virtual direction of short, fluid, tangential relationships, others are banking on the development of close, long-lasting partnerships to achieve efficiency. One example is 7-Eleven convenience stores. The Southland Corporation's 7-Eleven stores lost millions of dollars every year in the 1980s and were eventually acquired by Ito-Yokado of Japan in 1991. Ito-Yokado then introduced its JIT inventory management and combined distribution center system into US 7-Eleven store chains. Under Southland's leadership, McLane independently owns and handles combined distribution of nonperishable items, and Caterair provides JIT delivery of fresh food items for 7-Eleven stores. Southland began to show profits that have eluded the company for so many years [29]. Similarly, grocery chains have created seamless partnerships with manufacturers via efficient wholesalers, distributors, and other marketing intermediaries by automating the supply system with allied vendors. These firms believe that long-lasting partnerships benefiting from close exchange of information and joint strategic planning are the route of competitive excellence.

The two vastly different approaches to corporate efficiency have major implications for the marketer. Fleeting joint ventures will require quick response to opportunities in many different areas, demanding a broad orientation with few core activities. Long-lasting partnerships will compel firms to deepen efforts and to concentrate on the synchronization of activities between partners. Clearly, such a strategy will affect the dependence relationships between firms. In addition, the focus on the long term is likely to lead to a broader definition of the firm's core activities, including manufacturing and logistics processes, which may well be neglected in short-term ventures.

Corporate Location The embryonic competitive environment also offers varied location opportunities for firms and their production activities. Never before has it been so easy to manufacture different car components in countries around the world, assemble the vehicle in yet another country, and then market it globally. Former Secretary of State George Shultz highlighted the issue when he remarked:



» A few months ago I saw a snapshot of a shipping label for some integrated circuits produced by an American firm. It said “Made in one or more of the following countries: Korea, Hong Kong, Malaysia, Singapore, Taiwan, Mauritius, Thailand, Indonesia, Mexico, Philippines. The exact country of origin is unknown.” That label says a lot about where current trends are taking us [30].

Such mobility of production also applies to services—perhaps even more so. Consider that only 3% of the cost of a typical semiconductor is sand and other raw materials. The remaining costs are attributed to service workers such as design engineers, research scientists, computer programmers, investment bankers, and lawyers who provide problem-identifying, problem-solving, and strategic-brokering activities. In an increasing number of industries, management must ask itself regularly whether work can be moved to countries with a highly skilled workforce and favorable wage levels [31]. In their global operations, firms are likely to increasingly seek only the right to operations, rather than the right to establishment, because of their ability to serve markets without any physical presence in them.

As a consequence of these new location alternatives, unskilled and unmotivated workers in industrialized nations face growing employment difficulties. On a regional, national, and even international basis, the opportunities for these workers are shrinking, and their standard of living is in decline. If the fiber of society is not to be wrung dry by transfer payments to welfare and unemployment funds or threatened to be torn apart by ever-rising inequity, learning will have to assume a major role [32]. For the individual, learning will need to focus on an improvement in the acquisition of skills and knowledge, primarily at the technical level. From a corporate view, learning must focus on reducing the complexity of processes and bringing them into closer harmony with the existing capabilities of large portions of the workforce. In addition, new decision and implementation processes must be learned, bringing together the craft skills on the shop floor and the engineering and design skills of management [33].

Leading companies increasingly distinguish themselves by recognizing the importance of people and of the informal processes that can quickly disseminate new ideas and best practices throughout the firm. Company-sponsored education was a \$55-billion-per-year industry in the United States at the beginning of this century, and it will grow elsewhere, reflecting the need for life-long learning. In-house education is related not to company size but to its market complexity and to its use of new workplace practices such as team-based work, cross-functional integration, and supplier partnerships—hallmarks of world-class companies. The most sought-after resource will be human capital and their soft skills. The more desirable that talent, the more it will be sought in a world labor market—especially as professionals are educated to common world standards—facilitated by information technology [24].

Leadership Premium A third major change in the competitive environment is, particularly in the United States, an emerging “winner-takes-all” effect [34]. Corporate leadership is honored and reinforced by markets through the payment of a premium, which, by itself, often reinforces the leadership. For example, the best opera singer,

football player, professor, or surgeon commands a premium compensation when compared to more mediocre colleagues. The best product in its category is likely to command a higher price than the also-ran products. However, rather than being linear, this premium is likely to be disproportionately higher than the increase in performance. A 10% higher performance level may result in a 100% higher price. Simply put, being the best is likely to pay off handsomely. The marketing consequences of this dictum are dramatic. Particularly in light of the capital requirements needed to stay ahead, being the best may be instrumental in laying the cornerstone for future excellence or even survival. It will therefore be necessary to engage in that extra effort that elevates a firm's activities to a level of superiority. If the firm understands the customer and makes proper use of the marketing tools available, the marketing function can make the crucial difference to corporate success.

15.2.6 The Geopolitical Environment

The global geopolitical environment has also been changing dynamically, which has implications for marketers. For example, in mid-2020, President Trump banned the social media app TikTok in the United States, which was widely used in the country. As per the executive order, Microsoft, who is the distributor of TikTok in the United States, can buy TikTok within a specified period following this ban. However, industry experts are concerned that such bans of foreign companies in the United States will put US companies operating overseas at risk, considering that foreign governments could also undertake decisions countering such bans that influence their national interests.

Following the fall of Soviet socialism in 1990, the rise of the Chinese economy over the last two decades of the twentieth century and the related changing geopolitical environment has been influencing the order of global trade that impacts many business firms across the world from small- and medium-sized enterprises to large corporations. Different geopolitical and economic initiatives, such as China's Belt and Road Initiative, formation of new economic collaborations across different nations from diverse nation-specific interests (e.g., the formation of Group20 in September 1999 and similar other local, regional, and global groups), initiatives for new financial and digital platforms, and similar other embryonic geopolitical alliances across the world can impact the global value chain both favorably and detrimentally. For example, a country could increase or decrease tariffs on goods imported from or exported to another country, which could cause the increase or decrease of the price in local market. Because of the ongoing changes in the global geopolitical environment, more recently, we have witnessed the shift of many factories of Western nations from one developing country to another developing country. Another embryonic change in global trade is anticipated since the initiation of the Brexit (exit of the United Kingdom from the European Union) issue. Marketers should remain vigilant about such changes in the global geopolitical environment, in order to avoid any prospective detrimental impact of such global geopolitical changes on their short-, mid-, and long-term marketing plans.

15.2.7 The Novel Coronavirus and the Postpandemic World



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The global community has been struggling because of the COVID-19 crisis and the subsequent pandemic since the beginning of 2020. “The Covid-19 outbreak is not only about health care, but also businesses, livelihoods, wellbeing, innovation and resilience” [35]. By mid-May 2020, our established management system in all sectors including public health, education, business, communication, transportation, and public administration, among others across the world, had been impacted seriously because of the COVID-19 crisis. By mid-2020, “the COVID-19 pandemic is already claiming a heavy toll in terms of human lives, and will have considerable impact on the world economy. It might even represent a turning point for our ways of life” [36] in different contexts. Therefore, the world community would need to search of a “new normal” for diverse socioeconomic issues in the post-COVID-19 world while attempting to prepare for the prolonged future socioeconomic impact of the COVID-19 crisis.

Referring to the unknown long-term impact of the COVID-19 crisis, researchers argue that “while this (the early impact of the pandemic that we saw within the first three to four months of the outbreak) is still ‘an emerging, rapidly evolving situation’ (Centers for Disease Control and Prevention, 2020), COVID-19 has already exposed numerous serious problems. Its long-term impact may not be fully realized until years later” [37]. In fact, we do not know how long it will take for the global community to return to our known normal socioeconomic environment or to establish a new normal in diverse socioeconomic settings across the world.

It requires careful consideration to plan for possible survival options for businesses and to sustain the economic dynamics in a time of crisis, along with a focus on how businesses could underpin their operations at the postcrisis stage. In this context, similar to many other industries, the global logistics industry, for example, needs to sustain their operations during this global crisis, as well as to foresee how the operations in this industry could be underpinned, in order to return to a “new normal” in the post-COVID-19 world. The global logistics industry is a key industry that has an impact on marketing management, considering that local, national, regional, and global transportations of goods underpin one of the 4Ps (i.e., place for distribution of goods) in marketing. Global logistics during the pandemic proved to be a major player in nations’ economies, including food, health care, energy, and transportation [38]. Besides, global logistics operations are run by various players that differ in size and resources and therefore have different ways of dealing with disasters such as COVID-19. In many cases, smaller logistics firms such as freight forwarders and smaller logistics carriers might find it more difficult to cope with the COVID-19 crisis and the post-COVID-19 scenarios. Perhaps logistics firms should build their coping strategies based on their agile ability to move quickly in the market by utilizing available resources or forge strategic collaborations to overcome the shocks of COVID-19 [39]. Similarly, logistics firms might have to rebound from disruptions by changing management and organizational practices that could involve managing relationships among internal and external stakeholders within the organizations [40, 41].

Managing a crisis in a supply chain becomes complex “as organizations create long supply chains and seek to expand into new markets beyond their borders” [42]. In these contexts, marketers need to rethink their policies and strategies to address the challenges and explore alternative opportunities to move forward with their 4Ps in the postpandemic global environment.

15.3 Effects on Marketing Management

Each of these environmental changes has major effects on marketers. However, by recognizing and adjusting to changing conditions, marketers are able to bring into play their capability to perform their tasks better and in a more responsive fashion. In light of high investments in the development of capabilities, processes, knowledge, and equipment, firms will need to have access to customers globally to achieve the economies of scale that permit an amortization of the investments. The importance of domestic markets will also increase because of the borderless

reach of competition [43]. Within this changing world of global competition, marketers will need to focus on their marketing mix with renewed vigor and from new perspectives.

15.3.1 Product Policy

A key issue affecting product planning will be environmental concern. Dramatic growth in public attention paid to the deterioration of the natural environment, pollution, and global warming will provide many new product opportunities and affect existing products to a large degree. Consumers will require products that are environmentally friendly but at the same time do not require too much compromise on performance and value. Manufacturers, in turn, will increasingly be expected to take responsibility for their products from cradle to grave and be intimately involved in product disposal and recycling.

In light of the global competitive challenge, firms will also need to introduce their products more quickly and into more markets simultaneously. Due to rapidly accelerating international product life cycles, firms can no longer afford to spread worldwide product introduction over several years. Firms now must prepare for global product introduction periods that can be measured in months or even weeks [44]. To delay or to stop further product development means placing the entire product at risk. For example, Totes developed slipper socks, a pair of heavy socks with rubbery treads. Shortly after its introduction, this very successful product sold 14 million pairs a year. Within 2 years, however, other producers had developed a similar product that sold for less, knocking Totes from the shelves of its major customers [45]. Firms must realize that millions of skilled people around the world are willing to work for low wages and are ready to imitate innovation.

Global product introductions force firms to reconsider how to develop products that would be acceptable by global customers. No longer is it sufficient to develop them for domestic markets first and to gradually make changes to adapt them to the international market. Rather, product development must incorporate the international dimension at the earliest stages. For example, Procter & Gamble believes that if the company does not think through the concept of a new product on a global basis from the very beginning of the idea generation stage, it will not be able to enter additional markets until it sees the results from its initial country introduction. Global development from the beginning has almost certainly saved years in the firm's global product introductions [46]. Such early incorporation of the global market dimension, however, does not point toward increasing standardization. On the contrary, companies will have to be ready to deliver more mass customization. Customers are no longer satisfied with simply having a product: They want it to precisely meet their needs and preferences. Mass customization requires working with existing product technology, often in modular form, to create specific product bundles for a particular customer. For example, Dell's plant in Limerick, Ireland, supplies custom-built computers to all of Europe. As orders

come into the factory via Dell's website and call centers, the company relays to its suppliers details of which components it needs, how many, and when. Vans containing all these hard drives and internet-enhanced digital communication systems then roll up to big bays at the back of the building and roll out again with complete computers just a few hours later. Dell sells around \$97 million worth of computers from its website each day, making it the largest online supplier of computers in the world [47]. Because Dell's suppliers have real-time access to its orders via its corporate extranet, they can plan their production and delivery to ensure that they always have just enough of the right parts to keep the production line moving smoothly. By plugging its customers into its supply chain via its website, Dell enables them to track the progress of their order from the factory to their doorstep, thus saving on additional communication efforts. The internet's global connectivity has enabled the company to form a three-way communication partnership with its suppliers and customers by treating them as collaborators who together find ways of improving efficiency across the entire chain of supply and demand and then share the benefits [48].

Overall, product development and introduction will become more complex, more expensive, and more risky, yet the rewards to be reaped from a successful product will also accumulate more quickly.

15.3.2 Pricing Policy

In light of global competition, many products are taking on commodity characteristics where price differentials of 1 cent per unit may become crucial in making the sale. In addition, the many newly emerging products and technologies will be faced with substantial pricing problems. Marketers will need to set forward prices by distributing very high development cost over an anticipated volume of sales. This task will become increasingly difficult and controversial because demand levels for totally new products are impossible to predict with accuracy. Because the type of forward pricing system used will have a major effect on demand structure, the system itself will influence its own validity. The problem will become even more complex because new product development will require increasing amounts of investment in research, resulting in very high fixed costs, while demanding only very low variable cost for actual production. Under such conditions, high levels of (predicted) sales can magnify the competitive price advantage of firms, as ■ Table 15.1 shows.

It is therefore crucial for the marketer to concentrate on differentiating the offering in the market on a nonprice basis. Major efforts need to be undertaken to appeal to the market on service, quality, or other special aspects rather than on price. By accomplishing this objective, the firm can buy itself freedom from short-term fluctuations in its business relationships, which will enable it to perform even better in the future.

Table 15.1
Changing price advantages

Traditional manufacturing

In the typical manufacturing industry, a widget maker’s fixed costs—upfront, one-time expenditures for land, buildings, machinery—typically account for 30% of production costs. Variable costs—labor, materials, energy, and shipping—depend on how many widgets are produced. Imagine two companies, Smith and Jones, that sell widgets for \$1.00 apiece. Jones sells 25% more widgets.

Smith		Jones	
Annual production:	1 million	Annual production:	1.25 million
Fixed costs:	\$300,000	Fixed costs:	\$300,000
Variable costs:	\$700,000	Variable costs:	\$875,000
Total costs:	\$1,000,000	Total costs:	\$1,175,000
Cost per widget:	\$ 1.00	Cost per widget:	\$0.94

Because Jones sells more widgets, it has a modest 6% cost advantage.

New price and cost realities

In a high-tech industry such as computer chips, the ratios are reversed. Fixed costs—much of them for research and development—are 70%, and variable costs are 30%. Smith and Jones sell computer chips for \$1.00 apiece. Again, Jones outsells Smith by 25%.

Smith		Jones	
Annual production:	1 million	Annual production:	1.25 million
Fixed costs:	\$700,000	Fixed costs:	\$700,000
Variable costs:	\$300,000	Variable costs:	\$375,000
Total costs:	\$1,000,000	Total costs:	\$1,075,000
Cost per widget:	\$ 1.00	Cost per widget:	\$0.86

This time, Jones has a formidable 14% cost advantage.

Source: Washington Post (November 13, 1995): A10. © 1995, The Washington Post. Reprinted with permission

15.3.3 Distribution Strategy

Distribution systems may become the deciding factor in whether markets can and will be served. Innovative distribution will also determine new ways of serving markets. For example, television shopping through QVC has created a shopping mall available in more than 85 million homes [49].

The link to internal distribution systems will also be crucial to marketers on the business-to-business level. As large retailers develop increasingly sophisticated inventory tracking and reordering systems, only the firms able to interact with such

systems and to respond to them will remain eligible suppliers. Therefore, firms will need to create internal systems that are able to respond to JIT and direct order entry requirements. At the same time, however, firms need to remain alert to the implications of such new regimes. For example, a JIT system will reduce the firm's error robustness: Only a few things need to go wrong for the firm to run out of product.

Another key to success will consist of the successful combination of different pieces of information and using them to form new distribution alternatives. Each piece of knowledge the marketer has about a customer represents potentially valuable intelligence. Its value, however, is realized only after the pieces are put together to form a mosaic of the customer, which the marketer can then use to serve the client better. For example, an airline ticket will soon be as much an entree for selling hotel bookings, car rentals, and travel insurance as the right to a seat on a plane. If an airline collects more information about a customer's preferences, it can suggest a theater performance to a traveler to New York, make all the bookings, provide a limousine for pickup, have flowers delivered, and reserve a table at a favorite restaurant 15 minutes after the end of the show. If the customer's schedule (or the airport's arrival) changes, the airline can change all other arrangements as well [50].

Firms must also consider the future in their distribution planning. The need for tracking distributed products—at least to the intermediary level—to facilitate recalls has already become evident. The same rationale can support the extension of such tracking to the ultimate user level. However, the incentive to do so becomes much more powerful if the marketer broadens the perspective of postpurchase customer distribution contact by recognizing such contact as a new opportunity to continue the dialogue with the customer, which can include product updates, product servicing, and cross-product marketing. Such a broader perspective will strengthen the marketer's capabilities and reach. If the effort is expanded beyond mere tracking, which is a unidirectional activity, it can become a two-way distribution exchange. Thus, the development of reverse distribution systems may take on an importance equal to traditional outward distribution.

15.3.4 Communications Strategy

The communications function is likely to take on increasing importance, easily outdistancing the pricing dimension and at least on a par with product and distribution policies. Internally, communication will provide the firm with new opportunities of linkages and efficiency.

Externally, communication is the crucial interface with both the supply chain and the customer. On the supply chain side, communication leads to collaboration, efficiency, and productivity. Closer cooperation will facilitate planning and delivery. Communication's most important role, however, will be with the customer. Marketing in Action 15.2 shows how firms try to be responsive to their customers as quickly as possible. Customer loyalty—measurable as retention, persistence, and repeat purchasing—is crucial for corporate profitability. Research has found that a decrease of 5% age points in customer defection rates can increase profits by 25 to 100% in terms of the net present value of profit streams [51].

Customer involvement transforms the relationship between firm and customer from an exchange into a partnership, leading to shared interests, goals, and long-term interaction. Only through effective communication can such involvement be generated. Customer pleasure, finally, is the marketer's ultimate objective. Doing one or two things right is no longer enough. Rather, the marketer has to do everything right and do so more frequently. The LEGO company, for example, has 12 different contact points for interaction with the market, such as the LEGO Builders Club, LEGOLAND theme parks, and LEGO Imagination Center. Shiseido offers monthly mailings to the home, a full-sized beauty magazine, specialty catalogues, and beauty counselors [52]. By focusing on the customer and delivering the best in all marketing dimensions, firms can transform entire industries. Just look at the emergence of CarMax, the Auto Superstore in the used car market. By offering a broad selection and full information to customers, by positioning salespersons as knowledge providers rather than hagglers, and by providing full-service programs and a linkage to financial institutions, the chain is quickly redefining the market [53].

Marketing in Action 15.2

Staying Close to the Customer

"Please press 1 to check your balance, 2 to speak with a customer service attendant, 3 to make an appointment ..."

Automated telephone messages are rampant in customer service, but they are becoming obsolete too. Forrester researchers note that 40% of service inquiries are web-based, a figure that was expected to reach 80% by 2006. A 2020 study reveals that "88% of consumers are influenced by online customer service reviews when making a buying decision. 86% of millennials say they are influenced by negative reviews when purchasing a product or service. 33% of customers have contacted a company using Facebook and similar social channels." It indicates that firms are reaching their customers with additional information about their product quality, customer remarks about anticipated perceived quality (before purchase) and actual perceived quality (after purchase), delivery details, and so forth through different internet-enhanced business platforms, e.g., company website, community website for particular industries, and social media, among others.

Today's consumers demand personalized accessible, accurate, and professionally managed service—and all with the convenience of web-based access. While online, consumers do not want mere "Frequently Asked Questions" pages; they want to ask questions in free-form and natural language and demand a solution instantly. This is why the live chat room service is introduced by companies. However, a recent study reveals that "75% of customers believe it takes too long to reach a live agent." Therefore, marketers have scope to improve here. A personal example of one of the coauthors of this book could be shared here to demonstrate how companies are trying today to listen to their customers in order to offer an instant solution or compensation. Following an international relocation, the coauthor was trying to find an appropriate home broadband package, and it was taking additional days to deliver the new modem by the service provider to the coauthor's home. Upon communicating with the service provider through live chat, they instantly offered 1 month free service (as a form of compensation) upon admitting the delay that was beyond their promised delivery date. Another 2020 study found that live chat is the most popular medium of customer communication, accounting for 46%, ahead of 29% email and 16% social media communications with customers.

Providing superior online customer service has been a significant opportunity for firms that have developed “self-service knowledge databases” or “relationship modeling engines” such as AskIt and Banter. These software programs use statistics and grammatical rules to identify keywords, repetition, and patterns and analyze language similar to the way humans would. Such programs first identify word endings and short phrases in email messages and assign meaning to them. For example, “three weeks ago” is understood as a time frame, and “can you” is interpreted as a request for action. Next, the information is sent to a “semantic engine” that contains real-world knowledge of the products the company sells, services it offers, and possible responses to email inquiries. Finally, patterns are matched statistically with real-world knowledge, and consumers receive an email reply detailing the best response. Plainly put, these computer programs have the capacity to handle the human language: Customers submit precise questions and obtain detailed responses without waiting for live help.

Although such software programs can cost anywhere from \$100,000 to more than \$1 million per year, the benefits gained are enormous. A firm with an average-sized contact center of 500 phone and email stations could easily realize an annual operating savings of \$4 million. Besides reducing customer service costs, such computer programs can also improve customer satisfaction. A Jupiter study notes that 55% of customers expect accurate responses to emails within 6 hours. Yet, only 20% of firms meet their expectations. Another 42% of companies never respond to emails, take more than 5 days to respond, or have no email address listed on their site. By neglecting customers’ service inquiries, companies are giving competitors the opportunity to raise the bar of consumer expectations and increase their competitive advantage.

In terms of global operation, marketers also need to communicate with their target markets in a way that would be expected and accepted by the customers. For example, “only 4.83% of the world’s population are native English speakers, so if you’re selling internationally, it helps to be able to communicate with customers in their local language.”

Sources: Bartender (2003, March 26). Banter to Present ‘Evolution through Automation’. *Business Wire*; Tedeschi, B. (2001, March 19). E-Commerce Report: Taking Customer Service Seriously. *New York Times*; “Tier Zero Customer Support,” *Forrester Research* (December 1999); MacDonald, S. (2020). 25 reasons live chat can help you grow your business. ► <https://www.superoffice.com/blog/live-chat-statistics/>. Accessed 30 Aug 2020; XSellCo. (2019). ► <https://www.xsellco.com/resources/e-commerce-customer-service-ultimate-guide/>. Accessed 30 Aug 2020; Nextiva Blog (2020). 100 essential customer service statistics and trends for 2020. <https://www.nextiva.com/blog/customer-service-statistics.html#:~:text=88%25%20of%20consumers%20are%20influenced,when%20making%20a%20buying%20decision.&text=86%25%20of%20millennials%20say%20they,purchasing%20a%20product%20or%20service.&text=33%25%20of%20customers%20have%20contacted,Facebook%20and%20similar%20social%20channels>. Accessed 30 Aug 2020; HelpScout (nd). 75 customer service facts, quotes and statistics. ► <https://www.helpscout.com/75-customer-service-facts-quotes-statistics/>. Accessed 30 Aug 2020A

The traditional era of marketing was one of meeting and satisfying the customer. The environment of the new millennium, of new forms of global competition, and of heightened customer expectations now demands customer delight. It is true that this new objective requires harder work, intensive customer dialogue, a broader perspective, and greater alertness. But with the new tools available to the marketer, these demands can be met. Fulfilling them offers greater rewards than ever before.

15.4 Marketing: Past, Present, and Future

In this book, we have discussed the traditional and embryonic marketing theories, concepts, and propositions that will be instrumental to equip you with the core marketing knowledge, in order to proactively deal with the current and future markets. In this section, we discuss some additional aspects of marketing management.

15.4.1 Customers and Marketers: Mirror of Each Other

Marketers are dependent on customers' decisions. Reciprocally, in the contemporary global value chain, customers (and consumers) are also dependent on marketers to fulfill their needs. For example, imagine a situation of the primeval or medieval eras when there was no supermarket. If this was the situation today, consumers would still need to undertake additional initiatives to source their food, medicine, and other everyday needs from toothpaste to many other things, which they can buy today from a supermarket and even without leaving home via online supermarkets. As a result, marketers and customers are dependent on each other to meet their specific goals, and the global value chain enables marketers and customers to interact with each other to achieve their goals.

In today's dynamics of the global value chain, because of the enormous flow of information, marketers can anticipate who will buy their products as a prospective sales lead. Similarly, customers also can recognize the most appropriate value proposition that would best suit their needs, wants, and expectations among the alternative competitive value propositions. As a result, this enormous flow of data and information in the global value dynamics acts as a mirror for both marketers and customers. This mirror enables marketers and customers to analyze and understand each other's motives related to their actions for delivering and receiving a particular product or service. This mirror also can display even any minor thing that affects the product or service value delivery processes, which could impact both favorably and detrimentally the marketer–customer future relationship. For example, following a disappointing customer service experience at a restaurant, a customer shared the experience on social media saying that “when staff are rude and obnoxious, to hell with the good food. Never again #(hashtag of the restaurant's name). And I never forgive nor forget, so you're in for some terrible WOM.” In fact, customers remember what they can see from this mirror of the value delivery process, and they never forget a detrimental experience, and often they share such experiences through WOM with their peers to discourage them from buying that particular product or service. As a result, marketers today need to remain vigilant via this value dynamics mirror to analyze their customers' needs, wants, and expectations and relevant customer satisfaction or dissatisfaction, in order to plan (replan), deliver, and monitor how they could meet their customers' needs most competitively.

15.4.2 Ethical Consumers and the Sustainability Concerns

Not long ago, just around 30 years ago, smoking was acceptable in airplanes, inside homes, and in office compounds even in the presence of children. Today, you need to find a designated place for smoking, even if you want to smoke within your university campus or in your office. This means today we have more enriched awareness than in the past and we are more conscious today about our health, about our future, and about the future of the next generations, with an aim to keep our surrounding environment as pristine as possible. This sustainability concern is generally related to our ethical behavior that propels us to consume responsively (ethically). For example, today we try to avoid using plastic bags (even if it is a cheaper option), knowing that plastics have a damaging impact on the environment. Today, we do not buy a product if we know that the production or delivery processes of this product have a harmful impact on the environment or use child labor, for example.

In this context, today, “individuals, and especially those within the millennial generation, are more socially aware than ever, and thus, the ‘ethical consumer’ has come about” [54]. The term “ethical consumer” is defined as consumers who are socially responsible and value the ethical perspectives in their buying decisions, which is related to the “feel-good factor” [55] so that consumers feel better about their purchase decisions, as well as about themselves because of the ethical significance of their decision (Laroche, 2017) that contributes to any socioeconomic cause at least to some extent (e.g., not buying plastic bags, instead using biodegradable bags). Therefore, marketers need to effectively plan how they could satisfy these increasingly ethical consumers around the world.

15.4.3 Expanding Marketing Mix

Marketing academics and executives have been exploring novel concepts and strategies to address the ongoing changes in diverse market environments. In this effort, additional Ps are added to the core 4 Ps of marketing (product, price, place, promotion), considering that such additional Ps are applicable to win the changing market needs:

- In 1984, Kotler [56] added two new Ps to the traditional 4 Ps, which are *public opinion formation* and *political power*.
- Judd [57] added *people* in 1987 to marketing mix.
- (Stakeholders’) *Participants*, *physical evidence*, and *process* were added by Booms and Bitner [58] in 1981.
- In 1991, Baumgartner [59] proposed nine other Ps, which were *public relations*, *probe*, *partition*, *priority*, *position*, *profit*, *plan*, *performance*, and *positive implementations*.
- *Planet* and *preference* were added to marketing mix by Looney and Seiler [60] in 2003.
- Kurtz [61] (2009) also proposed *proving advantage* (of buying our product instead of buying our competitors’ products) as another marketing mix factor.

Explore these additional Ps to think about how they would be useful to serve your customers and other stakeholders more competitively. In fact, proactive marketers from their practical marketing management experience explore such alternative Ps (as a form of alternative concepts and strategies) to underpin their marketing management initiatives.

15.4.4 Cross-Cultural Customers: The Global Village—A Single Market

Today, more permanent movements of people across national boundaries than before have resulted in increased multicultural social settings in many more countries in comparison to the past. As a result, today we have more multicultural customers even in our domestic markets across the world. In this context, marketers need to consider the cultural aspects more than ever before in their marketing mix in today's multicultural market, considering that cultural differences play a crucial role in the marketing mix and the market has culturally broadened horizons [62–64]. As discussed in ► Sect. 15.3.1 (Product Policy), mass customization in planning for marketing mix is a key option to deal with the contemporary multicultural markets.

15.4.5 Ongoing Changes in Marketplace

Some ongoing changes in the contemporary marketplace are discussed below:

- Increased buying power: Because of ongoing developmental work around the world, today, consumers have increased buying power in comparison to the mid-1980s. This increased buying power, on the one hand, enables consumers to purchase and consume more; on the other hand, it offers consumers more freedom to select a particular product or service from the available alternative competitive products or services.
- Enormous flow of data and information: The enormous flow of data and information has both advantages and disadvantages for both marketers and customers. For example, on the one hand, in some cases, the enormous flow of data could enable marketers to understand their customers better, and customers could judge more about the alternative products or services to select the right one. On the other hand, in some other cases, such ongoing inflow and outflow of big data would be confusing for marketers to most accurately explore the right data from the right dataset for a particular marketing management task, targeting a particular target audience. Similarly, customers would also be confused sometimes about finding the right product or service among the alternatives because of this ongoing flow of data from diverse data sources. In this context, marketers need to underpin their data-mining and analytical skills to explore the right business value of a particular dataset.
- Local and regional diversified culture and the global unified culture: On the one hand, today we have a more standardized global culture across the globe than ever before. For example, in terms of gesture, today the “handshake” is a quite

acceptable form of meeting new people in almost all global regions. However, some global regions would be more advanced in adopting this standardized global culture, and some other regions would be less advanced. Therefore, a salesperson needs to know about the awareness level of such cultural adoption of her or his target market.

- Progress of the fourth generation technological (including IT) advances: Since the first technological revolution that took place during 1965–1985, the fourth generation of technological advancements, such as advanced mobility, communication (e.g., reaching Sydney in 4 hours from London, space tourism, reaching Mars), etc., is enabling our civilization to move forward to the next level of progress. Try to think about the implications of such ongoing technological progress in marketing management, as some of you (who are reading this book) will one day need marketspace tourism (probably before the end of the third decade of the twenty-first century). For marketers, a key issue to consider is price skimming, considering that mass consumers will not be able to afford space tourism during its initial years.
- Fragility of the capitalist economic concept: The financial crises and increased debts over the last few decades have gradually been uncovering the fragility of the capitalist economic concept to solve the world's problems. "Survival of the fittest"—this traditional proverb is the key motto of the capitalist concept. Does it mean that the consumers who are less fit would not be able to fulfill their basic needs? The ultimate bottom line of a capitalist business is to maximize profit through almost any means only for personal interest. Since such capitalist concepts are not able to solve the world's problems, people (the consumers) around the world are increasingly accepting the social business concept that aims to maximize profit to address a social or ecological cause. As a result, marketers need to explore sustainable competitive advantage of their marketing mix through the means of the societal concept of marketing.
- Increased literacy, awareness, and growing number of ethical consumers: Today, the literacy rate of the global population is much higher than ever before. Therefore, consumers are well aware of the changes around the world, more conscious about socioeconomic and ecological sustainability, and more ethical in their buying decisions than before. The societal concept of marketing is also instrumental in satisfying the growing number of ethical consumers around the world.
- Geopolitical changes and the dynamics of peace and conflict: See Manager's Corner 15.1 that discusses marketing in conflict regions.
- Increased average age: Increased life expectancy and the progress of medical science have increased the average age of people in many countries. Therefore, marketers are now able to increase their customer share (how much a single customer spends to buy a particular product during her or his entire lifetime) more than before. The relationship marketing concept is the key to increase customer share.
- Increased and changing nature of migrants and immigrants: On the one hand, immigrants in different areas across the world have been increasing. On the

other hand, Europeans mainly immigrated to the United States, Australia, and other parts of the world 200 years ago. Today, Asians, Africans, and Latinos are mainly immigrating to the United States, Europe, and Australia. Therefore, marketers need to consider the needs, wants, and expectations of these changing demographics in their target market more than before.

Manager's Corner 15.1

Marketing in Conflict Regions

Conflict refers to the risk or actual encounter of violent acts designed to cause fear and intimidation. Despite posing a critical threat to internationally active firms, there is a paucity of knowledge that could address the distinctive challenges that conflicts across the world bring for marketers today, especially in the case of international marketing activities of firms, while marketing in the conflict regions.

Here we first provide a theoretical background on conflict and its effects on international marketing in emerging markets. We then relate conflicts to operational costs, marketing planning, supply chain management, and distribution activities in multinational enterprises (MNEs).

We recognize significant costs in the international marketing budget of MNEs. Firms with substantial resources and international experience appear to have more alternatives, which allow them to cope better with the effects of conflicts than their less endowed peers.

Conflicts or terrorism (whatever the name you give it) is a salient threat to organizational competitiveness in international marketing. It is the premeditated use of or threat to use violence by individuals or subnational groups to obtain a political or social objective through the intimidation of a large audience beyond that of the immediate noncombatant victims.

For terrorists, perception matters! Terrorist attacks around the world have increased greatly in the past decades, spanning 92 countries and over 28,000 fatalities in 2015 alone. Most attacks are directed at civilians, businesses, and business-related infrastructure. The five countries most exposed to terrorist attacks in recent years are Iraq, Afghanistan, Pakistan, India, and Nigeria.

Emerging markets are particularly affected by such conflicts since their businesses and citizens have comparatively less opportunity to protect themselves. Among the possible environmental contingencies that can affect marketing organizations are weak economic conditions, rising energy prices, and financial crises. However, conflict itself is identified as potentially the most serious threat.

Since terrorists select their targets with high flexibility, intensity, and precision, international firms seek a competitive advantage through the expansion of production, distribution, and the marketing of products and services across multiple national boundaries. Conflicts sharply reduce corporate enthusiasm to expand. Measures to counter conflicts in turn are based on restricted freedom of movement and increased government regulation, both of which impair global commerce. The border-crossing

effect of conflicts creates slowdowns for international transactions reaching 2.5% of merchandise value, which is comparable to the average level of global tariffs.

International trade depends on the efficiency and cost-effectiveness of global transportation systems. Conflicts increase the transaction costs of international commerce and delay global supply chains and distribution channels. Terrorism's main impact reaches far beyond its immediate and direct effects. What is key is the long-term results from the indirect effects that occur in national and global economies. These include widespread anxiety and uncertainty that affect buyer demand, shifts or interruptions in the supply of needed inputs, new government regulations and procedures enacted to deal with conflicts, and longer-term perceptions that alter patterns of global trade and investment. Conflicts can also affect managerial attitudes toward risk, shift the risk absorption capacity of firms, and reduce the likelihood of embarking on international ventures or new investments abroad.

Our Google search of the NGram viewer system analyzed the extent of terrorism-related writings and checked for correlations with the key terms "trade," "investment," and "risk." The results indicate a rapid increase of concern about terrorism since 1998. This development serves as an indicator of the growing preoccupation (in the English-speaking literature at least) with conflicts. Concurrently, and as expected in terms of theory-based postulations, actual risk increased, while trade and investment interests declined.

We assume that conflicts will continue to be a significant factor in international marketing for decades to come. The rise of conflicts signals a new type of threat relevant to both developed and emerging economies. As governments increase security of public facilities, the likelihood of attacks against the softer targets of firms' international operations is likely to increase. Emerging economies need to find ways to increase their security in order to retain their attractiveness for foreign sourcing and investments. Corporate preparedness for the unexpected is a vital task. Innovative managers develop appropriate resources and undertake planning and strategies to accommodate dislocations and sudden shocks. Conflicts represent an organizational crisis whose ultimate effects may be unexpected and unknown, posing a significant threat to the survival or performance of the firm.

Conflicts present the firm with a dilemma that requires new decision-making and behaviors that will result in organizational change. Firms that neglect to devote resources and capabilities to respond flexibly to terrorist-triggered disruptions risk sudden, and sometimes even total, loss of competitive advantage.

We follow the thinking of former US Secretary of Defense Donald Rumsfeld who stated: "There are known knowns, which are things we know that we know. There are known unknowns; that is to say, there are things that we now know we don't know. But there are also unknown unknowns, these are things we don't know we don't know." The goal should be to analyze the role of conflicts under all these three conditions, in order to plan for your marketing mix in conflict regions.

Source: Czinkota, M.R. (2018). *In Search for the Soul of International Business*. New York, NY: Business Expert Press.

15.4.6 Marketers are Change Agents

In this final chapter, we have discussed the ongoing changes in diverse market environments and also different theories, concepts, and propositions, in order to clarify how marketers could effectively deal with such embryonic market environments. Marketers have two roles in response to such ongoing changes in their target market environments. One is to actively respond to the market changes, utilizing the discussed theories and concepts in this chapter and the other chapters of this book. The other option (the proactive one) is to envisage the future, which is impossible on most occasions; however, in some instances, we have seen that the proactive marketers were able to envisage the future in the present based on the embryonic nature of their concurrent market environments. For example, Bill Gates, Steve Jobs, Mark Zuckerberg, and other innovative entrepreneurial marketers all were able to understand the changing environmental patterns and the future needs of their customers. As a result, they were able to proactively exploit their extant available resources to design, deliver, and evaluate their innovative market offerings in a way that was expected by their target markets as the latent needs of the market. Therefore, analyzing customers' latent needs is instrumental in introducing a change in consumers' consumption patterns by proactively designing and delivering innovative products and services that could enable proactive marketers as change agents to win their future target market with a sustainable competitive advantage.

We've now come to the end of the last chapter. We authors, together with a large team of reviewers, researchers, assistants, editors, designers, and printing and publishing executives, have produced this book to educate, inform, and delight you. We are looking forward to learning about your conclusions through your comments and suggestions sent to us at czinkotm@georgetown.edu, masaaki.kotabe@aoni.waseda.jp, vrontis.d@unic.ac.cy, and Riad.Shams@northumbria.ac.uk.

Summary

Remaining vigilant in changes in the diverse market environment is instrumental to proactively meet customers' needs, wants, and expectations. In this chapter, we have first discussed environmental changes from the contexts of technological environment, financial environment, regulatory environment, societal environment, geopolitical environment, competitive environment, and the outbreak of COVID-19 and the subsequent pandemic. Second, we have discussed how marketers could plan for their product, price, place, and promotion strategies to respond to such market environmental changes. Finally, we have discussed how marketers and customers are interdependent in pursuing their individual goal and presented an overview on ethical consumers and sustainability concerns, ethical consumers, expanding marketing mix, cross-cultural customers and the global village as single market, some ongoing changes in marketplace, and how marketers become change agents in the marketplace. It is important for marketers to explore customers' latent needs to become successful change agents.

Key Terms

Brexit

Change agent

Communication

COVID-19

Environment

Ethical consumers

Extended 4Ps

Financial changes

Future

Geopolitical changes

Pandemic

Societal changes

Sustainability

Technology

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Supplementary Information

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Cases

Case 1: Yo Man! It's Yao Ming!

Take one 22-year-old basketball player with a rare physical characteristic—a 296-pound physique spread over 7 feet, 6 inches. Stir in sleek mid-range jump shots, smooth passing skills, shot-blocking ability, court speed, and a plethora of low post moves. Add in charisma with a dash of humor. And, one more thing: Make him from China, the world's most populous nation, with an untapped market of 1.393 billion people. From the casting comes Yao Ming—“the next big thing” for international services and global business.

Ming, the Next Big Thing

Straight from the Basketball Association of the People's Republic of China, Yao was the first international player ever selected as the number one overall pick by the NBA's Houston Rockets. Despite an expected lengthy adjustment period, Yao was a solid contributor to the Rockets almost immediately. In a November game against the Los Angeles Lakers in his first year in the NBA, Yao scored 20 points; 4 days later, he had 30 points and 16 rebounds against the Dallas Mavericks. On December 3, against the San Antonio Spurs and two of the NBA's foremost “big men,” David Robinson and Tim Duncan, Yao dazzled again: 27 points, 18 rebounds, and 3 blocks. Within 5 short months, Yao had become a star—ranking second in the league in shooting, with 56% accuracy and averaging 14 points per game.

Yao's NBA stardom stems from not only his talents but also his personality. His self-deprecating charisma and humor make him hard to dislike. While describing a dunk he missed, Yao told his teammates, “When you have pitiful moments, that makes the good moments more valuable.” When fellow NBA star Shaquille O'Neal said to a reporter, “Tell Yao Ming ‘Ching chong yang wah ah soh’” while making kung fu moves, Yao quipped that Chinese is “a very difficult language to learn.” With his talent and personality, Yao is the king, “the literal and figurative center of attention, bestriding two continents and making hearts pound and cash registers ring in both.”

Yao Ming, however, retired from his NBA career in 2011; “whenever anyone thinks about the NBA, the greats of the modern era are indisputable: Michael Jordan, Kobe Bryant, and LeBron James, just to name a few. Since its inaugural season in 1946, much of the NBA's personality and perception is defined by some of its best players. For much of the league's time, African-American and Caucasian players have been its fabric. However, one player changed all of this.” He is Yao Ming.

Looking Back to the Cross-Border Yao Ming Mania

With fans' interest in the NBA plummeting since the championship run of the Chicago Bulls in the 1990s, Yao arrived none too soon. In the United States, the Rockets' television ratings and ticket sales had increased 65%. The Rockets distrib-

uted Yao “growth charts” and plastered the city with billboards bearing his image. ESPN ran commercials showing him dangling out of a tiny bunk bed and performing tai chi with the Rockets’ mascot.

Perhaps more significantly, Yao became a culture’s hero by breaking the Hollywood portrayal of Asian males as inscrutable and subservient and dispelling the popular stereotype of the Asian-American as a bookish, slight, overachieving pre-med student with little athleticism. In 2002, Asian-American ticket purchases accounted for less than 1% of Houston’s total sales. With Yao’s entrance a year later, that number had grown to 14%. “Yao Ming Mania” isn’t only domestic: Ripple effects were even shown in Toronto, Canada, the home of the Raptors and 500,000 Chinese. CCBC, the Raptors’ local Chinese radio broadcaster, hired a Mandarin reporter for postgame interviews, and ticket purchases by the Chinese-Canadian Youth Athletic Association increased by 150%.

NBA Going Global

With basketball the world’s number two team sport, behind soccer, the former NBA commissioner David Stern had been laying the groundwork for global penetration for nearly 15 years, broadcasting to and recruiting from the international scene. Fans’ strong positive response to the influx of players from Germany (Dallas’ Dirk Nowitzki), Yugoslavia (Sacramento’s Peja Stojakovic), and Spain (Memphis’ Pau Gasol) propelled the NBA to recruit globally. “Yao came at the perfect time to the perfect league,” notes Rich Thomaselli, a sports marketing expert. “The NBA has wanted exponential global growth. Other foreign players have helped, but Yao, who is truly unique because of his size, personality, and background, will lead the way.”

What better country to begin “exponential global growth” than China, home to 1.393 billion people? The Rockets and the NBA couldn’t be more grateful for “Yao Ming Mania.” As Rockets former President and CEO George Postolos said, “it’s incredible. In one week when we drafted Yao, we got more international attention than either of our two NBA championships. We think we’re on our way to becoming the most-watched team in the world.”

Postolos was right: The level of international viewership is astounding. Yao’s NBA debut against the Indiana Pacers in October 2002 reached 287 million Chinese households—in contrast to 105 million in the United States. On a weeknight in December 2002, an NBA game between two strong teams drew a television viewership of 1.1 million Americans. Compare that to an 8 A.M. broadcast game between the Rockets and the league’s worst team, the Cleveland Cavaliers, which pulled in 6 million Chinese viewers. Another 11.5 million tuned in for a repeat of the game that night—even a live broadcast of an NBA finals game doesn’t attract an audience of that size in the United States.

A few decades ago, fans in China were lucky to see one NBA game per week, usually from a month-old tape mailed to Beijing. Since the beginning of the Yao Ming Mania, the average Chinese viewer can watch four games weekly, and many can catch a fifth game on Hong Kong-based satellite channels. But the NBA isn’t just reeling in “Yao Ming Mania” fans for the short term: With a sixfold increase in NBA broadcasting, only a quarter are Rockets’ games showing Yao. “The league wants to

use the interest in Yao to build interest in all its teams,” Michael Denzel, the former managing director of NBA Asia, asserts. “We’re not the Rockets Channel. Even when the Chicago Bulls were at their peak, we didn’t focus exclusively on one team. We’re trying to create bounce.”

Corporate “Courtship”

Regardless of the NBA’s long-term aspirations, the short-term effect is clear: Millions of Chinese, young and old, basketball buffs and novices, are dodging work, skipping class, and losing sleep to catch a glimpse of their hometown hero’s performance on the NBA stage. Clearly, the Asian market isn’t only going to watch; it’s also going to buy. “Asian and Asian-American consumers haven’t plugged in to sneakers and sports apparel,” says Thomaselli. “I could see a whole Yao line.” With the first batch of NBA-licensed goods having arrived in China in April 2003, signature jerseys of the usual superstars—Kobe Bryant, Shaq, and Allen Iverson—and of the greatly anticipated Rockets’ Number 11 flew off shelves. Unlike other professional leagues, the NBA has long had a global vision. Now, it has, at least in Asia, the main ingredient to help reach that aspiration.

For the corporate scene, Yao is more than just the “biggest Chinese import to hit the United States in years.” He’s the perfect vehicle for multinational corporations to enter the land of 1.393 billion potential consumers. Markets are opened, and young people have started to express themselves with purchasing power. One of the best ways to capture their purchasing power has been through sports figures. A few Asian athletes, such as Michael Chang and Michelle Kwan, have attained prominence, but in individual sports. Marquee basketball players, like Yao, command the most lucrative and successful endorsements. Yet, unlike in the United States, where endorsement figures like Tiger Woods and Michael Jordan are familiar, Yao is a marketing figure who can dominate China’s still-emerging market without competition.

Just halfway through Yao’s rookie season, he was everywhere: He sized up Austin Powers’ Mini-Me in TV ads for Apple computers; he played a confused New York tourist in a Visa commercial that double features Yogi Berra, and he graced the cover of *Sports Illustrated* twice in only 4 months. In China, he was the centerpiece of the print campaign from Nike and Gatorade.

China is the most elusive market for the wireless industry, having the world’s largest mobile phone subscriber base, with 1.6 billion users, and the highest percentage of online gamers. Because the Chinese public idolizes the athlete and embraces mobile technology, wireless companies were quick to enlist Yao as their spokesperson. After signing a \$5 million contract with China’s Unicom, Yao hawks its wireless service, and Sorrento, a California-based technology firm, combines the best of both the cell phone and gaming worlds by developing and marketing “Yao Ming Basketball,” a mobile phone game that renders the latest 3D animations.

Challenges for the “Great Wall”

For all that Yao has accomplished, one stark difference remains between him and “the legends”: proven athletic ability that commands sky-high endorsement figures.

In comparison to Michael Jordan, the NBA's "sole influencer" and member of a six-time NBA championship reign, two gold-medal-winning US Olympic teams, and seven-time season leading scorer, Yao's figures on and off the courts become meager. According to *Fortune*, "the Jordan effect," his impact on the economy since joining the NBA in 1984, is estimated at \$10 billion. Jordan's endorsement of Nike resulted in more than \$2.6 billion in sales of Jordan-related products. Although at the start of Jordan's career, the Bulls averaged only 6365 fans per game, in his third season the team began a string of sellouts that reached 542 consecutive games, culminating in \$165 million in ticket revenue and netting another \$366 million in NBA merchandise.

And then there's Yao's slowly progressing English. In public, he rarely speaks without the help of his interpreter, Colin Pine. Although Apple and Visa endorsements capitalized on his "smile that transcends language," how often can you use "nonverbal ads?" asks Bob Williams, president of Burns Sports and Celebrities.

"The Golden Bridge"

Despite the media's attention on Yao's statistics, basketball fundamentals, and endorsement contracts, the NBA's international services strategy reveals that Yao's appeal is instead far more substantial. "Chinese citizens are closely following Yao for symbolic reasons not related to basketball," said Steven Lewis, an Asia expert at the Baker Institute for Public Policy. "They are wondering: Yao is a Chinese person going abroad to live and work among foreigners." Along with their hometown hero, the Chinese are watching and participating in demonstrating their interests and contribution to the NBA and the game itself.

"By becoming the league's most prominent player of Chinese heritage, Yao Ming provided a different look to the league and in doing so, vastly increased the popularity of the sport. Yao's achievements are highly regarded as he recently became a member of the Basketball Hall of Fame. Now he will have his jersey retired by the team where he spent his legendary NBA career, the Houston Rockets." However, the seed of the international interests that was rooted by Yao's contribution to NBA has brought huge cultural benefits for NBA and the game itself. Also, "Yao has helped bring economic benefits to the NBA as well. For example, because of the booming popularity of the NBA in China after Yao joined in 2002, NBA China games were started in 2004. NBA games in the United States also began to see tremendous investment from Chinese enterprises when it came to advertising." Since these US NBA games have huge viewership in China because of the Yao Ming mania, the Chinese companies started to "pay top dollar to have their logos appearing during games."

■ Questions

1. Discuss the statement "Yao Ming isn't just China's best basketball player. He's the most persuasive symbol of globalization."
2. Consider China's current international business issues, such as intellectual property rights, logistical infrastructure, and the Roads and Belts initiative. How

should an international business manager consider these concerns before entering the potentially profitable yet elusive Chinese market?

3. How would your understanding on promoting a business to cross-cultural customers help you promote and market NBA to cross-cultural customers?

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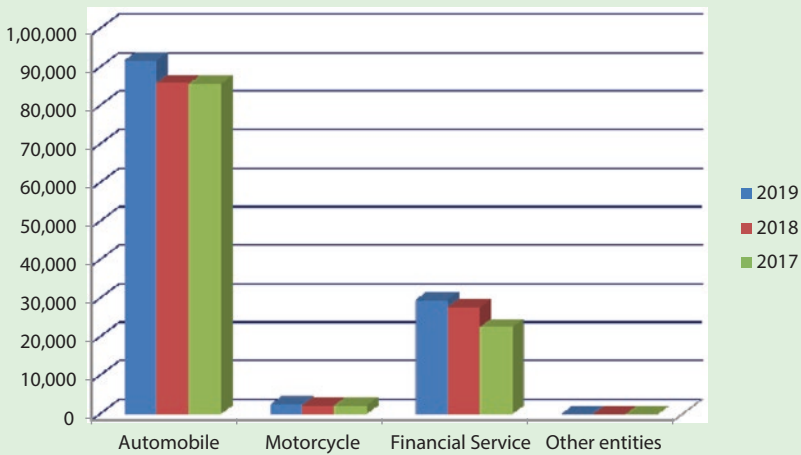
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This case was prepared by Sabrina Nguyen, of Georgetown University, under the guidance of Professor Michael R. Czinkota.

Case 2: BMW Marketing Innovation

Since BMW's competition started to imitate its advertising messages of outstanding quality, BMW came up with a unique way of reaching its target audience: It hired Fallon Worldwide, an advertisement agency based in Minneapolis, Minnesota, to create a new campaign. Fallon developed the concept of The Hire (a film series consisting of five different short films). The agency's responsibility included the way in which these movies were to be delivered to BMW's target audience. It was also questioned whether the campaign should be the same throughout the world or be localized to adapt to language and differences in consumer tastes. To attract highly

In € million



■ Fig. C2.1 BMW's revenue sources. (Source: Annual Report 2019)

recognized directors as well as actors, BMW was willing to spend a large amount of money.

In addition to creating a unique advertising campaign, BMW wanted to change its image. One of its goals was to make BMW look not only cool but also likeable, which the brand needs to do to combat negative perceptions that some people have based on old associations with the 1980s-style yuppie arrogance.

Company Profile

■ Figure C2.1 shows the company's revenue sources per its annual report.

Marketing Overview

The majority of BMW's success is attributed to its development of a consistent marketing policy: the market niche strategy. The company has built its brand on four core values:

- Technology
- Quality
- Performance
- Exclusivity

BMW has maintained these core values since the company's inception. Coupled with WCRS (BMW's advertising agency since 1979), the company has adopted a consistent advertising strategy. In addition to the *message* of these values being portrayed in advertising campaigns, the company explicitly expresses one or more of these values in all BMW advertisements. However, an important point is that BMW also relies on its sensitivity to the environment, which is clearly visible when you see how

the company's advertisements have evolved in response to economic, environmental, and competitive changes.

This design philosophy, which runs through every BMW design, has been communicated through a number of TV and print ads. The brand image has been built up by using more than 300 color press advertisements and a total of 64 different television commercials in recent decades. Throughout this campaign, BMW has remained true to its beliefs in focusing on the substance of the cars themselves.

In addition to the high-profile national color press and television advertising, individual dealers are encouraged to run their own local campaigns. Local press, radio, and bus advertisements are all available from BMW dealer marketing. In addition, brochures, price lists, and dealership point-of-sale materials are made accessible through the corporate office. BMW encourages its dealers to make use of these services. By providing its dealers with a central source for advertising, BMW ensures that all communications remain standardized and maintain BMW's brand values.

BMW has embarked on a global advertising campaign. What differentiates this promotion is that it remains consistent throughout the company's international campaign across the European, US, Asian, South African, and Middle Eastern markets. In more than 15 countries, there will be:

- TV spots
- Print advertisements
- Megaposters
- Radio spots
- Events

In three James Bond films, BMW, MGM, and EON Productions, Ltd. worked together on a cross-promotion project. They completed the project worldwide with TV commercials and print ads as well as with displays in BMW dealer showrooms.

BMW Film

The best film series, by the most cutting-edge directors, is not playing at your local theater. Instead, these films are accessible through your home computer and mobile devices as well as at your local BMW dealership.

Since the launch of *The Hire* at BMWFilms.com (the short films also can be retrieved from ► <https://www2.bfi.org.uk/films-tv-people/4ce2b9a761aac>), the short film series has been singled out as the first high-profile, big-budget, celebrity-laden internet marriage of advertising and entertainment. It has been reviewed, scrutinized, deconstructed, and cited as evidence of a perilous future for traditional advertising. The *New York Times* film critic Elvis Mitchell called the series “a marriage of commerce and creativity, straddling the ever-dwindling line between arts and merchandising.” BMW Films is simply the first website to make use of streaming video to lure prospective customers into the automobile industry as a form of advertising. The *Hostage*, *Ticker*, *Beat the Devil*, *Ambush*, *Powder Keg*, *Star*, *Chosen*, and *The Follow* are all part of the film series, which is presented in installments directed by some of Hollywood's top directors. These films are being adver-

tised on television in the same way as movie trailers are advertised; the difference is that rather than use the catch phrase “coming soon to a theater near you,” this catch phrase reads “see it only on ► BMWFilms.com.”

Actor Clive Owen (the star of the acclaimed British film *Croupier* and, in the opinion of his growing legion of fans, the next James Bond) is the hire in the series title, a skilled mercenary driver who seems to specialize in risky assignments. Although he is certainly a smooth operator behind the wheel (he’s very “James Bond” like), the Ultimate Driving Machine always saves the day. The car is definitely the star of the show.

Each episode features a “driver” (in a BMW, naturally) who is on a mysterious nighttime mission along with a mysterious passenger. One incident shows the driver on the run with a small Buddhist boy, and another episode features an arrogant superstar diva (played by Madonna) desperately wanting to escape the swarm of paparazzi. Filmgoers, thrill seekers, and potential customers have the option of watching these films using digital channels, and these short films are also available on YouTube. The films are very popular as YouTube demonstrates. After the launch of these films, 1 week following the advertising blitz of the BMW’s website film, traffic to the site was up 55%, to 214,000 unique visitors, compared to only 138,000 the preceding week, according to the web-measurement firm Nielsen/NetRatings.

Although the films all have differentiating styles, they have one thing in common: The majority of the action takes place in a BMW while the participants are in the middle of a car chase. The number of BMWs you will see is unlimited; you can see one, two, three, or even more Beemers speeding down alleyways and streets and screeching around corners.

BMW did not randomly decide to initiate a web-based advertising campaign. The company clearly did its homework. Advertising firms know that more than 85% of potential car buyers will conduct most (if not all) of their initial research on the internet before they make a final purchase decision. Therefore, BMW has made it convenient for shoppers by adding to its film site a link to BMWUSA.com. This site gives consumers basic information about the cars and the location and phone number of local dealerships.

Considering that the average cost of a BMW automobile starts at approximately \$30,000, the company’s decision to design a classy film series that can be viewed on a high-speed internet connection by an upscale, mostly male audience is clearly targeted.

The simple concept of these films: BMW wants to sell cars!

Film Concept

Before launching this film series, two issues were on the table at BMW: concern over the effectiveness of TV ads and the best way to exploit the popularity of the internet. BMW wanted to come up with an entirely new branding campaign; too many competitors were copying the “look and feel” of the BMW, and the company needed to do something different to distinguish itself. On a more basic level, it was growing

more concerned about its ability to reach its core market via traditional methods, such as network TV.

The creative team of writer David Carter and art director Joe Sweet had completed a project for Timex with director Tim Burton. This marketing campaign incorporated an internet portion that featured short videos shot specifically for the web.

BMW executives saw this situation as a way to differentiate their company from other auto manufacturers. They wanted something done exclusively for the Internet, something not only entertaining but also cinematic. A concept was born: A longer film would be shot in segments and distributed via the Internet as a series. The series would combine product placement with entertainment. Most importantly, it would allow BMW to “push the envelope” in scripting the series. The Internet would allow the company to show what a BMW can do when it is pushed to its limits, under extreme conditions and circumstances. BMW would not be able to convey this type of advertising by using traditional TV ads, without a few hundred disclaimers.

BMW Films has accomplished several objectives; the most important is creating tremendous buzz in both the entertainment and business presses. This achievement was important to BMW because, as mentioned, one of its goals was to make BMW look cool, without the old association with the 1980s style of yuppie arrogance.

A fact not prominently mentioned in much of the coverage of *The Hire* was that all of its core creative concept—and its key strategic thinking, web development, and several scripts—came from one source: Publicis Troupe’s Fallon Worldwide, in Minneapolis. “I think we’re reinventing advertising,” said David Lubars, Fallon’s former president and executive creative director. Mr. Lubars added: “We’re not looking to make this a template, as though this is what advertising is [going to be]. I think what technology affords you is that every client can get their own customized media approach, and this was really right for this client.”

“BMWFilms.com is a good example of blurring the lines between entertainment and advertising,” said Jarvis Mak, former senior internet analyst at NetRatings. “The site combines Hollywood’s intense car chase scenes and Internet video to deliver a new spin on product showcasing,” added Mak.

“We think that a lot of the time when people view traditional advertising, they view it through a filter of disbelief,” said Jim McDowell, the former vice president of marketing for BMW of North America. “When people watch entertainment or a movie, then they’re watching in an entirely different way where they enjoy the fantasy and, hopefully, remember it and share it with others.” “We thought maybe instead of doing advertising we should be doing entertainment and doing something fun and interesting on the Web,” McDowell said.

Target Audience

Initially, BMW had no real idea to whom the films would appeal. BMW executives knew that they would have everyone from high school students to BMW 7 Series owners as viewers. BMW’s guess was that the viewers’ average profile would be 25-year-olds and a \$100,000 median income. BMW and Fallon Research &

Communications indicated that many were tech-savvy and had fast, reliable access to the web. Most importantly, 85% of buyers had researched the vehicle on the web before stepping into a showroom.

Characteristics of the Typical BMW Target Audience

Societal values are changing rapidly. Society will increasingly take its cue from members of Generation X and the dot-com era rather than from the baby boomers who have dominated its thinking for most of four decades. Associated with that demographic shift will be a return to the appreciation of self-reliance and cooperation—self-reliance because the traditional safety platforms, such as social security and pensions, will no longer exist, and cooperation because it involves group action that is, in turn, the optimal strategy for the use of scarce resources. Family issues—such as long-term healthcare, day care, and antidrug campaigns—will remain dominant issues for quite some time.

Generation X and dot-com will have major effects in the future. This Generation X cohort will be recognized for its entrepreneurial instinct because its members are starting businesses at unprecedented rates. They are economically conservative, begin saving at an earlier age, and seek the shallow information skimmed from CNN or *USA Today* rather than absorb in-depth reporting.

Members of the dot-com generation now are gradually entering into the decision-making stage for different socioeconomic issues across the world and are proving to be even more business oriented. Twice as many say that they would prefer to own a business than to be a top executive. By a factor of 5 to 1, they would rather own a business than hold a key position in politics or government.

In summary, the corporate and business culture of the baby boomers is a mismatch for these advancing generations who thrive on challenge and opportunity. They want more than cash: They understand the need for lifelong learning because that is the way life has always been for them. In addition, as both customers and employees, they will demand even more advanced telecommunications and net-based transactions. Consumerism is still growing rapidly. Because consumers will increasingly have access to and information about pricing, services, delivery time, and customer satisfaction through the Internet and their mobile devices, the consumer marketing battle will see a halt in the decline of prices and a counterprevailing shift to service improvement and salesmanship.

In the end, however, fixed pricing will fall out of favor as goods and services are sold by way of online auctioning. The proponents of the need for improved customer service will be proven right. As prices fall to commodity levels and online stores can list virtually every product and brand in their industry without significant overhead, service is the only field left in which marketers can compete effectively to significantly differentiate their offerings.

Lorraine Ketch, the former director of planning in charge of the trendy Levi's SilverTab line, explained, "this audience hates marketing that's in your face. It eyeballs it a mile away, chews it up, and spits it out."

As expected, branded items with dominant reputations will remain powerful and in demand.

Marketing Channels

Internet Auto manufacturers have taken some innovative approaches to draw internet users to their websites. However, you may be surprised at how quickly “innovative” becomes “ordinary.” Slide shows, flash animation, and surround video with voice over are common features of most manufacturer’s sites. In addition, contests have become so common that the possibility of winning a free car may not be enough to hold viewers’ attention for more than a minute or less.

Ad banners that measure 468×60 are sold on a run-of-site (ROS) basis, meaning that they will appear on every search results page and on an equal rotating basis with other advertisers’ banners. Advertising rates for 468×60 ad banners are computed on a cost-per-thousand (CPM) impression basis and are now priced between US \$10 and \$15. However, “CPM bids start at \$0.25 per thousand impressions and rise to \$100.” Flashing banners and other methods cost slightly more based on the website and technology involved.

For online ads, each advertiser is given password-protected access to real-time advertising statistics, including how many impressions were served, how many click-throughs were achieved, and what click-through rate was achieved. The industry standard for the click-through rate is anywhere from 0.25% to 2%, for sites like CNN, ZDNet, and Yahoo!. The click-through rate will depend on the appearance of the ad and what it offers in terms of a marketing message and call to action. Just like running a television commercial during prime time or placing a full-page ad in *Time* magazine, these ads do not necessarily cause people to pick up the phone and order a product at that moment, whereas a web-based process that guides consumers through a systematic process makes a purchase more likely. Specifically, these types of ads build name recognition for the company and establish it as a major force in the industry. Then, when consumers are ready to buy, your company will come to mind.

Television A 2018 report revealed that the average cost of a 30-second national commercial for an automobile was a whopping \$389,000, plus \$63,000 to \$8 million setup cost of the ad, plus the cost of continue to run the TV commercial, e.g., the media cost and the agency rate. The percentages of viewers of MSNBC and Bravo who are in BMW’s target income bracket constitute 20.5%. The percentage of viewers in BMW’s target age group (25–34) is 26.5%.

Print The advertising rates in a periodical like *Time* magazine range from \$250,000 for a full-page mono to \$360,000 for a full-page color ad, plus the media cost and the agency cost. The average age of a *Time* magazine subscriber is 45, and its readers have a median income of \$69,000. The audience is twice the age and half the income in BMW’s intended target market. *Time* magazine is one of the premier periodicals on the market.

Competitive Analysis

In recent decades, BMW was in danger of losing its long-standing lead in the import luxury car segment. Mercedes, Lexus, and Audi were coming on strong with great

new products and new marketing campaigns designed to dethrone BMW. Nearly half of those considering a luxury car rank “fun to drive” as their number one reason for purchasing the car. However, for the first time since BMW had been tracking its image, consumers ranked BMW at virtually the same level as Mercedes or Lexus on attributes like “fun to drive” and “responsive handling.”

BMW's three biggest competitors had launched new advertising campaigns that highlighted what traditionally had been BMW's greatest strength: performance. Therefore, BMW was not able to distinguish itself anymore as the only company that boasted the unparalleled standard of quality.

Mercedes The range of cars from the giant company Daimler AG traditionally rival BMW's. In 2000, DaimlerChrysler (Daimler AG's former merger with Chrysler) sold 1,155,000 units and had revenues of 43.7 billion euro. “In 2019, Mercedes-Benz sales worldwide increased by 1.3% to a record 2,339,562 cars.” Mercedes' strengths are its global presence, strong brand presence, product range, and technology leadership. Mercedes marketing campaigns have always been subdued and low key. It allocates 25% of its annual marketing budget to innovative internet strategies, recognizing the power of the internet for delivering effective and precise marketing campaigns. When the car manufacturer launched the new Mercedes C-Class Sports Coupe, it positioned the online campaign at the top of its marketing mix. Joining in a winning partnership with MSN, another global brand with similar values, Mercedes sponsored A-ha's eagerly awaited homecoming concert.

Lexus Sparked by a decision from former Toyota chairman Eiji Toyoda in 1983 to challenge the best luxury vehicles, Lexus has since grown into one of the world's most inspiring automobile companies. Lexus is a division of Toyota Motor Sales, USA, Inc. It is trying to leverage the Japanese technology to add brand value to its vehicle. Lexus is America's top-selling luxury marquee. The tough task for Lexus is to lose the “cheap but reliable” Toyota image. The annual sales of Toyota vehicles in the United States have been on the order of \$90 to \$93 million in the beginning of the twenty-first century. “In 2019, Toyota Motor North America (TMNA) reported sales of 2,383,349 vehicles.” According to Chris Conrad, Lexus' former national advertising manager, Lexus is targeting its youngest buyers ever with the IS 300, roughly 75% male, between the ages of 35 and 40, married, highly educated, and with annual household incomes of \$100,000. The average age of a Lexus owner is 50, with the median age of the brand's hottest-selling vehicle, the RX 300 Sport Utility, at 48. The estimated \$32 million campaign for the car broke on national TV and continued for another 6 months. Team One, from El Segundo, California, created the two national TV commercials as well as five TV spots for regional dealer ad groups and two magazine ads. The agency also created billboards and six commercials that will be projected on buildings in three cities. Lexus's online presence even for this campaign is limited, though it is one of the advertisers launching a rich media campaign on the Excite Network, which includes WebCrawler and Classifieds.

Audi is an international developer and manufacturer of high-quality cars. In 2000, the company sold more than 650,000 Audi models. The sales revenues of the Audi Group totaled 39 billion Deutsche Marks. “In 2018, Audi sales worldwide fell

by 14% to 1,812,500 cars (in comparison to the preceding year) but reached a new record of 663,000 in China, Audi's biggest market." It has been trying to promote the exclusivity of their cars.

In recent decades, Audi of America embarked on its most ambitious online marketing effort ever. The European car importer kicked off the "Double Take" "adver-entertainment" online sweepstakes as part of its \$25 million launch of the redesigned A4 sedan. Visitors to the site can try to solve mysteries after viewing clues from three short episodes involving the A4. They can also register to win prizes while learning about the car and its features. The grand prize was a 3-day trip for two to the Audi Driving Experience at the Panoz Driving School in Atlanta, Georgia. The sweepstakes, run by Don Jagoda Associates, in Melville, New York, allows prospects to enter up to eight times. "The main thing is to educate and entice users to go to dealerships," said Steve Glauberman, president and CEO of Enlighten, the privately held creator of the site and sweepstakes in Ann Arbor, Michigan.

■ Questions

1. Should BMW be using a uniform global promotion strategy?
2. Should BMW demonstrated its marketing campaign on the internet exclusively, or should it be part of the media mix?
3. What are the implications of BMW's marketing for dot-commers, Generation Xers, and ethical consumers?

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This case was prepared by Martin Hellhake, Fabian Henault, and Josh Jacob, of Temple University, under the supervision of Professor Masaaki Kotabe for class discussion rather than to illustrate either effective or ineffective management of a situation described.

Case 3: It Is Not on the Shelf! Is It?: How Marketing Myopia Occurs

Marketing Overview

The lack of foresight or intellectual analytical ability to proactively predict the cause and effect relationship between two or more variables is known as myopia. In marketing, for example, we could plan to increase our promotional budget with a calculation that if we decrease the price by 0.25%, the enhanced promotion and subsequent awareness of price reduction will increase the future sales in the next 12 months up to 10%. In our plan, the breakeven point is 4% increase of sales; meaning that if sales increase minimum 4% in the next 12 months, we will be able to retrieve our investment for additional promotion and price reduction. Regrettably, at the end of 12 months, we have found that the sales increased only around 2.5%, and overall our initial plan to reduce the price and increase promotion has caused a net loss in the project.

Twelve months ago, we were accurate in terms of our calculation in the cause and effect relationship between the anticipated impact of price reduction and enhanced promotion on the expected increase in sales; however we forgot to consider a universal rule of economic calculation while planning for this marketing project. The universal rule in economic calculation is to consider “if all other things remain unchanged.” It means, when we forecast based on the cause and effect relationships between any dependent and independent socioeconomic variables, we must need to consider that our plan will bring the expected result, only if “all other socio-economic variables (that we are not generally considering in our calculation) remain unaffected.” Such variables would include but not be limited to the customers’ buying power that could be reduced, sudden political instability that could adversely impact on our product delivery channels (supply chain), or launch of a technologically enhanced new product by a competitor that could outplay the competitive advantage of our extant product. Therefore, we also need to consider all other prospective variables that could impact on our plan as accurately as possible, in order to be prepared with contingency plans “B” or “C,” so that if our plan “A” does not work, we could at least retrieve our investment.

In this context, marketing myopia could be described as the marketers’ inability to consider all probable variables that could possibly impact on a project, in order to prepare with contingency plans as effectively as possible to proactively avoid any unforeseen project outcome. Therefore, in order to avoid marketing myopia, proactive marketers not only analyze the dependent and independent *primary* socioeconomic variables that could *directly* impact on their marketing project, but also they try to thoroughly analyze all other *secondary* socioeconomic variables that could *possibly* impact on their project, if all other socioeconomic conditions do *not* remain unchanged during the project implementation stages. Following this preliminary discussion on marketing myopia, let’s have a look now on a real-life case example of how marketing myopia occurs.

Marketing Myopia: A Real-Life Example

Suppose you went to a supermarket looking for a product brand that you always purchase. Since you buy this brand regularly from a particular supermarket, you

also know the location of the isle and shelf inside the supermarket where you can find the product. Like previous times, this time also you walked through that specific isle and looked at the right place in the shelf from where you always pick up the product to put in your shopping trolley; however you did not see the product on the shelf. Therefore, you thought the product is temporarily out of stock, and thus you picked up a supplementary brand from the next shelf to complete your shopping as quickly as possible, considering that you were in a rush as you needed to drive 20 minutes to go pick up your kid, or you had another urgent issue to attend to after this shopping. Now, let's imagine a possible alternative situation that could occur during this particular shopping experience of yours. The alternative situation would be that the supermarket did not actually run out of that particular product brand at the time when you were looking for it, nor did it rearrange the floor, isle, or shelf plans to move that particular product brand from where you always used to pick it up. Your desired product brand was available in the same isle and on the same shelf while you were walking through the isle and looking at the product to pick it up. Unfortunately, you did not notice that the product was there! It happens in real life, and because of this, many brands struggle to achieve their monthly sales target.



■ (Source: ► [pexels.com/royalty-free-images/](https://www.pexels.com/royalty-free-images/))

For example, in the case of Tropicana Juice (► <https://www.tropicana.com/>, ► <https://tropicana.co.uk/>), they lost significant sales after they implemented a new redesigned packaging for the bottle of their same existing juice as part of their rebranding (or repositioning) strategy. Tropicana is a popular brand. “In the 52 weeks ended on May

17, 2020, Tropicana Pure Premium was the leading refrigerated orange juice brand in the United States, based on sales of over 962 million U.S. dollars.” During this repackaging project in 2009, Tropicana considered giving a new look to the bottle/package of their juice. “When Tropicana hired (the) legendary ad agency Arnell in 2008, they surely didn’t expect that, after 5 months of design work, launch planning, and \$35 million in marketing spend, they’d lose 20% of their revenue within a month — about \$20 million total in missed sales. But that’s exactly what happened.” Because, they failed to inform their target audience that soon they will see their favorite Tropicana juice with a new look. The look of the previous packaging of Tropicana juice included a picture of a fresh fruit with a straw plucked in the fruit. This picture was well known among Tropicana’s loyal customers. But Tropicana took off the image of the fruit and the straw from the new design and changed the color combination and the overall design (and look) of the appearance of their logo and text that includes other information from the old packaging to the new one. As a result, even the loyal customers of Tropicana did not recognize their favorite juice while they were looking for it on supermarket shelves in a rush of shopping, and Tropicana’s sales dropped significantly during the initial months of this rebranding initiative.

What Tropicana could not envisage during their repackaging plan is now clear to us. They failed to consider that “presenting even an old wine in a new pack” requires creating awareness among the target audience about the change, in order to help customers to recognize the product, so as to ensure that the sales target of the product could be achieved. Following this repackaging myopia, Tropicana has however retrieved its lost position today from the temporary drop in sales; the myopia has permanently impacted on Tropicana’s image among its stakeholders as a big company that failed to effectively plan, implement, and monitor their promotional strategy.

How We Could Avoid Marketing Myopia

“In general, marketing plans encounter marketing myopia, if the corporate mission is too narrowly or too broadly defined, and too narrowly or too broadly incorporated in the marketing plan.” For example, if a company does not consider sustainability issues in their corporate mission, or does not sufficiently include precautionary measure related to sustainability concerns in their operational plan (e.g., production process), the consumers may not be interested to purchase the company’s product, considering that its production process negatively impacts on the environment or it uses child labor. Such marketing myopias are very damaging for a company’s image, reputation, and brand positioning in the long run. For more discussion on the different aspects and viewpoints of marketing myopia, see ► Chaps. 1 and 2 of this book.

Marketing myopia could occur in any context of overall marketing management, related to any of the Ps in the marketing mix. Also, it is very difficult foresee with 100% accuracy all prospective primary and secondary socioeconomic variables and

their variations during the planning stage; however, two prospective lessons are shared here from the contexts of rebranding plan, in order to *possibly* avoid marketing myopia.

In general rebranding (or repositioning a brand in the mind of the existing target audience) is a complex task. As we have seen in the case of Tropicana juice, even their loyal customers were not able to recognize their favorite juice once Tropicana redesigned their product package. In redesigning an existing brand's logo or a product's package, it is instrumental to keep something memorable from the previous logo or package in the new logo or package. For example, Tropicana could have kept the picture of the fruit and the straw from their previous package in the new one, because this picture of Tropicana package is well-known among its customers. Keeping such an existing picture, sign, or symbol from the existing logo or package to the new one is really helpful for customers to remember the brand. In this context, Pizza Hut has been doing a great job in redesigning their brand logo. Pizza Hut from time to time has been updating (redesigning) their brand logo, in order to synchronize with trends in market environment (e.g., the changes in customers' tastes or preferences). Pizza Hut's logo consists of a "hat." In all their redesigning (rebranding) efforts for their logo, Pizza Hut changed the color combination, design of text, and its style (among others); however, they never ever removed their renowned "hat," considering that this "hat" is the core feature of their brand logo, which helps their customers instantly recognize Pizza Hut in the new logo. Contrary to Pizza Hut, Tropicana removed all well-known features, including the fruit's picture, color combination, design, and style of their old package, in order to design their new package. Furthermore, Tropicana did not undertake any awareness campaign to let their target market know about the new look of Tropicana juice. Because of this myopia, Tropicana's monthly sales reduced significantly, as their loyal customers could not recognize their favorite Tropicana.

Another good example of rebranding to possibly avoid any myopia would be the city rebranding plan of Amsterdam city. "Facing international competition to attract people, jobs, firms and more, cities are establishing branding strategies. But to succeed they must identify key factors and values, and especially address the central question of (their core brand) identity." In this rebranding effort, to help maintain its position as a popular European destination, Amsterdam embraced marketing with "I amsterdam," a brand campaign for the city and its residents" in 2004. In this branding campaign the Amsterdam City Council first recognized what core social, cultural, and economic values and resources Amsterdam already has and what and how it needs to enrich (or modify such values and resources) over time to attract more international businesses in order to ultimately make the city more liveable for its existing and new residents.



■ (Source: ► [pexels.com/royalty-free-images/](https://www.pexels.com/royalty-free-images/))

In this context, the Amsterdam City Council initially recognized the following 16 core social, cultural, and economic values and resources to reshape the future look of the city:

1. City of knowledge
2. Residential city
3. Hub function
4. Meeting place
5. City of canals
6. Capital
7. Business city
8. Sex, drugs, R&R
9. People
10. Liveable city
11. Architecture
12. Compact city
13. Artistic city
14. Night life
15. Shopping city
16. City of events

In their branding campaign, based on these 16 core social, cultural, and economic values and resources of Amsterdam city, they designed an easily comprehensible graph for the mass and their other target audiences (among socioeconomic local, national, and international stakeholders), in order to clarify the city's current

position based on these 16 dimensions and where (among these 16 dimensions) the city will increase and decrease its focus and resources to achieve their rebranding objective by reshaping the city within a particular time frame. It means the Amsterdam City Council clarified to their target audience in advance how they are going to reform their city to make it more liveable, more business friendly, more eco-friendly, and more vibrant for living and doing business. The rebranding campaign was very successful. As a result, the Amsterdam city appeared “8th on the Global Power City Index.”

As we know, foreseeing the context of prospective future myopia in management projects in order to avoid it is a very challenging task. To possibly foresee such future myopic contexts to avoid myopia, marketers need to explore and analyze as many relevant primary and secondary socioeconomic variables that could possibly impact on their marketing project, either directly or indirectly. Accordingly, along with plan “A,” marketers also need to equip with a plan “B” or “C” so that they could at least retrieve their investment to avoid any net loss from their marketing projects, if “other things (socioeconomic variables) did not remain unchanged” during their project implementation stage and adversely impacted the project.

■ Discussions

1. Similar to Amsterdam city’s rebranding project, think about the different dimensions of your home city in order to plan how you could initiate a rebranding project for your city and avoid any marketing myopia in your rebranding project.
2. Think about a logo of your favorite brand, and let’s assume that you have been assigned as project leader to redesign the brand logo. Targeting the different customer segments of this brand, consider (a) the brand features that you would remove from the existing logo, (b) feature(s) that you would keep in the new logo from the existing logo, and (c) other new trendy features (e.g., color combination, style, look, or even a slogan related to a sustainability concern) that you would add in the new logo in a way that will enable you to avoid any future marketing myopia for your project.

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This case was prepared by Dr. Riad Shams, Newcastle Business School, Northumbria University, UK.

Case 4: Citibank N.A. in Japan



■ (Source: ► pexels.com/royalty-free-images/)

The Japanese Banking Scene

In 1986, when Citibank began opening branches in Japan to offer retail banking services, Japanese banks could be forgiven for yawning. There was a reason to do so, because until 1997, 7 of the top 10 banks in the world were from Japan. Citibank was seventh on the list. With just a handful of branches, Citibank was the financial equivalent of a bonsai tree in a forest of rosewoods. Moreover, Japanese consumers tended to regard foreign banks as less safe places to park their savings. “When I first came here four and one-half years ago, the bank was very quiet,” said Hiroshi Yoshioka, a Citibank customer who works for a Japanese chemical company. “I had to summon up some courage to step in.”

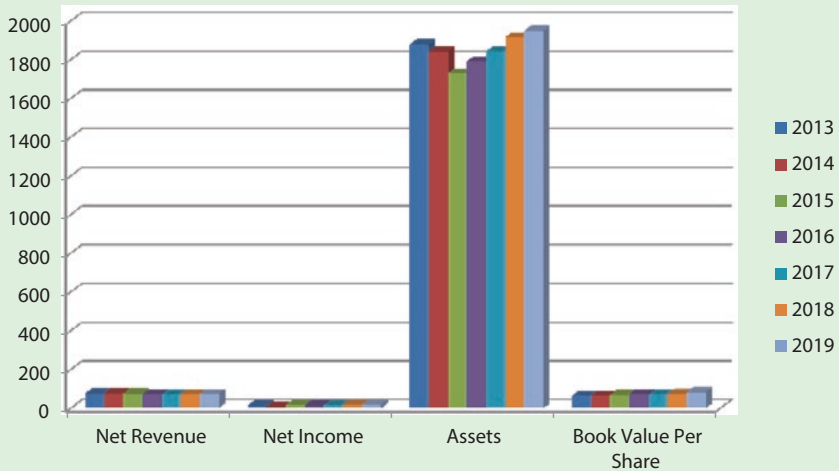
Times have changed, and the tables are turned. Following the recession in the Japanese economy, the domestic banks in Japan were burdened with about \$1 trillion of nonperforming loans. In this context, Citibank made some serious inroads into the Japanese market. Citibank growth spurts have coincided with successive Japanese financial disasters, ranging from the 1995 bond-trading scandal that led the Federal Reserve to expel Daiwa Bank from the United States to the triple collapse in 1998 of Sanyo Securities, Yamaichi Securities, and Hokkaido Takushoku Bank. “You have seen a 180-degree turn in the way Japanese are thinking,” said Robert Berardy, the former Citibank vice president in charge of “virtual banking,” or telephone and computer banking services. “The negative [of being a foreign bank] has become a positive.” Consumer confidence in domestic banks has eroded, and people are looking for new options.

Citibank Worldwide

Citibank N.A. is significantly more international in scope than its international competitors. In 1997, it operated in more than 3400 locations in 98 countries and derived some 60% of its net income from foreign operations. In 2019, “over 200,000 Citi employees provide their unique insight to over 200 million customers all over the world,” and offer customer service in 4000 branches and 20,000 ATMs in more than 160 countries. With \$74.3 billion revenues and \$19.4 billion net income with \$8.04 per diluted share, Citibank N.A. appeared as the world’s largest credit card issuer in 2019 with more than 200 million accounts, \$564 billion in annual purchase sales and \$164 billion in average receivables. The bulk of these income and revenue come from its emerging market operations. Citibank N.A. is now the consumer division of financial services multinational Citigroup, which is a result of the merger of Citicorp and Travelers Group in October 1998. As a result of this merger, Citigroup displaced Bank of Tokyo and Mitsubishi from the first position to become the largest financial company in the world. The group earned a net income of \$5.8 billion in 1998, which was \$19.4 billion in 2019 (see ■ Fig. C4.1).

Citibank N.A. had not always been a world-class success story, however. The bank suffered through a very difficult period in the late 1980s and early 1990s as a result of its decentralized decision-making structure and what *Euromoney* called a “near fatal brush with commercial real estate lending” in the United States. The reengineering efforts of former co-CEO John Reed (chairman and CEO until 1998) centralized the decision-making process, repaired the balance sheet, rebuilt the tier-one capital, and restored the credit ratings by 1996.

In Billions of
Dollars, Except
Per-Share Amounts



■ Fig. C4.1 Selected financial data

The Citibank Global Network

Citibank's global presence can be judged by the following comment from Mr. Shaukat Aziz, former head of Asia/Pacific global finance operations: "When a multinational company wants to enter an emerging market, it calls its lawyers, its accountants, the embassy, and Citibank."

Citibank has a wide network of branches all over the world. Its presence in the emerging market economies is very strong. The Asia/Pacific region (including Japan) brought 23% of the bank's net profit in 1996. "During 2018, emerging markets revenues accounted for approximately 37% of Citi's total revenues (Citi generally defines emerging markets as countries in Latin America, Asia (other than Japan, Australia and New Zealand), Central and Eastern Europe, the Middle East and Africa)." Also, "Citi included in Dow Jones Sustainability Index for 18th consecutive year" in 2018.

Long Presence and Local Market Experience

Citibank is a strong believer in the first-mover advantage and always tries to be among the first foreign banks to enter a prospective new foreign market. In some countries, Citibank has maintained its presence for almost a century. In Japan, Citibank started its first office in 1902. Even if it cannot provide all the services because of government regulations, it stays to provide corporate services to the multinationals. In Japan also, it maintained its presence without offering full-scale services and began offering only retail services in 1986. The bank's experience in foreign markets gives it the operational expertise that, in times of turbulence, is difficult for

other banks to match. This experience is advantageous for Citibank to keep important multinational accounts.

Localization Commitment

“We want to be totally global and totally local,” said John Reed, the former co-CEO, Citigroup. From this statement, Citibank’s commitment to local markets in various global locations is clear. Citibank tries to develop strong ties with the local community and with the local central bank. Locally hired staff members held around 95% of Citibank’s jobs outside the United States—technology is transferred, and local staff is trained. Citibank enters a market with a long-term objective and does not leave when profits are slow to materialize. The bank’s long-term commitment approach makes it very popular with the local governments. In Japan, after opening its retail banking operations in 1986, it operated profitably for only 3 years and then ran into losses for 8 straight years, but it stayed on to wait for the right opportunity in the long run. In 2019, Citibank in Japan earned 78,875 million Yen as operating revenue, with 9290 million Yen as operating income.

Technological Orientation

Citibank was “ahead of the curve” with respect to technology and financial innovation in the mid-1990s. The strong focus on technology and innovative financial services have won Citibank many awards. Citibank has established technology development centers, which build global platforms to support customer needs from any location. Citibank aims to use technology not only for improving customer services but also to reduce costs. Citibank is pioneering how biometrics technologies like iris scanning might unobtrusively and reliably verify customers’ identities, which could make bank cards and PIN numbers things of the past. The bank’s “CitiConnect® API Developer Portal—A one-stop hub where clients can access the latest documentation on Citi APIs and sandbox environment. Usage of the Developer Portal is expected to shorten the client onboarding process, accelerate technical development, and improve the quality of technology integration between Citi and its clients.” In 2019, Citibank celebrated the 10 years of success of the Citi Innovation Labs, and “Citi named Celent’s 2019 Model Bank of the Year” as well as “Citi recognized for eight global treasury solutions initiatives”. In Japan, Citibank also wants to focus on technology to bring down its operating and transaction costs. Services such as telebanking and Internet banking are good examples. In addition to opening new branches, Citibank plans to expand by installing thousands of ATMs.

Training and Development Citibank has one of the best training and development programs for its employees. Its employees are trained in general operations of the bank and also in their area of specialization. The employees’ career path is well defined, and the progress is monitored. Mentor programs help in grooming future managers. In fact, Citibank people are in great demand in other banks and are often “poached” by them.

The Rise of Citibank in Japan

For Citibank, it has been a long and at times bumpy road. Although the bank has maintained its presence in Japan since 1902, it became active in a small way in 1986 with retail banking operations. The true dynamism in Citibank's life in Japan materialized in the 1990s. Its dormant existence in the early years was a result of government regulations, powerful Japanese banks, and the unsafe image of foreign banks. Citibank's success in Japan in the 1990s can be attributed to several factors—chiefly, weakened Japanese banks (nonperforming loans of approximately \$1 trillion), the collapse of security companies and other financial institutions (mentioned earlier), and the “big bang” (a major overhaul of Japan's financial regulations) in the Japanese financial sector. Along the progress of Citibank's operations in Japan, it earned 5699 million yen as net income in 2019. Looking at how Citibank became the beneficiary of Japan's mounting financial turmoil is interesting.

The series of disclosures of the financial problems by Japanese banks eroded consumer confidence, and the safe image of these banks took a big blow. Consumers started looking for alternatives. At the same time, Citibank—true to its image of being innovative—came up with services that were an instant hit with consumers. An example of its innovative services is its multicurrency account. When the value of the dollar plunged below 100 yen in 1995, many Japanese consumers understood that their currency was being priced into a stratosphere from which it would eventually descend, and Citibank offered the most convenient way for small-time savers to play the currency market. Multicurrency accounts attracted customers who could shift money into dollars and earn higher interest rates but switch the money back into yen with a phone call—at any time of day or night. In one day, Citibank logged a record 315,000 calls from prospective and current customers; the next day, people mobbed the bank's branches in a scramble to buy dollars that were suddenly cheap. Seeing this success, Citibank developed ambitious plans for Japan. It expected to reach 35 million accounts by the year 2010 from its 1 million accounts in the beginning of this current century. That pace of growth has been enabling Citibank to become a mainstream Japanese banking giant. ■ Table C4.1 presents a brief history of Citibank, including its operation in Japan.

According to Berardy, customers do not come to Citibank just because of its safe image. Instead, he said, customers are looking at Citibank positively and evaluating its products on their own merit. With just some small number of branches, compared with many hundreds managed by its Japanese competitors, Citibank has earned the reputation as the country's most innovative bank by offering services such as 24-hour ATMs, online banking, and telebanking. These services are taken for granted in the United States, but are a novelty in Japan. The bank has also become popular among customers and gained tremendous publicity by swallowing some of the fees that other banks charge when customers access their Citibank accounts on rival banks' ATMs. By doing this, Citibank has in effect added thousands of ATMs using their rivals' infrastructure.

Table C4.1 A brief history of Citibank and its operations in Japan

Year	Milestones
1812	City Bank of New York established
1902	International Banking Corporation, later acquired by City Bank, establishes a presence in Japan with a branch in Yokohama
1972	Smith Barney opens a representative office in Tokyo
1974	First National City Corporation is renamed Citicorp
1976	First National City Bank becomes Citibank, N.A.
1980	Smith Barney opens a branch in Tokyo Salomon Brothers opens a representative office in Tokyo
1982	Salomon Brothers opens a branch in Tokyo
1997	Salomon merges with Smith Barney to form Salomon Smith Barney
1998	Name changed to Citigroup following a merger of Citicorp and Travelers Group, which includes Salomon Smith Barney
2012	Citi celebrates its 200th anniversary, and its 110th anniversary in Japan
2016	Citi expands its global Japan Desk Network with the opening of new desks in Vietnam and Mexico

Source: ► <https://www.citigroup.jp/en/about/history.html>

Strategic Alliances

To have a better customer reach and to provide more services, Citibank entered into several strategic alliances in Japan. In a widely publicized deal that seemed to stamp Citibank with an official seal of approval, it became the first bank of any kind to reach a cooperative business deal with Japan's mammoth Post Office Savings System, which most Japanese believe is the safest place to put their money. The deal adds thousands of remote access points for Citibank customers, making it more practical for the majority of the Japanese who live far from a Citibank branch to open accounts. Citigroup also bought 25% equity in Nikko Securities, the third largest brokerage house in Japan. In addition, Citibank considered entering into alliances with Asahi Bank and Tokai Bank. These alliances can increase Citibank's access to huge savings, estimated to be around \$9 trillion, that have been amassed by Japanese savers.

Financial Record

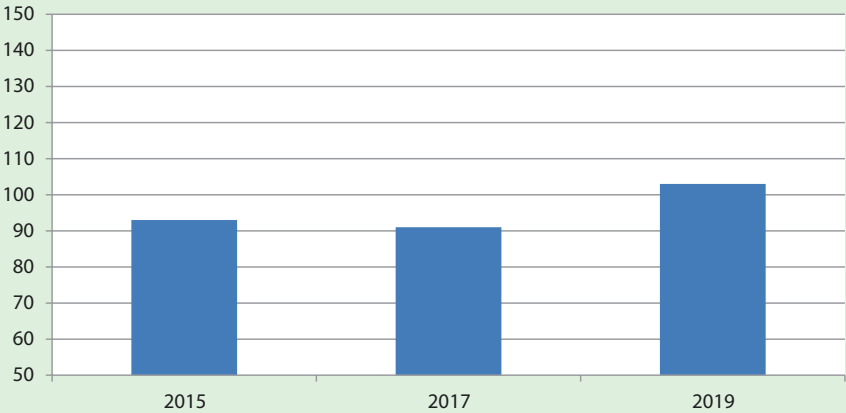
Citibank's trading volume has been increasing over the years even though the total trading volume for all banks has not been increasing worldwide. Citibank's net income and earnings per share have been stable because it has focused on not only

In Billions
of Dollars



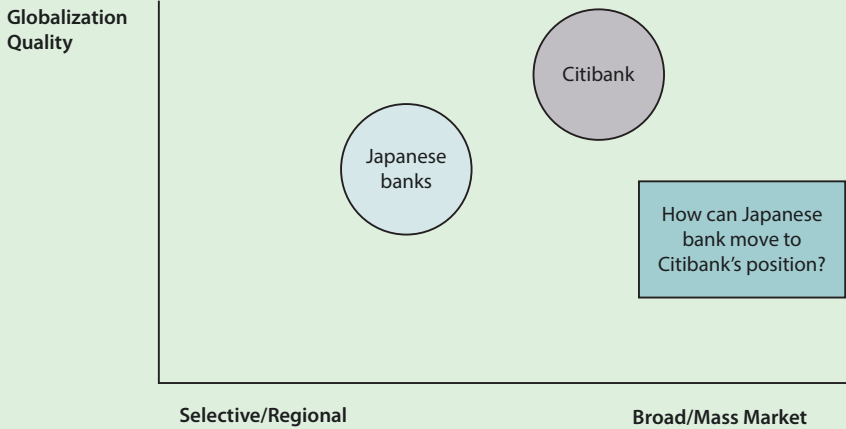
■ Fig. C4.2 Financial records—loans versus deposits

Loan to Deposit
Percentage



■ Fig. C4.3 Financial records—loan to deposit percentage

total revenues but also cost reduction for customers as a way to add more value to bank services (refer to ■ Fig. C4.1). Citibank’s loans and deposits have also been increasing steadily (see ■ Fig. C4.2). Citibank is very aggressive in expanding its market share globally, and at the same time, it is maintaining the loan-to-deposit percentage at a manageable level (see ■ Fig. C4.3).



■ Fig. C4.4 Competitive position

Major Competitors

Major Citibank competitors include domestic banks and foreign banks. Major domestic competitors are Bank of Tokyo–Mitsubishi and UFJ Bank. The foreign banks mainly include ABN AMRO, HSBC, and Deutsche Bank, among others. Citibank Japan has many competitive advantages: strong brand equity, globalized operations, innovations, and localized staff of very high quality. On a competitive positioning map, Citibank would show a broader product range and better quality of service (see ■ Fig. C4.4).

Marketing Strategy

Although the market may be getting smaller, the top players are taking bigger slices in Japan. The largest foreign exchange firms are having to work harder to carve out a point of difference in a mature market with thin margins. Considering that the banks cannot distinguish themselves from their competitors on the grounds of better interest rates (controlled by the government), the only area where the banks can make a difference is in their services and product (financial product) innovation. Citibank has been doing a good job of differentiating itself along these lines by (1) developing a product strategy designed as a “one-stop-shop” concept or financial supermarket in a global setting and (2) developing unique services and innovations.

Product Under the umbrella of Citigroup, Citibank plans to provide several financial services. The “one-stop shop” offers retail banking, corporate banking, investment banking, insurance, project financing, currency transactions, and a host of other products. To offer these services, Citibank uses the different arms of Citigroup. Special services, like credit advice and research, are being provided to add value.

Price Customers recognize that in pricing terms, no difference exists between what Citibank can provide and what other banks can do. Therefore, Citibank

is trying to maximize the value-added offerings to its customers by adding more unique and creative services—such as providing unique offerings for telephone banking, internet banking, and direct mail for opening an account (among others)—while minimizing its customers' costs and expenses.

Promotion Citibank, in its effort to build strong brand equity and in its pursuit to become the “Coca-Cola of finance,” is using strategies such as co-branding, cross-marketing, and “Citibanking” as an experience. The Sony Citibank Card launched in the United States is an effort to be associated with the top names in the world. In the past, Citibank solicited the services of former president of the United States George Bush to promote its global image. Although criticized as being discriminatory, Citibank efficiently and profitably used an unusual approach toward its wealthy customers. In April 1998, Japan began deregulating its banks. Koichiro Kitade, the former head of Citibank's private banking division in Tokyo, knew that it was time to try a new marketing approach to expand its market share. Through newspaper advertisements, Citibank exclusively targeted rich people having more than \$750,000. Although this strategy was discriminatory, Citibank succeeded with this creative and unique approach.

Place Citibank is continually and actively expanding all kinds of distribution channels, such as new branches, internet banking, mobile banking, low-cost nationwide networks of ATMs, and telephone banking. With services like telebanking and internet banking, Citibank has in effect expanded the distribution channel to its customers' homes. In the country, the local banks have widespread placement of their branches across the country. However, “the proliferation of branches that made these Japanese banks successful will be the thing that kills them in the future,” said Berardy. “They can't cut costs. Even if they closed the branches, what would they do with the people?” Even after several years of economic stagnation, layoffs remain socially unacceptable in Japan. In this context, Citibank operates with less branches in comparison to its local counterparts and attempts to reach its Japanese customers more through different technology-enhanced banking platforms, which enables it to cost-effectively expand its business in Japan.

Challenges for Citibank

On the road to success, Citibank faces several challenges. One of its foremost challenges is from within—that is, the question of the smooth amalgamation of Citicorp and the Travelers Group, which merged to form Citigroup. If their merger is managed and coordinated properly, it can give them the synergy to be a front-runner in world banking in the long run. On the contrary, bad management and lack of coordination can lead to a fiasco. Problems can arise because of the different cultures of the two organizations. Already, differences and conflicts of opinion between the two former co-CEOs, John Reed and Sanford Weill, have been reported. John Reed is known to have long-term objectives and favors market share over profits, whereas Sanford Weill is a hard-core, profit-oriented executive. His main focus is on quarterly

profits and maximization of shareholder wealth. For this reason, he is very popular on Wall Street.

The other challenge is in the form of the competitors, both domestic (Japanese) and foreign. Even now, Japanese banks have formidable strength and, with their government's help and successful alliances, can give their competitors a run for their money. Taking clues from the 1980s' domination of US competition by Japanese manufacturing companies, the banks may also follow the same course.

■ Questions

1. One question that comes to mind when talking about the rise of Citibank in Japan is whether it can maintain the same rate of growth and popularity as it has done in recent decades. Japanese banks may be encountering intense competition from their international counterparts, but it would be a serious mistake to discount their power. Japanese companies have overtaken the West in the manufacturing industries and are known to be effective in managing distribution channels. Can Japanese banks also do the same in financial services?
2. What have been the market expansion strategies of Citibank? Will these strategies help it to achieve its “one-stop-shop” objective?

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Case 5: Gap Inc.

Since it started in 1969, Gap Inc. has been consistently growing and expanding. “Gap Inc. products are available for purchase worldwide through about 3200 company-operated stores, about 600 franchise stores, and e-commerce sites.” Gap Inc. is now one of the largest-selling brands in the world and is ranked as one of the tops among all US retailers in sales.

Brief Background of Gap Inc.

Gap Inc. was established in August 1969 by Donald G. Fisher, a real estate developer educated at the University of California, Berkeley. Fisher conceived the idea when he went to a department store to exchange a pair of Levi’s and was unable to because the jeans department was so disorganized. Backed by a \$63,000 family investment and a \$112,000 bank loan guaranteed by his father-in-law, Donald Fisher introduced the first Gap store in San Francisco. His original idea was to focus on the mid-teen market with three types of goods: records, cassette tapes, and Levi’s jeans. Unlike the local department stores, which stocked only a limited number of styles and sizes of Levi’s jeans, the Gap store carried every size and style available. Furthermore, they were neatly arranged and easy to find. Donald Fisher and his wife had a discussion about the “generation gap” in 1969, and from that discussion came the name Gap Inc., under which the company was incorporated in California in July 1969. Gap Inc. was reincorporated in 1988 under the laws of Delaware.

Growth and Expansion

Although the company’s original targeted customers were primarily young people, the convenience of a neatly organized jeans store with Levi’s products attracted customers of all ages. In less than 1 year, Gap’s business took off, and a second Gap store was opened in San Jose. In fewer than 2 years, there were six Gap stores in California. By 1972, Gap Inc. had 25 stores in 6 states. In 1973, Gap Inc. ventured into the East Coast market, opening 12 stores in New York, New Jersey, and Pennsylvania. In 1974, Gap Inc. expanded into Washington, Minnesota, Missouri, Oklahoma, Maryland, Virginia, Georgia, Arizona, Texas, and Illinois, with a total of 90 stores. In 1976, Gap Inc. went public with its stocks, offering 1.2 million shares on the New York and Pacific stock exchanges, selling at 75 cents per share. In 1979, Gap Inc. opened a modern distribution facility in Denver, Colorado. By 1981, Gap Inc. had opened 500 stores nationwide. In 1983, Gap Inc. purchased Banana Republic, a travel clothing company that sold merchandise mainly through catalogs. By 1985, there were 613 Gap stores and 35 Banana Republics. The first GapKids store was introduced in 1987, and then, in 1988, the Old Navy Clothing Company was introduced. In the same year, Gap opened two factory outlets, selling merchandise at discount prices. In 1990, GapKids formed a separate department for baby clothing, called BabyGap. In 1992, Gap stores also formed a separate department, named Gap Shoes. The year 1993 was marked by the opening of Gap warehouse or outlet stores as well as an entry into the French market. Old Navy was started in

1994, and the following years witnessed the introduction of online Gap Maternity and the launch of the e-businesses of Gap, Banana Republic, and Old Navy.

During 1990–1999, Gap Inc. experienced exponential growth. During this period, *Vogue* magazine's 100th anniversary issue placed supermodels wearing Gap clothes as their cover photo, and the Gap Inc. stock price reached a record high of \$59. In 2000, “the first Old Navy outlet store opens,” along with the OldNavy.com for online shopping, and in 2001, Old Navy expanded internationally, with stores in Canada. Banana Republic launched its first outlet in Japan in 2005. In 2006, “Gap partners with (RED), a brand launched by Bono and Bobby Shriver, releasing a line of products from which half the profits support disease-fighting programs in Africa.” To underpin support for women who work in the garment factories, in 2007, “Gap Foundation, in partnership with vendors and non-governmental organizations, launches the P.A.C.E (Personal Advancement & Career Enhancement) program. Gap Inc. acquired the Athleta (a women's activewear company that was founded in 1998) in 2008. In 2010, Gap Inc. entered into the Chinese market with stores in Beijing and Shanghai, along with Gap's Chinese online store: Gap.cn.

In 2011, Athleta launches its first brick-and-mortar outlet in San Francisco. During 2011–2013, Banana Republic launched three collaborative projects with Emmy Award-winning TV show costume director Janie Bryant. Banana Republic started designing uniforms for Virgin America in 2012. In 2013, Intermix (a 32-store chain of luxury boutiques across North America that was founded in 1993) was acquired by Gap Inc. In the same year, “Gap Inc. forms Alliance for Bangladesh worker safety to improve factory conditions in Bangladesh.” Also, Gap Inc. declared that the minimum starting hourly wage in US store employees will rise to \$9.00 in 2014 and \$10.00 in 2015. In 2019, Gap Inc. acquires the Janie and Jack (a high-end children store). Also, this is the year Gap Inc. celebrated its 5th anniversary.

As of 2019, the company operated 2502 stores in the United States, and altogether 4200 stores worldwide, along with its e-commerce stores. ■ Table C5.1 presents the global locations of Gap Inc. and its subsidiaries.

Selling Private, Store-Brand Product

Within 3 months of opening Gap, Fisher realized that the real business was in selling Levi's jeans, so he dropped the records and cassette tapes from his inventory. Until the end of 1973, Gap advertised and carried only Levi's-brand products. In 1974, Gap introduced its first private-label clothing into the merchandising mix. When price maintenance crumbled because of a Federal Trade Commission (FTC) directive in 1976, Levi's products began to sell at discount, and Fisher was convinced that Gap's competitive advantage could not rely solely on the low prices of Levi's products. Since then, he has focused on reducing Gap's reliance on the sales of Levi's products. As a result, Levi's products began to decrease as a percentage of Gap's total sales. By 1987, Levi's made up less than 50% of Gap's total sales. By 1985, Levi's sales dropped to 21% of Gap's total sales and then 14% in 1987. Finally, in 1990, Gap dropped Levi's and started selling only private-label products.

Table C5.1 Worldwide store numbers of Gap Inc. and its subsidiaries in 2019

Store locations	Gap North America	Gap Europe	Gap Asia	Old Navy North America	Old Navy Asia	Banana Republic North America	Banana Republic Asia
Number of stores in 2019	675	137	358	1207	17	541	48

Source: Statista (2020)

Gap Inc. Operating Components

Gap Inc. is a specialty retailer that operates stores selling casual apparel, shoes, and other accessories for men, women, and children. It includes these well-known registered trade names: Gap, GapKids, BabyGap, Gap Shoes, Gap Maternity, Banana Republic, and Old Navy Clothing Company.

The company has continued to focus on developing and growing its brands, and it believes that its brands are among its most important assets. The company is taking action to maintain and strengthen brand loyalty, including significantly increasing its investment in advertising and marketing.

In addition to expanding the number of print ads placed in major metropolitan newspapers and their Sunday magazines, major news weeklies, and lifestyle and fashion magazines, the company’s ads appear in various outdoor venues, such as mass transit posters, exterior bus panels, bus shelters, and gigantic billboards spanning entire buildings. Gap Inc. continues to run TV ads for all of its brands and radio ads for Old Navy. Gap Inc. continues to add flagship stores and increase television advertising to complement its in-store customer service focus. The company also continues to invest in store expansion and the development of new distribution channels (including online stores and promotions) to address changing market requirements. Its new channels of distribution include Gap Online, Old Navy Online, Gap Maternity Online, and a catalog for Banana Republic.

The retail apparel business fluctuates according to changes in customer preferences, dictated in part by fashion and season. These fluctuations especially affect the inventory owned by apparel retailers because merchandise usually must be ordered well in advance of the season and sometimes before fashion trends are evidenced by customer purchases. As a common factor in the fashion apparel industry, Gap is also vulnerable to changing fashion trends. In addition, the cyclical nature of the retail business requires the company to carry a significant amount of inventory, especially before peak selling seasons when the company and other retailers generally build up their inventory levels. Gap Inc. must enter into contracts for the purchase and manufacture of apparel well in advance of the applicable selling season. As a result, the company is vulnerable to demand and pricing shifts and to suboptimal selection and timing of merchandise purchases.

Retail Divisions

Gap operates under different divisions: Gap, Banana Republic, GapKids, BabyGap, GapBody, Gap Outlet, Old Navy, and International Division. The first seven operate domestically, and the last one operates all the stores from the first seven divisions that operate overseas. The company continues to expand internationally each year. It faces competition in European and Japanese markets from established regional and national chains. If international expansion is not successful, the company's operations could be adversely affected. As a result, Banana Republic closed all their physical stores in 2017 in Europe; however they had ten in this region in 2015. The company's ability to grow successfully in continental European markets will depend in part on determining a sustainable profit formula to build brand loyalty and gain market share in the especially challenging retail environments of France and Germany.

Gap This division has by far the most stores—more than all the other divisions combined—with 1027 stores in 2002 and 2502 in 2019 operating in the United States. The Gap Shoes subdivision also operates under this division. All stores under the Gap division are called The Gap. The Gap stores are classified as clothing retail stores for men and women, with Standard Industrial Code 5651. The United States has more than 145 domestic competitors for The Gap; and in 1998, The Gap ranked third in sales and has been continuing to expand their business as a high performer. In the beginning, products under this division consisted of an assortment of unisex basics; more recently, they have evolved to become more gender specific.

Banana Republic When Banana Republic was purchased by Gap Inc. in February 1983, it was already famous for its travel and safari wear, although only two Banana Republic stores existed. After the purchase was completed, the parent company created a new division to operate all Banana Republic stores. Gap Inc. also invested capital to create product development and production teams for Banana Republic, allowing it to introduce its own new, private-label fashions. In addition, it rapidly expanded into other parts of the country. Products under the Banana Republic division are more upscale and more tailored and come in more refined fabrics than those in The Gap stores. Leather goods and jewelry goods have been introduced into the merchandise mix. Internationally, Banana Republic has operations in Canada and different locations in Asia. The company also offers these products online at www.bananarepublic.com.

GapKids After the GapKids division was formed in 1986, it became the fastest-growing division of Gap Inc. All stores under this division are called GapKids stores. Products in this division are essentially miniature versions of the Gap products, but with more focus on color variations. These products have also switched from unisex to more gender specific. The formation of the BabyGap subdivision under GapKids is another reason for the rapid growth of this division.

Old Navy Clothing Company This division operates all Old Navy stores and Gap Warehouse. Old Navy now has more than 1100 stores operating worldwide under this division since its introduction in 1994. A Gap Warehouse also operates under this division. The formation of the Old Navy division came at a time when sales were down and Gap Inc. needed new ways to attract customers. The strategy was to sell merchandise similar to what was in Gap stores, but at lower costs. This division is expected to surpass the GapKids division and become the fastest-growing division of Gap Inc. Internationally, Old Navy stores exist in different locations across North America and Asia. The company also offers these products online at www.oldnavy.com.

International Division All stores located in foreign countries are under the control of International Division. This division includes Gap stores, GapKids stores, Banana Republic stores, and Old Navy stores. The first overseas store was established in 1987 in London, thus gaining entry into the British apparel market. In 1988, the first store in Canada was established, and in 1993 the first one in France was opened. The international locations of Gap Inc. and its subsidiaries are presented in ■ Table C5.1. International Division also operates Banana Republic in Canada and Australia. International Division shows strong growth potential and continues to expand existing markets into Europe and to gain major entry into two new markets: Germany and Japan.

Products and Customer Base

The Gap division sells mainly men's and women's casual and active wear. Clothing items including jeans, sweat suits, sweatshirts, denim wear, and polo-style pocket T-shirts are marketed. The Gap division has also expanded its market to include handbags, shoes, and a higher-fashion line of evening wear. In addition, during the 1990s the Gap division entered the body care products and cosmetics market, introducing soaps, body lotions, shower gels, shampoos, conditioners, aromatic candles, and other related items. In addition to selling travel and safari wear, the Banana Republic division sells men's and women's casual wear, made of finer fabrics and priced higher than those found in Gap stores. Together, the Gap stores and the Banana Republic divisions target mainly customers 20 years or older. GapKids, which sells miniaturized versions of Gap store products, originally aimed at children aged 2 to 12. With the introduction of BabyGap, however, it has been able to add even younger customers to its customer base. One of the most recently introduced Gap Maternity sells maternity wear only through its website. Old Navy Division, selling cheaper products, targets lower-income shoppers. International Division targets foreign customers in similar age groups.

Sourcing

Gap purchases merchandise from around 700 sources located in both the United States and approximately 50 countries overseas. This procurement strategy is designed to reduce each supplier's importance so that no single supplier can affect Gap's overall operations significantly. No supplier accounts for greater than 5% of the purchase. The suppliers manufacture Gap's private-label merchandise according

to the company's specifications. Gap purchases are composed of 40% domestic-made merchandise and 60% foreign-made merchandise. Of the foreign sources, approximately 23% are from Hong Kong, and the remaining purchases are spread across 42 other countries. Hong Kong, Taiwan, South Korea, Singapore, Bangladesh, and China constitute more than 50% of Gap's foreign merchandise sources. Sudden political instability in any of these countries could quickly have an adverse effect on Gap's sourcing operations, as would any imposition of import restrictions, such as tariffs and quotas by the US government, on products made in these countries. Hong Kong is by far the most important foreign source of Gap's merchandise. Hong Kong has a total population of 7,508,288, of which a significant percent are engaged in manufacturing and in either retail trade or wholesale. The Hong Kong government had to import labor from abroad to counter a shortage in domestic labor supply. Despite this labor shortage, the well-educated labor force in Hong Kong is relatively cheap to employ in comparison to the Western countries, and with the increased pressure of manufacturing companies moving across the border into China, even cheaper labor may result. US retailers, including Gap, Inc., have long been the target of criticism for selling goods imported from Hong Kong and other low-wage countries such as Taiwan and South Korea. In addition to its low wage rate, Hong Kong is a favored apparel source for many retailers because of its flexible manufacturing and quick response strategies introduced by the Hong Kong Productivity Council and adapted by many of Hong Kong's apparel producers. Both strategies reduce inventory costs for the retailers. Furthermore, the apparel industry in Hong Kong is adapting to many new technologies and production methodologies, all aimed at reducing apparel production costs.

Advertising

Although Gap Inc. advertises mainly through major newspaper publications, it also advertises in fashion magazines and on mass transit posters, billboards, and exterior bus panels and in different online channels. All advertisements stress the central theme of American design, quality, and moderate pricing, although they are produced separately in each country to suit local tastes.

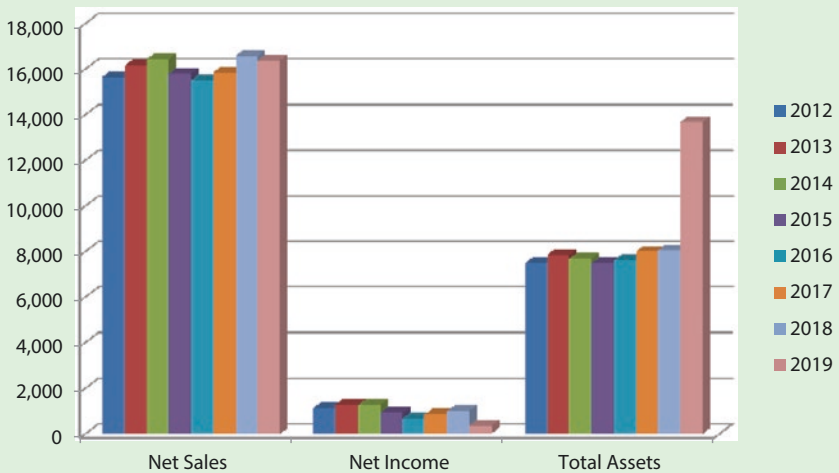
Distribution

All merchandise is shipped to distribution centers for distribution. These centers are in California, Kentucky, Maryland, Canada, and the United Kingdom.

Marketing

The company has a separate marketing team for each brand. The teams are headquartered in San Francisco's Bay area in California. These headquarters are also responsible for advertising.

(\$ in millions)



■ Fig. C5.1 The financial performance of Gap Inc. (Source: Annual Report 2016, 2019)

Performance

■ Figure C5.1 presents the financial performance of Gap Inc. Gap Inc. has however been performing quite consistently in terms of its net sales and total sales; its net income has been fluctuating, especially in 2019; the net income reached to the lowest figure since 2012. Industry experts cited a variety of reasons for dipping performance, such as launching too many stores to having less differentiation between its brands. The company will have to find a way to get back on track to underpin its profitability to sustain itself in an economy characterized by fierce competition.

Conclusion

As Gap Inc. continues to expand into the foreign markets, it should consider several options to reduce costs and thereby increase profit. First, because Gap Inc. does not produce or procure merchandise in any of the foreign markets it is now in, establishing free-trade zones in those countries might help increase profits by temporarily reducing duty and value-added tax (VAT) costs, and no duties would be paid on extra merchandise. Second, attention should be paid to centralizing advertising to reduce cost. Third, the problems associated with sourcing from so many different regions should be considered and ways found to correct them. Finally, Gap Inc. should seek ways to take advantage of the free-trade agreements that are active with the US government with other foreign countries.

■ Questions

1. Gap, Inc. conducts sourcing from 700 different sources, both domestically and abroad. What are some of the advantages for this type of sourcing strategy? What are the disadvantages?
2. The North American Free Trade Agreement (NAFTA) has benefited many US companies by reducing tariffs on NAFTA-country goods traded between each other. How has this agreement benefited Gap Inc.? How will it benefit Gap Inc. in the future?
3. Many US companies have been moving into Canadian apparel markets. Gap Inc. is facing more and more competition from apparel manufacturing companies from its own country. How can it maintain its Canadian market share?
4. Canadian consumers are quite trendy in abandoning their name brands and buying cheaper garments to save money. What can Gap Inc. do to take advantage of such market trends?

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This case was prepared by Masaaki Kotabe and updated by Sonia Ketkar for class discussion rather than to illustrate either effective or ineffective management of a situation described (2003).

Case 6: The Value-Breeding Bond Network of Hawthorn: A Relationship Marketing Context in a Business-to-Business Setting

Background

Hawthorn Football Club is one of the popular clubs in the Australian Rules Football League (AFL). AFL is neither rugby nor soccer in terms of the rules to play. Players use both their hands and feet to play the game. “Australian rules football is known by several nicknames (across Australia), including Aussie rules, football and footy. In some regions, it is marketed as AFL after the Australian Football League.” In terms of popularity of a particular sport in Australia, the extent of popularity could vary from region to region in Australia among some of their favorite sports. Also, “the sports that are popular in Australia can be very different to elsewhere around the world, and in addition there are regional differences in the popularity of sports, for example the most popular football code in Sydney is Rugby League, while in Melbourne it is Australian (Rules) Football.” AFL, rugby, cricket, soccer, tennis, and golf are among the top most popular sports in Australia, in general; however, in 2019, AFL appears as the most searched and most attended sports in Australia.

Hawthorn is a Melbourne-based AFL club in Victoria. Victoria is among one of the eight Australian states and territories located within the Australian mainland. Hawthorn was established in April 1902 and enjoys an enormous fan base not only from Melbourne and greater Victoria but also from other parts of Australia.

Hawthorn has been performing successfully since its inauguration both on the field (on the AFL pitch) and off the field (on the marketplace). However, Hawthorn’s marketplace success was not so easy. During 1996, the club was planning for a merger with another AFL club to deal with its AU\$1.7 million debt. Finally, the then Hawthorn board did not pass the merger plan, but decided to face the business challenges in the AFL market. By 2002, Hawthorn established themselves as one of the most financially strong clubs in AFL. Since then Hawthorn has been escalating up their marketplace successes with diverse business stakeholders from both inside and outside of Victoria. ■ Figure C6.1 demonstrates that Hawthorn’s assets and revenues have been increasing steadily, and irrespective to some ups and downs in profit margin, Hawthorn has been profitable continuously. Most importantly, Hawthorn has turned a business with net loss and increased debt in 1996 into a profitable venture by 2002.

In this success story of Hawthorn, their business partnership with the Tasmanian State Government has played a significant role. Tasmania is another Australian state but outside the Australian mainland. From 2001 to 2019, the Hawthorn–Tasmania relationship has created, increased, and sustained socioeconomic value for both partners; however upon taking this prolific relationship to its 20th anniversary in 2020, it looks like that the happy marriage between these two partners would come

Australian
Dollar

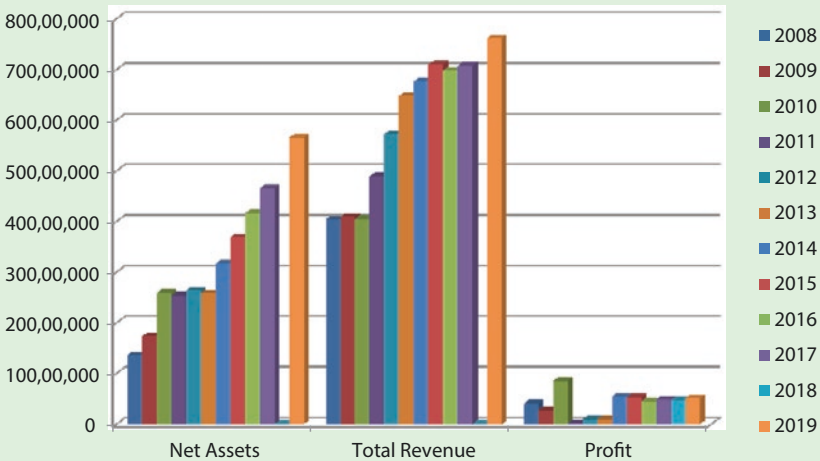


Fig. C6.1 Financial performance of Hawthorn. (Source: Annual Report 2009, 2011, 2013, 2015, 2017, 2019).

to its end (e.g., separation) from the 2021 AFL season. In this case study, we will discuss this Hawthorn–Tasmania relationship’s “sweet and sour” story.

From Value Network to Value-Breeding Bond Network: A Relationship Marketing Context

The extended value network of a branded grocery item starts from the source of its raw materials (e.g., farmers who produce the item), and the entire value network comprises all other associated stakeholders, for example, the suppliers who deliver the grocery item from farmers to the factory where it is packaged as a branded product. The value network also includes the retailers who sell that branded grocery item, the customers, and all other stakeholders who could influence or be influenced by the entire procedures of sourcing raw grocery item to delivering the branded grocery to the end users, the ultimate consumers. Value network is a combination of social, business, and expertise resources formed by the key stakeholders in order to create value within the network. Extending the value network concept, the value-breeding bond (VBB) network concept can be evolved as a network that is able to uninterruptedly generate further value from the reproductive nature of the existing value on an ongoing basis. For example:

VBB network could be a significant value proliferating network, centered on a steady and continuously re-processable approach “to identify, establish, maintain and enhance value” within and sometime beyond the value network or group of stakeholders, so that value can be generated repeatedly through the reproductiveness of existing value, while each stakeholder plays some value-added role by way of working interdependently toward mutually beneficial, multifarious goals.

A VBB network nurtures long-term trust, commitment, understanding, respect, reciprocity, interdependence, and shared prosperities among the involved stakeholders. Such a long-term collaboration of a VBB network could initially be instigated

from an initial win-win result of two or more key stakeholders as their first collective success. One of the key characteristics of such VBB networks is to generate supplementary socioeconomic value from a collaborative venture within or some time beyond the extant value network, centered on the existing value's prospective capability to reproduce new value. Such VBB networks could be initiated, and their growth could be underpinned through the influence of one or several relationship marketing (RM) factors. Let's have a look at the example of how the Hawthorn–Tasmania marriage established such a VBB network to reproduce new value from the extant value of their business relationship on an ongoing basis and to reveal the influence of RM in the progress of this particular VBB network.

The Hawthorn–Tasmania Marriage: An Example of a Value-Breeding Bond Network



■ (Source: ► [pexels.com/royalty-free-images/](https://www.pexels.com/royalty-free-images/))

The value, which was initially originated in 2001 through the joint power (as a RM factor) of Hawthorn and its core sponsor (the Tasmanian State Government) had been breeding further value for the stakeholders of the Hawthorn value network. For example, the preliminary value among Hawthorn, Tasmanian State Government as Hawthorn's naming rights partner, and the people in Tasmania (as prospective customers) was initially rooted in 2001, while Hawthorn as a club from Melbourne played one of their home matches first ever in Tasmania, which is another Australian state/province across the Tasman Sea. All of the stakeholders (Hawthorn, Tasmania State Government, people of Tasmania) of Hawthorn's Tasmania value network have different goals here. For example, the aspiration of Hawthorn was to enter intensively into the Tasmanian AFL market. Tasmanian State Government's aim was to use the Hawthorn obsession to underpin their community projects, support the Tasmanian tourism sector, and grow a strong AFL culture in Tasmania aiming to strengthen the physical activities of Tasmanian young people, among others. The goal of the Tasmanian customers (the people of Tasmania) could be enjoying the Australian mainstream sport in their hometown, considering that before Hawthorn started playing some of their home matches in Tasmania instead of Victoria, there

were no AFL matches in Tasmania. However, Tasmanians love AFL; Tasmania does not have their own home team in AFL, until Hawthorn from Victoria made Tasmania their second home. The initial value (playing in Tasmania for the first time), which was rooted in 2001 among the three stakeholders, has been breeding further value for them through the steady and continuously reprocessable approach of identifying, establishing, maintaining, and enhancing the initial value. As a result, further value has been generating repeatedly through the reproductiveness of that initial value.

For example, the Tasmania State Government became naming rights sponsor of the Hawthorn Football Club in 2006 after supporting Hawthorn several years through various minor sponsorship deals, prior to attaining Hawthorn's highly competitive naming rights title in 2006. Following this exclusive sponsorship of the Tasmanian Government, the Hawthorn membership sales reached to a record level. Hawthorn offers a unique membership deal for the Tasmanian market, which is different from other Australian mainland states. In return for the Tasmanian Governments' title sponsorship, Hawthorn delivers significant value to the Tasmanian State's local communities. For example, Hawthorn developed important community profile camps in Tasmania. The camps see Hawthorn players visit communities across the state, actively contributing to the efforts of local charities, community groups, and football club fundraising activities. In July 2009, the Tasmanian State Government and Hawthorn announced the Hawks in Schools program, aimed at encouraging school kids to have fun being active. As part of this program, kids in Tasmanian primary schools receive free sports pack around Tasmania. In addition to the sports packs, all grade four students in Tasmania received a booklet, developed by Hawthorn's major partner MBF (a leading insurance company in Australia), in association with the Tasmanian Department of Education. The booklet is fun and engaging, full of interesting sports- and health-related information for kids. Tasmania has also grown its appeal as a tourism destination through the Hawthorn sponsorship and Hawthorn's matches in Tasmania, considering that many Australians from other mainland Australian states used to fly to Tasmania on weekends to watch the Hawthorn matches in Tasmania. Tasmania has been receiving significant returns on its investment. For example, AUS \$15.136 million was brought into the Tasmanian economy directly from the travel and hospitality industry's enhanced position in Tasmania by Hawthorn's contribution. An increased number of full-time equivalent employments was created in Tasmania as a result of the Hawthorn sponsorship, where the increased tourist visitation because of Hawthorn has a significant influence in creating new employments in Tasmania.

Following this Hawthorn-Tasmania partnership, the Tasmanian people have been fulfilling their need to enjoy Australian mainstream sports at their hometown. According to Hawthorn's former marketing director, "not only did Tasmania seem to take a shining to Hawthorn as their team but also membership sales has been growing significantly in Tasmania, all of the Hawthorn's matches in Tasmania have been selling out, as well as Hawthorn has been receiving blanket media coverage in Tasmania since its very beginning to penetrate into the Tasmanian market." The marketing director also added that the Tasmanian market, starved of Australian Rules football but with passionate viewers from distance, is now dominated by Hawthorn. "Hawthorn's capturing of the Tasmanian market is a landmark for

Australian Rules given that other clubs from the Australian mainland had attempted to capture other parts of the country in the past with no real success.”

Following the 20 years of marriage from 2001 to 2020, the preliminary value that was initially entrenched in 2001 because of playing Hawthorn’s first ever AFL match in Tasmania has been uninterruptedly breeding further value through that initial value’s prospective reproductiveness of further value. As a consequence, Hawthorn chose Tasmania as their second home besides Victoria. The 2001’s initial value created additional value for Hawthorn based on the Tasmanian State Government’s naming rights sponsorship in 2006. It helped Hawthorn to enter deep into the Tasmanian market, which directly increases Hawthorn’s membership sales in Tasmania. At the same time, the Tasmanian local communities were benefiting from that initial value of 2001 as they were enjoying additional value, which was generated for the Tasmanian economy based on that initial value of 2001. For example, the Tasmanian people have received Hawthorn as their first ever AFL home team and have been enjoying AFL matches at their home, and the Tasmanian Government has been underpinning their different socioeconomic projects (e.g., health, education, job creation, among others) through Hawthorn partnership.

The 20 years of this VBB network among these three stakeholders enhances long-term understanding, commitment, interdependence, respect, and mutual benefits (as other RM variables) among them through a preliminary commercial bond. This initial commercial bond created the platform for further value-proliferating opportunities for them from greater contexts. As a result, at the end of 2009, the then CEO of Hawthorn, Stuart Fox, evaluated the further value proposition with the Tasmanian government to AUS \$20 million over another 5 years. Following this ongoing prolific relationship, in 2015, “the Hawks (the nick name of Hawthorn) have enjoyed a strong and long-standing relationship with the (Tasmanian) government and are midway through (another) 5-year deal worth \$20 million to play four premiership matches and a pre-season game in Tasmania each year until 2021.”

In this context, the VBB network among these three associated stakeholders (Hawthorn, the Tasmanian Government, and the Tasmanian people) has been contributing mutually beneficial value among the key stakeholders and has transformed Hawthorn’s value network into a VBB network by recurrently identifying, establishing, maintaining, and enhancing further value from the reproductiveness of the 2001’s initial value.

Irresolution About the Future of the Hawthorn–Tasmania Partnership

Tasmania did not have their own home team in AFL before Hawthorn adopted Tasmania as their second home. The absence of a Tasmanian home team in AFL enabled Hawthorn to extensively penetrate into the Tasmanian AFL market. However in 2020, a discussion to launch Tasmania’s own AFL team was started. “Hawthorn were looking to extend their current deal amid growing pressure that arose earlier this year (in 2020) for the AFL to give Tasmania a provisional license to have their own team in the competition later this decade.” The Tasmanian government presented a business proposal to the AFL Board in order to launch the Tasmanian team to join the AFL competition. As a consequence, “in a statement the

Tasmanian premier said Hawthorn had agreed to ‘defer any post 2021 contractual negotiations until towards the end of the year (2020)’.”

In fact, “the arrangement with Tasmania has been an important factor in Hawthorn’s financial stability (in) this century as they grew into one of the competition’s power-houses winning four premierships between 2008 and 2015.” However, the opportunity to launch Tasmania’s own home team later in the 2020s has brought doubt about the future of the 20 years’ prolific relationship of Hawthorn and Tasmania. In this uncertain situation, Hawthorn is trying to negotiate a deal for a future relationship with Tasmania (at least to some extent) where possible. This endeavor of Hawthorn is also receiving support from the Tasmanian Labor party. However, it is a big question to explore whether the Hawthorn–Tasmania marriage will be broken in the near future, or how the relationship could remain active to some extent.

■ Discussions and Questions

1. Identify and discuss the influence of different RM factors that are discussed in this case study to establish and grow the Hawthorn–Tasmania VBB network.
2. How could Hawthorn protect its relationship with Tasmania?
3. What would be the implications of the discussed RM factors to explore the possible options to extend the Hawthorn–Tasmania relationship in the changing business environment (i.e., Tasmania is trying to register its own home team in AFL competition in near future)?
4. What would be the implications of Hawthorn’s relationships with other stakeholders (e.g., political party, Tasmanian local community, among others) to influence the future of the Hawthorn–Tasmania relationship?
5. Following your knowledge on business-to-business marketing, sales and promotion, relationship marketing, and other marketing management theories and concepts that are discussed in this book, develop a business plan for Hawthorn to present to the Tasmanian Government, in order to influence the Hawthorn–Tasmania future relationship in favor of Hawthorn.

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Case 7: Marketing and the Environment: Tuna Versus Dolphins



■ (Source: ► [pexels.com/royalty-free-images/](https://www.pexels.com/royalty-free-images/))

In the eastern tropical areas of the Pacific Ocean (a major tuna-fishing area), schools of yellowfish, skipjack, and bigeye tuna often swim beneath schools of dolphins. To catch quantities of tuna, fishermen cast purse seines (nets pulled into a baglike shape to enclose fish) around both tuna and dolphins. When tuna is harvested with the purse seine method, fishermen can efficiently and reliably catch a high number of good-size tuna. Unfortunately, dolphins are also trapped in the nets. Because dolphins are mammals, they must surface in order to breathe oxygen. Entangled in the net, they can asphyxiate and die unless they are released.

In the late 1960s and early 1970s, the “incidental” catch of various species of dolphins by tuna fishers in the Eastern Tropical Pacific (ETP) was in the hundreds of thousands. Because of society’s growing and vociferous concern for these senseless deaths, new fishing techniques were developed to reduce dolphin mortality.

Perhaps the most important newer technique is the “backdown operation.” After “setting on” dolphins to catch tuna—that is, encircling both tuna and dolphins with the purse seine—the ship backs away, elongating the net, which submerges the cork-line in the back and pulls the net out from under the dolphins. If the operation works correctly, the tuna remain at the bottom of the net and the dolphins swim free. However, if the operation is flawed, dolphins are injured or killed and discarded from the catch as waste.

Rather than rely on this imperfect correction of the purse seine method, some environmental groups think that entirely different methods of fishing for tuna should be employed. Alternatives could include using a pole and line or setting on tuna not associated with dolphins. According to marine scientists and fishermen, however, the alternative methods also have serious drawbacks.

Some people catch many sexually immature tuna, which for some reason don’t associate with dolphins. Juvenile tuna often are too small to be marketed. If too many are caught, the sustainability of the population could be jeopardized. In addition, alternative methods frequently catch high numbers of other incidental species,

such as sharks, turtles, rays, mahimahi, and many kinds of noncommercial fish. Finally, all fishing methods expend energy. The practice of setting on dolphins uses the least amount of energy per volume of tuna caught.

According to many of the experts involved, including the Inter-American Tropical Tuna Commission, the US National Marine Fisheries Service, and the scientific advisor to the American Tunaboat Association, the most efficient method for fishing tuna, in terms of operational cost yield and the conservation of tuna population, is to set on dolphins with a purse seine. From the canning industry's point of view, only purse seine fishing provides the volume of catch necessary for the growth of the industry.

Many experts also believe that, with current technology, abandoning the practice of setting on dolphins without bringing on other, more grave problems is not possible, although research to develop better techniques continues, with an aim to pursue an effective method to address this problem.

Trade Implications

This tuna–dolphin problem has been the source of serious friction at the international level. The United States and Mexico, two countries sensitive to marine mammal protection and with solid laws in place for many years, have gone “head to head” over the issue. The conflict between environmental concerns and free trade for the United States and Mexico is further complicated by the existence of the North American Free Trade Agreement (NAFTA).

In 1988, the United States amended the US Marine Mammal Act to prohibit the incidental killing of dolphins during commercial tuna fishing. The amendment required the banning of tuna imports from any country that did not implement several specific measures to reduce dolphin mortality and achieve a kill-per-set rate (the number of dolphins killed in each casting of the fishing net) of no more than 1.25 times the US rate.

In February 1991, a US trade embargo was imposed on tuna caught by foreign fishing fleets using the purse seine method in the ETP, with Mexico as a prime target. This harsh step was seen as necessary because, over the preceding 15 years, an estimated 7 million dolphins died in tuna nets. The embargo cost tuna-exporting countries such as Mexico, Costa Rica, and Ecuador hundreds of millions of dollars. To avoid future losses, the embargoed nations met with US officials in 1992 to determine ways in which they could improve their fishing methods, end the embargo, and regain access to the lucrative US market.

Several changes in fishing methods were introduced after these negotiations. Although foreign fishers did not abandon the purse seine method, they learned to dip their nets deeper to allow dolphins to escape. Dolphin safety panels were installed in many nets, serving as escape hatches for the dolphins. Divers are now deployed to assist dolphins unable to find their way out of the nets. A biologist is assigned to every ship to observe fishing methods and to record dolphin mortality. The participating governments also adopted a vessel quota system in which the overall yearly quota for dolphin mortality is equally divided among the boats fishing in the region. This way, each boat is individually held responsible for its dolphin kill. Otherwise, a

few careless ships could destroy the entire fishery's attempts to meet lower mortality rates for the year.

The effect of these changes on dolphin survival was major. In 1986 more than 20,000 dolphin mortalities were caused by US vessels in the ETR. By 1998, the estimated amount was 738. The amount of dolphin mortalities caused by non-US vessels also dropped drastically from 112,482 in 1986 to an estimate of 1477 for 2003, a greater than 99% reduction in reported dolphin mortality.

As of the mid-1990s, the total yearly mortality for each dolphin species was less than 1% of its population, a number that can be sustained without reducing the total number; in fact, the dolphin population was increasing. However, the concern for dolphin conservation is yet a critical issue. A report in August 2018 "reveals that more than 100,000 dolphins, small whales and porpoises (small cetaceans) are slaughtered globally...each year—many to be used as fishing bait...(which are mostly) unregulated, illegal, and unsustainable, with potentially wide-ranging adverse impacts on small cetacean populations." Most scientists started to view the mortality of dolphins incidental to tuna fishing not as an environmental problem but, rather, as one of avoiding unnecessary killing. In fact, a National Marine Fisheries Service scientist stated that if Mexico had money for research, it would be better invested on behalf of the vaquita, a species in real danger of extinction, than in the tuna–dolphin issue because no danger to the dolphin population as a whole exists.

In November 1996, it was a priority of President Clinton to revise the US tuna–dolphin legislation. A revision was necessary in order to appease Mexican discontent about restrictions on their tuna imports to the United States. The International Dolphin Conservation Program Act (IDCPA) was the result and became law in August 1997. This act served to weaken the US Marine Mammal Act of 1988. The legislation called for the lifting of the US embargo on tuna imports from countries that continued to use the purse seine nets during fishing operations. However, these nations had to be certified by the US State Department as having joined a binding international program and having domestic legislation in place to enforce international dolphin protection efforts. The program consists of nations working together by having international observers on board when the purse seine nets are tossed to see whether any dolphins are killed.

The IDCPA also allowed "dolphin-deadly" tuna (or tuna caught by the purse seine method) to be sold in the US market. Eventually, such a catch would even be allowed to use a "dolphin-safe" label. However, until a study could be completed by the US Department of Commerce concerning the positive or negative impact of purse seines on dolphin populations, dolphin-safe labels were still restricted to non-purse seine tuna. The purpose of the study was to ensure that consumers knew which brands of tuna use fishing methods that threaten dolphin conservation efforts.

In April 1999, the US Secretary of Commerce decided that "catching tuna by chasing and ensnaring dolphins in large encircling nets does not cause a significant

adverse impact on the dolphin population.” This decision enabled the enactment of new dolphin-safe standards under the IDCPA. Thus, dolphin-safe labels can now be used for purse seine tuna, as long as an international observer and a captain do not see dead or injured dolphins in the nets. A number of environmental organizations, including the Center for Marine Conservation, Greenpeace, and the World Wildlife Fund, support the change.

But other groups feel the dolphin-safe label will now become meaningless. Representatives from countless environmental groups and organizations, such as Earth Island Institute, the Humane Society of the United States, Dolphin Safe/Fair Trade Campaign, and Sierra Club, say that the decision was made contrary to all available scientific information. David Phillips, of the Earth Island Institute, states: “scientists, U.S. tuna companies, and the public know that chasing and netting dolphins is not safe for dolphins ... the decision is consumer fraud and a death warrant for thousands of dolphins.” Patricia Forkan, the former executive vice president of the Humane Society, states, “the decision by the Secretary is an outrageous attack on environmental protection laws in order to allow Mexico and other dolphin-killing nations access to the lucrative U.S. tuna market. Once again, trade trumps science.”

The Ongoing Debate

Despite the controversy surrounding labeling, the three major US tuna processors—StarKist, Chicken of the Sea, and Bumble Bee—said that they will continue to use only tuna caught by methods other than encirclement. This decision does not seem to greatly affect the growth in the sales or volume of these three major processors. In the midst of the legal action and debate, the National Marine Fisheries Service completed its study, from which the Secretary of Commerce made the determination that “intentional chase and encirclement of dolphins is not having a significant adverse impact on any depleted dolphin stock.” As a result, the definition of “dolphin-safe” changed to allow tuna caught by the chase and encirclement of dolphins to be considered dolphin-safe as long as there were no observed dolphin mortalities or serious injury.

Current Actions to Protect Marine Animals from Vessel Collision

The National Oceanic and Atmospheric Administration (NOAA) under the US Department of Commerce encourage “responsible vessel practices and understanding the distribution of marine mammals (e.g., whale, dolphins, and seals) and sea turtles are two key components to reducing the risk of vessel strikes.” NOAA has

been implementing many actions to minimize collisions between vessels and marine animals. For example:

- Applying vessel speed restriction
- Collaborating with the US Coast Guard to suggest safer marine routes
- Recommending provisional protective areas, which are known as Dynamic Management Areas
- Informing ships and other watercraft operators to the risk of collisions
- Exploring and applying new approaches, guidelines, and rules for vessel operators
- Building and disseminating placards, brochures, interactive materials, and posting signs in marinas
- Building and applying Mandatory Ship Reporting Systems in collaboration with the US Coast Guard
- Collaborating with other key stakeholders to adapt to safer shipping channels
- Monitoring vessel–mammals collisions through carcass examinations by the Marine Mammal Stranding Network
- Introducing apps and tools that offer data and information to mariners

■ Questions

1. Is the denial of market access an appropriate tool to enforce a country's environmental standards?
2. Did the US denial of market access ultimately work?
3. What is your view on the quote “Once again, trade trumps science”? Is this case study an example of that?
4. Is a goal of zero dolphin deaths realistic?

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This case was written by Professor Michael Czinkota with George Garcia and Kristen M. Mehlum.

Case 8: The Embryonic Phase of Spectrum Color

Anthony Cordera, the former executive vice president of Spectrum Color, sighed as he hung up the phone. The conversation still raced through his mind as he surveyed the fall foliage outside his office window. Cordera went over every nuance of the telephone conversation he had just completed with Roberto Cortez, the former vice president of European operations at BASF International. BASF had been a good customer for Spectrum, but Cortez now spoke with disdain, accusing Spectrum of questionable practices in its dealings with BASF. Cordera hated to see such a profitable relationship sour, but he saw no solution. As he turned back toward his desk, he wondered whether Spectrum might soon face similar sentiment from other large, multinational clients. At the same time, he wondered how to address this issue at the upcoming board meeting without alarming the company president and the board of directors.

History

Spectrum Color Systems is a medium-sized industrial firm with headquarters in the United States. The firm was founded in 1952 when Daniel Clark, a government scientist working on techniques to measure aspects of color and appearance, was approached by Procter & Gamble (P&G).

P&G recognized that customers held a perception of quality related to the color of its products. To be able to offer consistency to its customers, and as part of its quality control program, P&G sought a process to help standardize the color and appearance of the products it manufactured. Clark balked at the request to work for P&G building a machine that could quantify aspects of color, but, because he recognized the widespread commercial applications of such a machine, Clark went into business for himself. Spectrum Color started with the simple philosophy of providing solutions to customers' problems relating to measurement and control of color and appearance attributes. The first machines were developed under contract with P&G. As the quality control movement developed throughout the industrialized world, the demand for Spectrum's products grew.

Spectrum Color Systems remained privately held; majority ownership and controlling voting rights remain in the Clark family. In 1990, Daniel Clark passed away. His son Paul became CEO and president; he runs domestic sales, finance, and human resources. Anthony Cordera joined Spectrum in 1985. As executive vice president, he is responsible for manufacturing, engineering, international sales, shipping, and receiving. He reports directly to Paul Clark.

The Clark family retained approximately 55% of company stock, including all voting stock. The executive and associate staff participated in an employee stock ownership plan and together owned the remaining 45% of shares.

Product Line

Spectrum Color generally manufactures and sells an extensive array of colorimeters and spectrophotometers. These machines quantify aspects of color and appearance. As Case 8 Appendix discusses, such measurements are important, but no easy task.

A colorimeter is the most basic instrument. Most large manufacturers choose spectrophotometers, which are more exacting in their measurement ability, providing better performance and more options. These are generally integrated systems that can cost as much as \$150,000.

Spectrum offers both online products and lab products. Online products are designed for use on a production line, where products run under the instrument, which continuously monitors the product's appearance. These systems are manufactured in batch operations and customized to meet customer specifications. Typically, custom features are oriented to specific user applications and include hardware components, such as moving optical scanners, that measure lateral color variance as well as software components designed to meet the needs of specific industries. The first instruments, built in the 1950s, provided users with numerical values via a primitive screen and tape printer system with a 15- to 30-second lag between measurement and numerical output. All Spectrum products are driven by user-friendly software that monitors color trends throughout a production run with real-time output. Lab products are used when a customer takes a sample from a production line and brings it to the instrument for measurement.

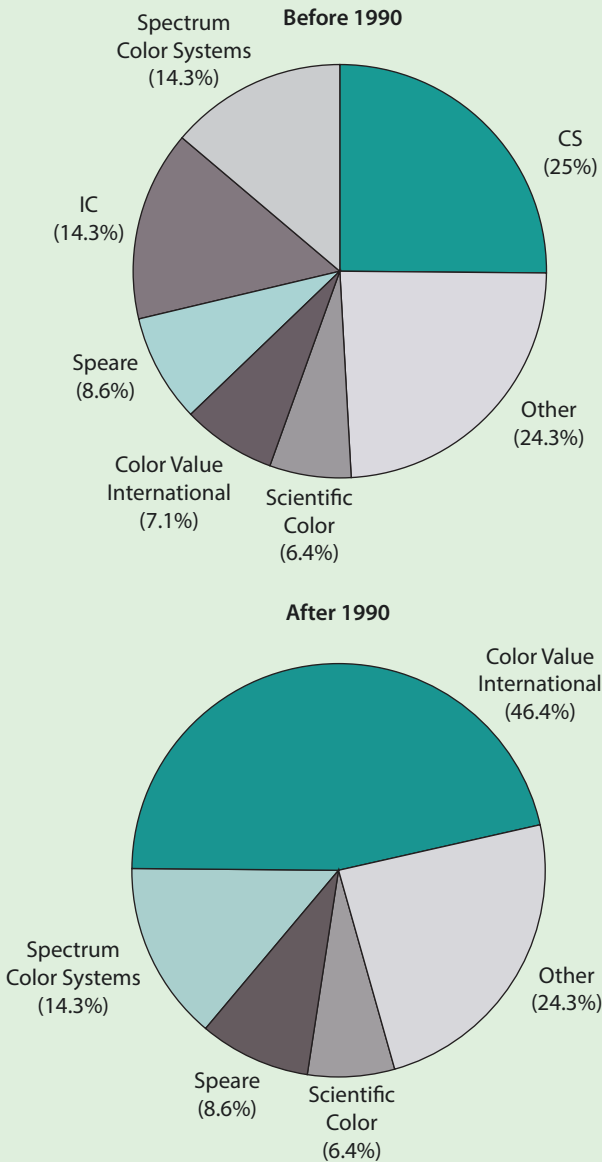
Spectrum instruments are used in a wide variety of industries. Large food product companies measure the color of their products and packaging to ensure consistency. Paint companies purchase instruments to match colors and lease the machinery to paint stores. Automobile companies use Spectrum products to ensure that the color of interior cloth material, plastic molding, and exterior paint match. Some companies forced suppliers to provide color variance data sheets with all shipments. Spectrum supplied several instruments to a large bakery that produces buns for McDonald's. McDonald's had stipulated in its contract that buns be produced not only on time, but within certain color specifications. The bakery approached Spectrum to help meet these color standards.

A major manufacturer and supplier of denim uses Spectrum's "color probe" spectrophotometer in its dye house to measure and grade the color of every strand of denim it produces. Color determines the value of the denim; it has tremendous impact when millions of yards of denim are produced, and the price fluctuates significantly depending on color.

The Embryonic Phase of Spectrum: Market Competition and Expansion

The color and appearance measurement market is generally considered a niche market with approximately \$130 million to \$140 million in annual sales worldwide during the early years of twenty-first century. During those years, Spectrum averaged \$20 million annually in both retail and wholesale sales revenue over a period of 3 years, placing it second in terms of market share. The industry became concentrated in 1990 when Color Value, a Swiss company with \$3 million to \$10 million in annual sales revenue, decided to dominate the color business. Color Value International, owned by a large Swiss brewery, purchased two competitors: Color Systems (CS), based in the United States and representing \$35 million in annual sales, and International Color (IC), based in the United Kingdom and representing \$20 million in annual sales. Two smaller companies occupy the third and fourth market share

positions: Speare accounts for approximately \$12 million a year in sales, and Scientific Color generates about \$9 million a year in sales (see ■ Fig. C8.1). Although Color Value International owned almost 50% of world market share, Cordera believes that Spectrum had a unique window of opportunity. The confusion associated with integrating three companies and the loss of goodwill caused by



■ Fig. C8.1 Color industry concentration during the embryonic phase of spectrum

changing CS's company name, a well-established and respected brand, to Color Value International gave Spectrum a sales advantage. In addition, Spectrum entered the color-matching and formulation market, one of Color Value's most profitable product lines. To gain market share in the United States, Spectrum's management decided to become the low-cost vendor and offered its new machines and color-matching software at prices of about one-half the competition's. Whereas the typical color-matching spectrophotometer by Color Value International was priced at \$50,000, Spectrum offered a simpler \$25,000 machine. To compete, Color Value International was forced to drastically reduce its prices to meet those of Spectrum, thus cutting deeply into profits.

International Expansion In the 1950s and 1960s, Spectrum's management spent most of its time building the instruments and getting them out the door to meet the demand rather than developing a strategy to expand the company domestically and internationally. Spectrum's expansion into international markets succeeded despite its lack of strategic planning.

In the early years, Spectrum simply responded to requests from large companies such as P&G to provide instruments to overseas subsidiaries. As the Clarks became more comfortable with this process, they decided to begin selling actively in Europe. By 1984, international sales comprised about one-fourth of total corporate sales. By 1992, the share had grown to more than one-third.

Sales Force Management Spectrum Color used independent sales agents domestically from its inception until 1986, when it developed an internal sales force. Cordera, drawing on his experience in marketing, established the domestic sales force to provide more direct control over the marketing and sales strategies. After touring a number of agent offices, Cordera began to calculate the real cost of such a sales relationship. Working closely with Bob Holland, Spectrum's former chief financial officer, Cordera tried to quantify some of the intangible and hidden costs of the agent relationship. Spectrum spent significant resources lobbying for agents' time and attention to the sales of Spectrum products and provided all the technical support because few of the agents had technical expertise. Additionally, although Spectrum was responsible for billing customers and paid 15% of the sales price to the agent as commission, it had no access to lists of end users and decision-makers within the client's organization. Spectrum is an application-oriented company; thus, access to decision-makers and end users within client organizations provided valuable information for product development and sale of transferable applications to current and future clients. A detailed financial analysis was useful compared the true cost of using sales agents to the anticipated cost of an internal sales force. The analysis indicated that Spectrum could increase sales, reduce cost, and increase its control by developing its own sales force.

Internationally, Spectrum relied mainly on independent distributors for its sales. Spectrum sold instruments outright to distributors at wholesale prices. Spectrum billed the distributors 30-day net terms. Spectrum provided its distributors with sales

brochures and manuals in English. Distributors then translated these brochures as needed.

In the early years, distributors were selected largely through happenstance. Distributors of other products would have had heard about Spectrum and wrote a letter to the Clarks expressing interest in the distribution of their instruments. The Clarks would have had invited the distributor to the United States to see the products and be trained in their operation and thus become a Spectrum distributor. Spectrum established a number of distributors all over the world, with extensive market penetration in Europe and the Far East. Although the company encountered a steady international demand for its products, it continued to encounter problems with international distributors.

In 1984, Spectrum's sole French distributor, Gerard Bieux, abruptly closed his operation for medical reasons. Bieux had kept his sales operation close to his vest and thus maintained no customer lists or sales records. No one could fill the void Bieux left, and Spectrum's management was forced to start over again, building up its French distribution.

Cordera spent a great deal of time locating another French distributor and developing a profitable relationship. The relationship served Spectrum well until 1990, when a major competitor purchased the distributor. Again Cordera was left without a French representative for Spectrum instruments.

Cordera realized that the distributor selection process was critical to Spectrum's international expansion and decided to become more proactive in selecting distributors. He worked closely with Holland to establish selection criteria for distributors based on financial stability, formal training programs, and financial goals. Additionally, Spectrum insisted that all distributors have service technicians trained at its US facility. The distributor was responsible for paying the airfare for the technician, and Spectrum supplied food, lodging, and training. This strategy was not pursued so much for financial reasons, but to force the distributor to make both a financial and emotional investment in selling Spectrum products.

With the domestic direct sales force up and running, Cordera decided that if he was going to put the effort into forging an international presence, Spectrum should move toward an international direct sales force. In 1991, Spectrum opened its first European sales office in Paris. It opened an office in Germany in 1992.

Development of an International Direct Sales Force In spite of the detailed planning, financial budgeting, and strategy analysis that preceded the opening of both European offices, each showed a net loss in its first year of operation. Cordera consulted with large accounting firms in both France and Germany to gain insight into European business law and to develop first-year budget projections. In addition, Spectrum management solicited information from its state Department of Economic Development on issues of taxation, international shipping, work permits, and Visa restrictions for US nationals working abroad. Despite such effort, the combination of operating costs, which exceeded Spectrum's estimates, and slow sales associated with the European recession resulted in first-year losses in both France and Germany.

Cultural differences contributed to rising costs. Unlike the US sales force, where the majority of sales representatives' compensation consists of commission, European sales representatives are traditionally paid high salaries and relatively low commissions. In addition, employees are paid an annual salary bonus equivalent to 1 month's salary regardless of performance. Terminated employees can receive as much as 1 year of severance pay based on the longevity of their relationship and position with the company. Middle managers and higher expect to be provided with company cars, which was particularly difficult for Spectrum management to swallow because neither Cordera nor Clark was provided with a company car. Despite his uneasiness, Cordera agreed to provide these benefits because he felt that it was important to attract high-quality employees for the new offices. All these benefits were stipulated in the long-term employment contracts required in Europe.

Difficulties soon became apparent with Spectrum's sales representatives in Paris. In staffing the Paris office, Cordera, largely out of a desire to get someone out on the road in France, settled for an individual who, although the most qualified of the candidates, lacked the aggressiveness, sales orientation, and technical competence for the position. Cordera was disappointed by the sales representative's performance but found the process of terminating the employee a long and arduous one. Spectrum began working with an attorney in Paris, providing the employee with written documentation detailing the reasons for dissatisfaction, as well as sales goals that were to be met in order to retain the position. In the end, Spectrum was forced to negotiate an expensive severance package.

Following this initiative, the international activities seemed to be back on track. The Paris office consisted of the international sales director, one sales representative, one service technician, and two secretaries. From that office, Spectrum conducted marketing activities, sales, installation, and service for France. The German office employed two sales representatives, one secretary, and one service technician covering the German market.

To avoid future hiring difficulties, Cordera instituted a program that brings key individuals from European operations to its headquarters facility. The mission of this program was to integrate those individuals into Spectrum's corporate culture and create a team environment. On this point Cordera remarked, "the fax machine and telephone are great pieces of equipment, but nothing beats a face-to-face dinner or lunch where we can sit down and talk to each other."

Commitment to European Customers Spectrum management had historically marketed the same products throughout the world. Over time, Spectrum recognized that the European market and the US market had different needs and preferences in both hardware and software. For example, Spectrum sales representatives frequently found their sales efforts focusing on the software that accompanies the instruments because that is the part the customer sees, feels, and touches.

To achieve market success, Spectrum management felt that it had to design products to meet the needs of European customers. It had two choices. The first was to

translate existing software and then add the nuances the Europeans wanted. This proposition promised to be time-consuming and very costly. The second option was to acquire a software company abroad.

In 1991, Cordera located a small software company in Switzerland that already had software written in German, French, Italian, and Spanish that was very applicable to the Spectrum system. Spectrum purchased the company for \$275,000. Along with the company's assets and software copyrights, Spectrum also acquired the services of the company's founder. This decision proved invaluable because he spoke five languages and could adapt Spectrum's software products to meet the needs of the European market.

Spectrum Color paid for its acquisition with the cash it had generated from operations. Spectrum management historically followed a conservative view of financing. The focus is on cash management, trying to generate enough cash to finance any expansion. In fact, Spectrum would not have made the purchase unless it had the cash.

Spectrum maintained a line of credit, but did not use loans for finance expansion. Occasionally, management borrowed \$500,000 on its credit line and paid back the loan early just to show activity on its account.

■ Questions

1. How did Spectrum deal with market competition in their domestic market?
2. What were the key challenges that impacted on Spectrum's international sales force management? How did Spectrum address these challenges?

Case 8 Appendix: The Basics of Color and Appearance

What words would you use to describe a school bus? Yellow or slightly reddish yellow or perhaps orange? You might add the word *shiny* or maybe even *glossy*. But could the person on the other end of a telephone be expected to make, based on these words, a gallon of this paint for touch up? Most likely, no.

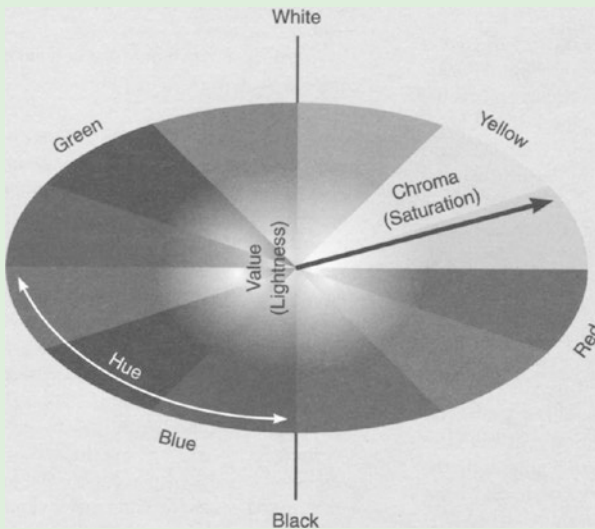
To further complicate matters, is your color vision the same as the person making the paint? What about the lighting under which you made the initial judgment of color? Have you ever noticed how some colors appear quite different under the lamps used in your home or office compared to outdoors?

Appearance characteristics are difficult to communicate objectively. Certainly a sample of the product could be sent to another person, but what is "close enough" when you're deciding whether a match exists?

The Language of Color

Color is a three-dimensional characteristic of appearance consisting of a lightness attribute, often called *value*, and two chromatic attributes, *hue* and *chroma*. Colors can be distinguished from one another by specifying these three visual attributes.

■ Figure C8.2 shows a common arrangement of these three attributes, often termed *color solid* or *color space*.



■ Fig. C8.2 Three-dimensional color coordinate system

Hue Hue is often the first attribute of color that is mentioned. Consider the school bus. The most obvious thing is that it is a shade of yellow rather than blue or green. *Hue* is the attribute of color perception by which an object is judged to be red, yellow, green, or blue, for example.

Chroma A color specification requires more than just a designation of hue. How concentrated is the yellow? That is, how much color does there appear to be? Words such as *depth*, *vividness*, *purity*, and *saturation* have been used to convey how different the color is from gray. *Chroma*, the more accepted term, is used to specify the position of the color between gray and the pure hue.

Value A third dimension is necessary to complete the specification. This luminous or lightness attribute distinguishes “light” colors from “dark” colors. *Value* is the term commonly used to express this attribute and is shown as the vertical axis in ■ Fig. C8.2.

This case was developed by Professor Michael R. Czinkota and MBA candidate Marc S. Gross.

Case 9: Implications of the Ancient Business Concepts for Contemporary Markets: Background and a Case Example

Context

Based on “microcredit” as an ancient business concept for socioeconomic development, Case 8 shares an approach of exploring the different historical business concepts and

practices from various past societies and markets, in order to understand whether learning from those historical concepts would be useful to successfully influence the markets in the twenty-first century. Eventually, the goal here is to look back with an aim to enable the twenty-first century's marketers to move forward in support of additional resources from the past that could offer considerable insights to address the contemporary socioeconomic challenges, in a way that could conceivably inspire today's customers.

Implications of Business History

In order to understand the ever-evolving market dynamics to contribute to the progress of its ongoing thought and practice, scholars acknowledge that “determining the direction of where a field (e.g., marketing) is headed often requires a reflection of its founding principles, the transformation it has endured, and the driving forces that shape its existence.” As a result, exploring the diverse market dynamics that have been evolving on an ongoing basis since the primitive era and learning from the historical developments of different alternative markets are useful even for the twenty-first century's marketers. For instance, it could be referenced that a good number of academic studies and managerial assignments addressed different contemporary socioeconomic issues, based on ideas from past socioeconomic settings and marketplaces and the relevant business concepts and practices of those eras. It indicates that “looking back to move forward” is an acceptable form in social science that includes business, management, marketing, and organization, among others. As a consequence, scholars and reflective marketers acknowledge that “enterprise(s) in the UK (for example) cannot be properly examined without an historical perspective.”

Looking Back at Different Previous Market Dynamics

The instinctual nature of post-modern marketers would further be proactive based on learning from various enterprising ideas and practices from the socioeconomic settings of the primeval, medieval, pre-modern, and modern eras. For this it would be instrumental to carefully analyze why and how such enterprising ideas and practices originated in past socioeconomic environments and what are the core factors linked to such ancient enterprising thoughts and practices. Such analyses of the valuable competitive variables that reciprocally support the evolvement and progress of specific commercial policy and scheme in the previous markets and societies, and realizing the fundamental approach of comprehension of those primitive enterprising concepts would be useful to recognize the traditional school of thought. In the same vein, the lessons that would be learnt based on such analyses could conceivably be useful to understand how those valuable socioeconomic competitive factors or variables were formed, exploited, and supplemented in the ancient/primeval, medieval, pre-modern, and modern socioeconomic environments across the world, for example, in the Inca society, ancient Greece, ancient Mesopotamia, ancient India, ancient Roman society, ancient China, and other previous markets, societies, and economies.

Following this viewpoint, additional exploration would be useful to recognize how those valuable market competitive variables or factors were further stimulated

and exploited throughout the economic and societal development in different centuries in human civilization; how those key competitive factors or variables were planned, implemented, and monitored in modern socioeconomic settings, in particular, to contribute to the general progress of marketing dynamics; and, last but not least, how those competitive variables or factors propel marketing firms to transform into the contemporary postmodern corporations that deal with the concurrent marketing environment.

Microcredit: A Case Example of the Implications of Historical Business Concepts for Contemporary Markets

Early Stages of Microcredit in the Postmodern Era An exceedingly pertinent example of the benefits of learning different business concepts from history to proactively and effectively influence the contemporary customers is the notion of “microcredit” in postmodern markets. Microcredit as a concept of banking for disadvantaged people has received significant interest since the middle of the first decade of this current century, when Dr. Yunus, the chief explorer of this concept in the postmodern society, received the Nobel Prize in 2006 for his work on microfinance in association with his own organization, Grameen Bank, that was also launched by him. Since 2006, microcredit and the relevant societal business initiatives and social marketing thought have become an inherent part of contemporary marketing dynamics. However, researchers acknowledged that “the birth of microfinance in Europe dates back to tremendous increases in poverty since the 16th and 17th century.” However, “the case of India shows that the origins of microfinance predate those reported above in Ireland and Germany by more than two and perhaps even three millenniums.”

Similar to borrowing the “microcredit” concept from past societies to implement it in the contemporary postmodern market, more attempts to recognize such historical business concepts and practices would be instrumental to effectively envisage different alternative enterprising concepts, plans, and tools from the past, in order to implement in the contemporary markets, as well as would be prolific to competitively address the contemporary socioeconomic challenges. The implementation of the microcredit concept from the past society into the contemporary market also supports the idea of many other scholars that the “historical implications in relation to the contemporary...development have often an influential role for the progress of...idea and practices.” Therefore, marketers today should supplement their knowledge with historical lessons from previous societies and market dynamics, with an aim to explore phenomena from the thoughts and practices of previous societies and markets, in order to possibly recognize, transform, implement, and monitor the right historical enterprising ideas and practices in the contemporary market.

The Implementation of the Microcredit Concept in the Postmodern Market We know that if someone wants to borrow some money from a bank, she or he needs to mortgage a property as a security for that bank loan. Around the world, there are many disadvantaged people who cannot afford to mortgage a property in order to borrow money from the traditional banks, with an

aim (for example) to launch a new startup business even at a very small scale. However, many of these disadvantaged people throughout the world would have innovative ideas and entrepreneurial knack and passion, which they cannot implement because of the lack of financing. As a result, they cannot transform their lives for a better future. Dr. Yunus started to think how he could help such disadvantaged people to launch their startups in order to pursue their dreams. As a professor of economics, Dr. Yunus learnt the microcredit concept from the primeval economies and started to offer loans in small scale (e.g., \$10 to \$100) to different individuals in Chittagong District, Bangladesh, since 1973. Even such small amounts (e.g., \$10 to \$100) are quite good money in many emerging economies in the world to launch a small business (e.g., selling street food, etc.).

The disadvantaged people in many countries cannot save or source even a small amount of money (e.g., \$10 to \$100) after carrying out their living expenses to finance a small-scale business. Upon receiving this small-scale loan (which is given merely based on trust without any mortgage), the disadvantaged people (mostly women) in rural areas in Chittagong started work on their micro-businesses either individually or as a group of some borrowers together. Eventually, these micro-entrepreneurs (or entrepreneurial marketers) succeeded with their micro-enterprises, paid back the borrowed amount to Dr. Yunus' Grameen Bank, and also expanded their businesses, in order to ultimately transform their lives for a better future.

Microcredit Today Across the World The microcredit concept that was first implemented in the postmodern economy in 1973 has now transformed into a global industry today. "The shifting dynamics supporting this growth makes it critical for businesses in this space to keep abreast of the changing pulse of the market...(that is) poised to reach over US\$174.4 Billion by the year 2025... (and) will bring in healthy gains adding significant momentum to global growth." In fact, throughout the world in 2018, "139.9 million borrowers benefited from the services of MFIs (microfinance institutions), compared to only 98 million in 2009. Of these 139.9 million borrowers, 80% are women and 65% are rural borrowers, proportions that have remained stable over the past 10 years, despite the increase in the number of borrowers." Considering the socioeconomic significance of the microcredit concept, microcredit is taught directly through the 84 Yunus Centres which are hosted by 84 universities around the world and indirectly (without direct contribution of Yunus Centres) almost in all universities in the world.

Consideration to Implement an Ancient Business Concept in the Contemporary Market In terms of implementing such historical business concepts into today's market environment, a key consideration would be to figure out an implementation plan for a particular old business concept to ensure that the concept could sufficiently be able to satisfy the latent needs, wants, and expectations of the contemporary customers, in order to contribute to the ongoing development of the overall marketing dynamics to profoundly, proactively, and prolifically address the contemporary socioeconomic and ecological issues while making profit.

■ Questions

1. Is it valuable to learn historical enterprising concepts, with an aim to implement them in the twenty-first century market? Justify your answer.
2. What are the benefits and challenges of implementing historical enterprising ideas in the contemporary marketplace?
3. Similar to the microcredit concept, can you think of a particular historical enterprising concept that would be useful to introduce for the twenty-first century's customers?

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Case 10: Will Natural Diamonds Remain Forever?

■ (Source: ► [pexels.com/royalty-free-images/](https://www.pexels.com/royalty-free-images/))

Would you still admire the glitter of a diamond if you knew that it is merely carbon in its most concentrated form? That's right—a diamond is merely carbon, the element that makes up 18% of the human body and is one of the most abundant elements in the world. What's different about diamonds, however, is that they are formed 100 miles below the Earth's surface. At that depth, the molten rock of the Earth's mantle provides just the right environment to transform carbon into diamonds: Pressure is at least 435,113 pounds per square inch, and the temperature is above 750 degrees Fahrenheit. If conditions were to drop below either of these two points, graphite would be created.

Diamonds Take Forever

Most diamonds now on the market were formed billions of years ago and were brought to the surface by powerful magma eruptions. Diamonds have been excavated since 1866, and since then, sophisticated procedures have been adopted for grading them. Although thousands of categories are based on the four C's of diamond evaluation—cut, clarity, color, and carat—only two broad groups exist: gem- and industrial-grade. Approximately 59% of the diamonds produced in 2003 were of gem quality; however, on an average of all diamond mining, only “around 30% of the diamonds mined worldwide are gem-quality,” and most of the remaining industrial-grade diamonds were used in the medical field and to make diamond tools. In 2019, around “142 million carats of diamonds were estimated to have been produced from mines worldwide...Major producing countries include Australia, Canada, the Democratic Republic of Congo, Botswana, South Africa, and Russia. Worldwide reserves are estimated to be some 1.2 billion carats. Russia has the largest reserves, estimated at some 650 million carats.”

The Gem of the Diamond Industry: De Beers

A single company has controlled the diamond industry for more than a century: De Beers. In the mid-1980s, the company produced more than 90% of the world's diamonds. Since then, rival producers have entered the market, but in 2003, De Beers

■ **Table C10.1** The percentage of diamond production and sale by major companies in 2014

Companies	Global percentage of diamond production	Global percentage of diamond sale
Alrosa	29%	29%
De Beers Group	26%	38%
Rio Tinto	13%	5%
DRC	13%	
Angola	8%	11%
Marange	4%	2%
Other	3%	6%
Dominion Diamond	2%	6%
Petra Diamonds	2%	3%
Total	100%	100%

Source: Diamond Shades (2020)

was still able to command \$5.5 billion in diamond jewelry sales, control about 50% of the world's diamond mines, and value 70% of the world's annual supply of rough diamonds through its subsidiary, the Diamond Trading Company (DTC). In addition to the diamonds that De Beers excavates from its own 20 mines in South Africa, Namibia, and Botswana, it purchases diamonds in the market. Many people believe that this practice creates an artificial supply scarcity, which produces the perception of diamond rarity and may support De Beers' ability to demand premium market prices for the diamonds. ■ Table C10.1 presents the percentage of diamond production and sale by major companies in 2014. It shows that the global diamond market has become much more competitive in comparison to the last century. However, diamonds have long held a certain mystique, thanks in large part to De Beers' skillful marketing efforts. Before the 1930s, diamond rings were rarely given as engagement rings: Opals, rubies, sapphires, and turquoise were deemed much more exotic gems to give as tokens of love. De Beers changed the world diamond market with its 1947 launch of its "A Diamond Is Forever" campaign. The company's wildly successful advertisements connected diamonds to romance, convinced women that diamonds represent an eternity of love, and convinced young men that spending "2 months' salary" for a ring was the ultimate way to show affection. Now, more than 1.7 million diamond engagement rings are sold in the United States each year, and 85% of all American women own at least one diamond.



■ (Source: ► [pexels.com/royalty-free-images/](https://www.pexels.com/royalty-free-images/))

Technology “Rocks” the Industry: Gemesis and Apollo

In its more than a century-long history, De Beers has survived African insurrections, shrugged off American antitrust litigation, sidestepped criticism that it exploits third-world workers, and contended with Australian, Siberian, and Canadian diamond discoveries. In response to a backdrop of severe acute respiratory syndrome (SARS), war, terrorism, a general global economic downturn, and irrespective of more competitive global diamond market since the beginning of the current century, De Beers is still able to produce diamond as the second largest producer and sell it as the top largest seller of diamond worldwide (see ■ Table C10.1). However, along the progress of technology, two US companies—Gemesis and Apollo—shocked the diamond industry in 2003 by announcing their ability to produce manufactured (artificial) diamonds that have the exact chemical, physical, and optical composition of natural diamonds.

Synthetic diamond production in earlier decades had been modestly successful. In 1954, General Electric engineers managed to produce diamond crystals the size of sesame seeds for industrial purposes. In early 2004, however, the first wave of gem-quality manufactured diamonds began to hit the market. They are produced by either Gemesis, in Florida, by a roomful of Russian-designed machines that spit out three-carat roughs, 24 hours a day, seven days a week, or at Apollo’s Boston laboratory, where engineers have perfected the process for making flawless diamonds. This sudden arrival of multicarat gems in the consumer market jeopardizes De Beers’ grasp on the industry and threatens to alter consumers’ perception of diamonds.

Gemesis

Retired brigadier general Carter Clarke, the founder of Gemesis, did not set out to become a gem baron. At a 1995 technology conference in Moscow, he was approached by Yuriy Semenov, the director of the High Technology Bureau in Russia. Semenov claimed that, unlike GE’s capital and time-intensive technology, his machines used less energy than a dozen light bulbs and could produce a three-carat gem in a few days. Clarke was skeptical, but the machine’s \$57,000 price tag was worth the gamble.

Clarke flew three machines back to Florida and found that they did not produce diamonds reliably. With the help of the Mineral Science Department at the University

of Florida and a crew of Russian scientists, Clarke stabilized the production process by upgrading the machine's power supply and installing a computer control system to track the slightest variation in each diamond synthesis. After 3 years of research and upgrades, the machines were programmed to control more than 200 parameters, and Gemesis was ready to mass-produce diamonds. Each machine is capable of producing a three-carat yellow diamond every 3 days at a cost of \$100 per stone.

Apollo

Apollo Diamond, a laboratory run by the father-son team of Robert and Bryant Linares, is in a discreet Boston suburban strip mall. Around 4 decades ago, Robert Linares became a well-known researcher in advanced semiconductor materials. His company, Spectrum Technology, forged the commercialization of the gallium arsenide wafer, the microchip that succeeded silicon and is now used in mobile phones. In 1985, Linares sold his company to pursue the research and production of the ultimate semiconductor—diamonds.

In addition to being a “girl’s best friend,” diamonds are the envy of the computer industry. As the hardest substance on earth, diamonds also have the highest thermal conductivity. Microprocessing performance is limited because faster computers would liquefy silicon microchips, which already reach temperatures of 200 degrees Fahrenheit. The use of diamond microchips, however, would usher in an era of virtually unlimited semiconducting speed and reshape the high-technology industry.

Unlike Gemesis diamonds, Apollo diamonds are produced by way of chemical vapor distillation (CVD). To put it simply, although the Gemesis ceramic chambers create the ideal temperature and air pressure to turn carbon into diamonds, Apollo’s rooms have the exact combination of temperature, gas composition, and air pressure to make freed carbon “rain” on the wafers, on which minibricks of diamonds accumulate at the rate of half a millimeter a day. Apollo’s technology allows it to produce a flawless diamond at a cost of only \$5 per carat.

Marketing “Cultured” Diamonds

Although Gemesis and Apollo have announced that their goal is not to reshape the diamond industry, both companies plan to use the diamond jewelry business to finance their attempt to transform the semiconducting world. A key question then is how to position synthetic diamonds to consumers who, for the past half-century, have wanted to own diamonds because of their high cost, natural beauty, and supposed rarity.

Gemesis may have found the following positioning: astute marketing to the educated public concerned about issues that relate the diamond industry to worker exploitation, environmental destruction, civil wars, and terrorism. Foremost, Gemesis asserts that it produces “cultured” diamonds, not synthetic stones. This assertion is made in hopes that synthetic diamonds will follow the trend of wildly successful cultured pearls, some of which—specifically, Tahitian black and nonround pearls—have higher market value than natural pearls. For environmentally conscious consumers, cultured diamonds, unlike natural gems, are not excavated from the earth. Therefore, no environmentally hazardous mines exploit workers in the emerging economic countries.

More importantly, cultured gems have no chance of being “blood diamonds.” As shown in United Nations Security Council reports, blood or conflict diamonds are

mined illegally by African rebels and sold to diamond-trading centers to fund wars and revolutions. Evidence has emerged showing that conflict diamonds have been used by extremists as a channel for transferring wealth globally. According to US and European intelligence officials, rebels from Sierra Leone were desperate for cash and unable to sell directly to diamond-trading centers. Instead, they sold the gems at a high discount to extremists' middlemen who, in turn, smuggled the diamonds into Liberia, Monrovia, and other countries where they could sell the diamonds through legitimate channels. In particular, UN experts report that extremist organizations obtained diamonds from war-torn Sierra Leone and sold at least \$19 million worth of the gems on the Antwerp market in the year before the September 11, 2001, attacks.

De Beers Diamonds Feel the Pressure

With the announcement of the Gemesis and Apollo technological breakthrough, De Beers began the Gem Defensive Program (GDP), a campaign to warn jewelers about the arrival of multicarat, gem-quality synthetic diamonds. The GDP provided the world's largest gemology labs with free high-technology machines, named DiamondView and DiamondSure, designed to distinguish between man-made and natural stones. The rest of the industry, however, lags in this type of high-technology testing. Only a small percentage of larger stones are lab-certified, and diamonds that weigh less than a fifth of a carat are almost never sent to labs, because of the tests' high cost. These smaller stones, however, represent a significant portion of the diamond market because jewelers use them regularly for watches, earrings, rings, and pendants.

While the Federal Trade Commission has passed laws that require man-made diamonds to be laser-inscribed as "synthetic," unscrupulous jewelers can sand off the inscriptions easily. Furthermore, fear still remains that the technology to make synthetic diamonds could fall into rogue hands or firms that do not have the same commitment to disclosure.

On a more proactive front, De Beers is exercising its innovative strength by finding commercial uses for synthetic diamonds in the semiconductor industry. Through a joint research venture with the Swedish engineering group ABB, the De Beers research group believes that it has a 2-year lead in semiconductor development.

A possible reaction is for De Beers to exercise its stranglehold on the global diamond distribution system. De Beers could negotiate with Gemesis and Apollo and "adopt" them, resulting in a seamless global cartel of natural and synthetic diamonds. This strategy would assure Gemesis and Apollo that the market value of synthetic diamonds will not fall precipitously and ensure that De Beers can maintain natural diamonds' high market value and allure.

Diamonds' Fifth C: Consumers

Although the battle between David and Goliath continues in the diamond industry, it is consumer sovereignty that reigns. Assuming that synthetic diamonds will be freely available in the market, consumers and their purchasing decisions will determine who will survive and succeed in the diamond industry. De Beers was able to change consumer behavior in 1947, and it is determined to keep its market dominance by again targeting consumers.

More than 50 years later, and in the face of increasingly successful synthetic diamond producers, the De Beers “A Diamond Is Forever” campaign is still strong. The advertisement series positions diamonds as the foundation of lifelong love and attacks the conscience of the buyer: Even if you could depend on the expectation that your partner could never distinguish your synthetic stone from a natural diamond, would you really want to build your eternal love on a lie? According to a De Beers study, more than 95% of women say that they want the “real thing” from their partner (Johnston).

De Beers is also tapping into the market of powerful and financially independent women as portrayed in such hit television series as *Sex and the City*. With its \$40 million “Right Hand Ring” campaign, De Beers asserts that the twenty-first-century woman can declare her strength, success, and independence with a self-purchased, right-hand diamond ring. The age at which people marry is now later than ever, and “Women won’t wait for prince charming to get her a diamond,” says Susan Farmer, of the Diamond Trading Company, the De Beers marketing arm (Taylor). De Beers’ “Right Hand Ring” advertisements sport bold statements differentiating between diamonds for the marrying and nonmarrying hands:

- » Your left hand loves candlelight. Your right hand loves the spotlight. Your left hand declares commitment. Your right hand is a declaration of independence. Women of the world, raise your right hand.

The wave of De Beers’ advertisements focuses on the emerging trend of non-bridal diamond purchases by females, which accounts for 33% of retail diamond sales (Taylor). More importantly, the “Right Hand Ring” campaign is a strategic marketing tool that targets the “evolved” woman who does not hesitate to reward herself for her accomplishments by purchasing her own luxury items. Women who fit into this niche are least likely to buy Apollo’s or Gemesis’ laboratory-created gems to make a social statement of their power and independence.

Conclusion

The success of Gemesis and Apollo in the diamond industry is yet to be determined. Early figures indicate that both jewelers and buyers are still quite hesitant about purchasing laboratory-created diamonds because of their lack of knowledge about the production process and the quality of synthetic diamonds. Although the long-term future popularity, technological progress, and success of laboratory-created diamonds are uncertain, such diamonds have definite implications for the diamond market. Synthetic diamonds serve the niche of consumers who seek a more affordable alternative in quality costume jewelry. To survive and succeed in the diamond industry, natural and synthetic diamond producers must focus their marketing strategies on, and target, consumer attitudes.

■ Questions

1. Respond to the following statement: Although the proliferation and advancement of technology have threatened the external De Beers environment, they can also be used to underpin the company’s competitive position in the changing competitive dynamics of the global diamond industry.

2. Which specific factors, at the time of purchase, may affect the diamond-buying decision? How can synthetic-diamond producers use this knowledge to their advantage?
3. Internet Question: go to De Beers' "A Diamond is Forever" ad link: ► <https://theeyeofjewelry.com/de-beers/de-beers-jewelry/de-beers-most-famous-ad-campaign-marked-the-entire-diamond-industry/>, and review the relevant news articles (► <https://www.nytimes.com/2013/05/05/fashion/weddings/how-americans-learned-to-love-diamonds.html>, ► <https://www.theatlantic.com/international/archive/2015/02/how-an-ad-campaign-invented-the-diamond-engagement-ring/385376/>). To what degree do you think the ads reflect or impose the image of "today's female purchasers" as potential consumers?

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Case 11: Does Mattel Sell Dolls or Dreams?

▣ (Source: ► pexels.com/royalty-free-images/)

Introduction

Mattel Inc., the manufacturer and seller of the world's most marketed doll, was established in 1945 in the United States by Ruth and Elliot Handler and Harold "Matt" Matson. As designers, the Handlers and Matson wanted to empower children by integrating creative thinking and innovative imagination into kids' childhood activities. In this attempt, they designed toys and combined themes and activities with the toys in a way that could empower kids to be creative and imaginative while playing with Mattel's toys. Over the decades, "Mattel has grown into a leading global toy company and creator of franchises beloved by children and families around the world." Barbie, a popular brand of Mattel's toys, targets young girls to play with Barbie as a source of inspiration.

Barbie has 45 product categories with different themes and concepts including fitness, food, and clothing. The Barbie Dreamhouse was first launched in 1962, with

one selling every 2 minutes today. “It is estimated that over a billion Barbie dolls have been sold worldwide in over 150 countries, with Mattel claiming that three Barbie dolls are sold every second.”

Brief History: A Story of Marketing Success

Barbara Millicent Roberts is the full name of Barbie, who is named after Ruth Handler’s daughter. The official birthday of Barbie is March 9, 1959, when Barbie was first launched during the New York toy fair. ■ Table C11.1 presents the brief history of Barbie and Mattel and their marketing success.

The timeline in ■ Table C11.1 demonstrates that focusing on “collectivism” and “communal spirit” and addressing the society’s needs have significantly contributed to the progress of Mattel and Barbie. For example, from the very beginning of their marketing and promotional campaigns, Mattel did not start promoting Barbie just as a doll, but as a character of woman empowerment that Mattel wanted to engrain in the mind and heart of each young girl since their early childhood in support of Barbie as the young girls’ role model. Empowering women is generally a social message considering that it is instrumental for socioeconomic development and equality. Mattel transformed this social message of empowering women as their core brand message. Underlying this core brand message, the timeline in ■ Table C11.1 also demonstrates that Mattel has been contributing to different socioeconomic needs (i.e., the Children Foundation) and socioeconomic dreams or aspirations (i.e., Barbie as the first astronaut to land on the moon before Armstrong and Aldrin). As a result, Barbie today as a brand has developed “99% brand awareness globally.” It means Mattel believes that out of their 100 target customers in the world, 99% customers know about Barbie! In terms of branding goal, it is a remarkable success for a brand, for a marketer, indeed!

Imagine the Possibilities

The first Barbie TV commercial was launched in 1959. Along the progress of Barbie, Mattel has been attracting their target markets with different fun, engaging, and stimulating commercials related to woman empowerment. In late 2015, based on the catchphrase “Imagine the Possibilities,” Mattel launched a 1.45 minute online commercial. The goal of this commercial was to inspire young girls by creating a sense of self-belief that they can be anything that they want to be and they can pursue and excel in their desired dream career.

The commercial shows 5–6-year-old girls playing roles as real-life professionals of different careers. For example, the commercial starts with “a little girl walked to the front of a lecture hall to teach a class of distinctly grown-up (college) students” and continues her lecture in a fun and engaging way. Next, it shows other girls playing the role of a real-life doctor, sports coach, high-flying business leader, pet doctor, and a historian at a museum. Along the progress of the commercial with different real-life professional role-plays in a stimulating way, the commercial switches between different roles by different girls, and the last 20 seconds of the commercial takes the audience back to the classroom, where the little lecturer continues her

■ **Table C11.1** Brief history of Barbie and Mattel

Time-line	Milestones
1945	Mattel is established
1947	Mattel earns their first considerable big awareness through their Uke-A-Doodle, a music instrument of a small size for a child to create more accessible and interactive music
1948	Mattel moves to their Los Angeles corporate head office
1955	First ever TV commercial of Mattel through the Mickey Mouse Club, which changed the way toys were marketed before
1959	“Ruth Handler is inspired by observing her daughter, Barbara, play with paper dolls for hours, and recognizes the opportunity to champion and inspire girls by introducing a three-dimensional doll that shows them that <i>they can be anything</i> .” As a consequence, Barbie is born
1960	Mattel listed as a public limited company for the first time
1965	The fantasy goes on: The themed “Barbie astronaut goes to the moon. She gets there four years before Neil Armstrong and Buzz Aldrin become the first people to land on the moon”
1971	Malibu, a new theme of Barbie, is launched to reflect on the contemporary fashion culture in California “with a forward-face glance to represent women’s empowerment”
1978	The Mattel Children’s Foundation is launched. Since then, it has been supporting millions of children and thousands of organizations around the world
1985	“We Girls Can Do Anything” campaign is launched. Girls everywhere hear “We can dream dreams and make them come true because nothing’s worth doing that we girls can’t do, your moms know it too. We girls can do anything, right Barbie?”
1990	Mattel moves to their current corporate head office in El Segundo in California
1993	Mattel purchases Fisher-Price
1998	American Girl is acquired by Mattel
1998	Mattel begins landmark collaboration with UCLA Health and becomes the proud namesake of UCLA Mattel Children’s Hospital. Barbie joins the National Toy Hall of Fame
2004	American Girl launched “its first made-for-TV movie based on historical character Samantha Parkington, played by Anna Sophia Robb”
2011	Mattel acquires HIT Entertainment
2014	Mattel purchases the Mega Brands
2016	“With the background of the first (US) woman presidential candidate, Barbie releases an all-female ticket with a President and Vice President doll set to inspire girls to believe they can be anything—including leader of the free world” in this year, Barbie also launches the “New Body Types to better reflect the world girls see today,” which was featured as the cover image of <i>Time</i> magazine

(continued)

Table C11.1 (continued)

Time-line	Milestones
2018	Thomas & Friends (a key stakeholder of Mattel) launches association with the United Nations to motivate the next generations of global citizens
2019	The Creatable World as the first line of gender-neutral dolls in the world is launched by Mattel. Barbie celebrates her 60th birthday by “honouring global role models and lighting up major landmarks in pink”
2020	“Play it Forward is launched as a response to the COVID-19 pandemic. Its first campaign ‘Thank you Heroes’ pays homage to the front line and medical workers that carried on bravely for the duration of the crisis”

Source: History (2020)

session explaining to her grown-up students that “we can think and do lots of stuff with our brain. Now, does anybody know how big the brain is?” While the lecturer says “does anybody know how big the brain is,” the commercial takes it audience to the last scene showing a girl playing at home with Barbie dolls and asking the same question (does anybody know how big the brain is?) to her Barbies. The commercial ends with the tagline: “when a girl plays with a Barbie she imagines everything she can become.”

Diagnosis of Imagine the Possibilities

Industry experts argue that “a push into content marketing is indicative of how Mattel is trying to navigate changes to the media landscape.” Focusing on different real-life professional careers (e.g., doctor, coach, historian, business leader), Mattel, on the one hand, is relating different real-life contents with Barbie in their “Imagine the Possibilities” commercial. On the other hand, in the commercial, in support of such real-life professions as the content, Mattel also is educating and inspiring little girls through Barbie about the enormous possibilities in life while underpinning the girls’ self-belief that they can be anything in life that they want. In fact, “it was recognising the consumer demand for a content-first approach, where children really expect to see their toys come to life”. Balsam-Schwaber (Mattel’s first chief content officer) added to “learn about the things they (children) might want to buy through content.” In this way, Mattel has integrated content marketing in this commercial to not only promote Barbie but also to inspire young girls’ self-belief.

Conclusion

“When you go back to your old home, you find it wasn’t the old home you missed but your childhood – Sam Ewing...Similarly, other childhood memories, emotions and attributes of people would have an impact on the decisions that would be taken later during the older age.” In a similar vein, Barbie’s Imagine the Possibilities commercial would be able to influence the minds and hearts of young girls that would leverage

their life at a grown-up stage by pursuing their dream career. In this context, Mattel is not actually trying to sell their dolls through this commercial, but dreams.

Another important aspect of this commercial is its media choice to reach to its target audience. “This is particularly pressing given how young Mattel’s audience is – there’s little point investing millions in TV ads if five-year-olds are always watching YouTube on the family tablet.” Such creative contents and pragmatic decisions related to Barbie’s branding make Barbie the number one girls’ brand on YouTube with over five million YouTube subscribers. Also, “Barbie has a powerful social media presence (in other channels) with over 14 million fans on Facebook, 267,000 followers on Twitter, and 1.2 million followers on Instagram.” Do you think only the young children follow Barbie on social media in this big number? Is Barbie attracting interests of older adults as well?

To reflect on their mission statement, Mattel attempts to “create innovative products and experiences that inspire, entertain and develop children through play.” The way Mattel has focused to empower woman worldwide and the way Mattel has transformed the socioeconomic need of empowering woman as their core brand message has been not only contributing to Mattel’s financial bottom line but also bringing recognitions. Imagine the Possibilities commercial “devised by BBDO New York/San Francisco for Mattel’s Barbie doll brand, has won the Grand Prix at the 2017 APG Creative Strategy Awards.”

■ Discussions and Questions

1. Who are the core target audience of the Imagine the Possibilities commercial? Is it only the young girls? Or is it also the parents? Justify your views.
2. Go to the Imagine the Possibilities website (► <https://barbie.mattel.com/en-us/about/you-can-be-anything.html>) and discuss your views on how Barbie is trying to empower young girls while promoting the doll.
3. Describe your views on the impact of Mattel’s social commitment on their success.

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Case 12: The Changing Global Context: A Philosophical Approach to Deal with the Embryonic Market Environment



► (Source: ► pexels.com/royalty-free-images/)

New Policy for a New World

We have often heated discussions on trade policy shifts. To make reasonable arguments, we must consider that the fundamental composition of trade has been changing. For example, from the 1960s to 1990s, the trade role of primary commodities has declined precipitously while in parallel; the importance of manufactured goods has increased. This has meant that those countries and workers who had specialized in commodities such as rubber or mining typically fell behind those that had

embarked on strengthening their manufacturing sector. With sharply declining world market prices for commodities and rising prices for manufactured goods, commodity producers were increasingly unable to keep pace. Some commodity-dependent countries realized temporary windfalls as prices of oil, wheat, and corn rose dramatically, only to watch them evaporate as prices dropped in recent years.

Recently, there has been a shift in manufacturing locations to nations, which are newly emerging in the world market as both customers and suppliers. In the mid-1800s, manufacturing accounted for about 17% of employment in the United States. This proportion grew to almost 30% by the 1960s, only to decline at a rising rate. In mid-2009, US manufacturing employment fell to 9%, with the loss of some 2 million manufacturing jobs in the recession. The decline continues until 2014. Despite this loss in employment, the US manufacturing industry is in the process of significant transformation as productivity gains and skills upgrading have created a leaner and more skilled manufacturing workforce. We need to consider that due to innovation, a smaller-sized workforce can manufacture more and better products. For example, US value-added manufacturing output has been increasing even though there have not been major increases in employment or number of facilities. The US share of global manufacturing output has remained stable at about 25% over the past two decades.

Manufacturing changes during that time were not confined to the United States. In the past 30 years, German manufacturing employment has dropped by 13% points, while in Japan, the decrease was 6.5% points. Such shifts in employment reflect a transfer of manufacturing away from traditional manufacturers toward the emerging economies. During the times of large decline in the United States, Germany, and Japan, the manufacturing proportion of the gross domestic product (GDP) has more than doubled in Malaysia, Thailand, and Indonesia, helping their economies and global participation grow. Considering the large scale of benefits that have been transferred, it is sensible to ask whether such economic transfers need to continue to be subsidized by the United States and other key industrialized nations. In an era of freedom and global opportunity, most countries should be able to use their own resources to support their growth and understand the possible disadvantages emanating from trade or investment overhangs.

Freedom and Globalization: Simultaneously Possible

Globalization, trade, and investment deserve our “Thank You” for their achievements. Yes, in Europe and the United States, popular discontent is forcefully expressed. An introvert trend has emerged, fed by nationalism, populism, xenophobia, and anti-globalization rhetoric.

Globalization is not new; it has existed for centuries. What is different today is the speed of globalizing the world, made possible by new technologies, transportation networks, media, and marketing across borders. Many claim that never before in history has there been so much evidence about strong opposition to globalization. However, any comparison with the past is highly inaccurate. Only a few records of resistance to globalization have been preserved for us today.

One main feature of globalization in our age is the conveyance of freedom, which in turn becomes the foundation of the good life. There are three dimensions

to this freedom. For one, the opportunity to collaborate with others, to streamline processes and procedures, and to increase the variety of products and services offers great freedom of choice. There is the freedom conveyed by sovereignty, where nations and their governments maintain and exercise preferences for their citizens. Individual countries will always seek to have sovereign freedom. Then there is the freedom of principles and options.

Such freedom of choice is primarily expressed by the recourse to deeply rooted principles which provide the boundaries of the playing field. If there is no limitation and no alternative, then there is no freedom. A true alternative requires a decision and the exercise of virtue. If there are no principles to which one can seek recourse, there is no freedom.

In reciprocal causality, freedom both causes and facilitates international marketing, while international marketing is a key support of the cause of freedom. The focus and aim of international marketing is on crossing borders, with the goal of providing more choice for consumers and letting them be the ones to maximize their satisfaction. International marketing does so in all corners of the globe, the glamorous ones, as well as the small and remote ones where its efforts are not seen by others.

When the long-standing rivalry between socialism and market economy came to an end, market forces directly improved human rights and the extent of freedom. Exchanges through markets have clearly demonstrated greater efficiency and effectiveness in their ability to satisfy the needs of people. Now they must demonstrate their ability to persist through continuity and balance.

In spite of complaints about slowness of change, biases in wealth distribution, and economic disparities and inequalities, a majority of the participants in market-oriented conditions are now better off than they were before. World poverty has been reduced significantly. Only around 30 years ago, almost 2 billion people, 43% of the world population, lived in extreme poverty with less than \$1 a day. Today, the poor have been reduced to 700 million people, or 9.6% of the world population, that live with less than \$1.9 a day. Research shows that globalizing developing countries grew 3.5 faster than non-globalizing ones over the last decades. Average incomes per capita have more than doubled in 25 years, from \$4192 in 1990 to \$10,433 in 2015, and have increased 13 times from the 1970s, when they had an average income of \$802.

One of the main discontents of globalization is low incomes in formerly successful regions and a high level of inequality within and between countries and between the world's economic classes. People at large will not tolerate such glaring inequality anymore.

One key dimension of freedom is to allow people to think outside the box. National borders are where business, government, and people usually find their limits. Freedom knows no international boundaries. It thrives on how to successfully cross national borders, on coping with local differences once the crossing is done, and on profitably reconciling any conflicts. Domestic borders limit economic expansion, while international approaches contain the freedom of much wider opportunities.

International activities encourage people all around the world. The anti-globalization narrative in Western Europe and the United States is caused by

imbalances in both people and goods, as well as an intransigent enforcement of rules from disconnected centers. Migration and refugee pressures force people to move from rural homes into urban areas, from their developing countries into industrialized ones, and to take any measure to be relieved of wartime conditions. For both sides, little freedom is involved here. Most individuals who do the moving would much rather stay home but cannot afford to do so. The recipient countries might not want to welcome the refugees and migrants but have to do so in response to humanitarian pressures.

Globalization may have been part of what triggered some of these shifts and migrations, but it also can be instrumental in restoring the freedom to stem the tide. Globalization can provide economic opportunity and alternatives for individuals in their home countries, free from pressures to shift locations, so they can become productive economic contributors. To make globalization work, governmental, managerial, and corporate virtue, vision, and veracity are required. Trading and investment partners need to understand the current context and longer-term effect of policy and business actions taken. Joint actions based on mutual interests but also accepting divergent interests will make better outcomes not just possible but likely.

The Impact of Trust Bridges on Business

Trust bridges are increasingly emphasized in business relations and partnerships. They not only help to fight corruption but also establish a sense of community that binds people together. Corruption continues to be a major issue in business and is more prevalent than most people acknowledge.

The baseline standard of corruption, defined by the nonprofit Transparency International, is an “abuse of entrusted power for private gain.” The group sees corruption as the pursuit of selfish, individual gains and the desire to get ahead. Of course, corruption is an individual, as well as a corporate (group), choice. Transparency International’s latest study reports that 25% of people used a bribe in the past year, which means that corruption infiltrates a significant portion of business transactions, which is crucial to take into consideration.

Corruption interrupts corporate culture because it destroys previously established trust that has been earned on a long-term basis. Trust is a valuable corporate asset since it typically translates into fulfilled expectations, which allow for better forecasts, less uncertainty in the future, and more realism.

Trust bridges, developed by shared expectations and experiences, allow people to get to know each other quicker and help establish fair business practices on global terms. Thus, trust is one of the best ways to combat corruption. Connections that bring people together and lead to greater trust can be built upon a shared alma mater, military service, same work experience, sports fans for the same team, and even practicing the same religion. People are more likely to bond over these personal preferences and organizations because they already share a similar interest; therefore they expect to share similar values.

If two companies operate in similar environments and share similar values, they are more likely to connect and establish warm and trusting relationships. This ultimately establishes credibility and allows business to select patterns based on trust

rather than strictly on proximity or financial measures. Trust is developed through interaction, although there are other spillover effects that come into play. An example would be two organizations that are led by former sports champions might be more likely to trust each other, particularly when it comes to sports. This may also connote, but does not necessarily require, trust in financial matters.

It is important to note that trust is an extension of confidence, so high expectations often accompany trust. One such trust-enhancing activity is especially present in the German model for developing trust, which due to its reliance on standardized training and internships, focuses on keeping processes flowing due to confidence in and reliance on others' work. In contrast, less training in the United States often leads to a lack of trust and little confidence in work. Therefore trust bridges may not be as visible in the American corporate world.

Political connections often have a greater impact on communities that experience very little corruption. This means that people are not relying on bribes or other forms of under-the-table compensation to make business and personal decisions. Also, this may partially explain research on municipalities, which found that established trust bridges led to government growth and increased profitability of firms.

Relationships that are rooted in trust discourage people from engaging in dishonest behavior. One can therefore argue that corruption inhibits the foundation of relationships. When discovered, corruption can ruin a reputation. Once trust bridges are destroyed, they are difficult to rebuild.

In today's global economy that is ruled by rapid, if not constant, communication and connection through technology, global trust standards can converge where people hold each other to the same standards. This makes international business easier because it reduces the necessity of local standards, which often results in greater costs for companies since they have to meet different standards in every country of operation.

If a global standard were in place, every country would more likely partake in international business interactions and therefore would have a better chance of establishing trust bridges. Additionally, companies and managers making crucial decisions based on current trust bridges need to exercise less oversight. All this translates into more effective and efficient use of resources. Thus, trust bridges not only reduce the likelihood of corruption but also lead to more efficient and profitable business transactions.

Let the Soul Lead the Way

To honor God in all we do, to underpin moral values, to help people develop, to pursue excellence, and to grow profitably are the espoused values of ServiceMaster Company, a leading company delivering world-class service. The first two items in its motto are the ends, and the second two "to" are the means. Below are the thoughts of a practical nature, which help executives capture the opportunity to call on the soul for a strong foundation in our quickly changing times. Here are intermediary steps for marketers to reapproach the soul:

Understand the four new core areas of truthfulness, simplicity, expanded participation, and personal responsibility. These are every field's pillars for a shining business position. Frontline marketers need to understand how a product works and provide uncomplicated experiences to customers. In the meantime, distance cannot mean abdication of responsibility. Having a positive boardroom culture where discussion respects different views is required. Though the chair of a multinational corporation may feel herself/himself far removed from local issues, the locals themselves take all of the firm's actions very personally.

Introduce a mindful practice in the workplace. Leading corporations like Google, Intel, and General Mills have used the concept of mindfulness. Through meditation practice, speaker Paul Ryan in the House and Dean Almeida at Georgetown have also been working to reinvigorate core American values. Meditation is believed to not only unlock the productive habits of staff but also to build conscious professionalism as well as leadership.

Consider the introduction of guiding key tenets in the educational curriculum of business schools. One approach could be the transference and implementation of Jesuit thought. Could one think of a reliable, productive, and high-quality mercenary as output of business schools? Education by members of the society of nature-driven spiritual spirit could be characterized by the distinctive imperatives of ethic and honesty. At present, Jesuit colleges teaching and understanding business should offer no less than Ignatius intended. They need to ensure that the students that they honor with an MBA degree are vigorous promoters and defenders of an honest and straightforward business mission and practice. For business, there is no need to call for ghost busters when engaging the service of a Jesuit MBA. Enhanced collaboration with Jesuit education could help future executives to know and see leadership, as well as clarify, even for distanced owners, the means and ends of business and marketing.

A key auto industry executive, Bob Lutz, used to describe two kinds of people in automobile companies: carmakers and bean counters. Car guys are those who work at General Motors, Ford, or Chrysler during the day and then work at night on their cars as a hobby. On weekends, they would race them. During their free time, they would talk cars with other car folks. That is what built General Motors and Detroit in general. The rise of the non-makers to positions of dominance in the domestic car industry almost destroyed carmakers. While carmakers pursued manufacturing perfection for pleasure, non-makers focused on financial manipulation over product excellence. As the Austrian-born English philosopher Wittgenstein stated: "A philosopher who is not taking part in discussions is like a boxer who never goes into the ring." It is time for all of us to approach the ring with slow steps, having prepared the body for the event, and letting the soul lead the way.

■ Discussion

1. Marketers as change agents: Think about how your soul could lead the way to establish trust with your business stakeholders at home and abroad to underpin the freedom and globalization of the product or service that you market in the changing global market environment.

■ Source

Czinkota, M. R. (2018). *In search for the soul of international business*. New York: Business Expert Press.

This case was developed by Professor Michael R. Czinkota, Georgetown University, USA; Courtlyn Cook, an undergraduate student at the Georgetown University; and Dr. Valbona Zeneli, College of International Security Studies, George C. Marshall European Center for Security Studies, Gernackerstrasse, Garmisch, Germany.

Practice Quiz Answer

✓ Practice Quiz Answer: Chapter 1

The correct answer is highlighted in **bold** and *italic* font.

1. Which of the following contextual elements does NOT substantially affect the nature and scope of marketing theory?
 - (a) Societal norms
 - (b) ***Political affiliations***
 - (c) New technology
 - (d) Economy
2. In which time span did the great surge of demand in the United States serve as a catalyst for the development of marketing in its modern form?
 - (a) Late 1950s to early 1960s
 - (b) ***Early 1920s to 1930s***
 - (c) 1980s to late 1990s
 - (d) Late 1940s to early 1950s
3. To succeed, marketers must understand the customer in all the following contexts EXCEPT:
 - (a) Political forces
 - (b) Economic forces
 - (c) Social forces
 - (d) ***Familial forces***
4. To most effectively assert social responsibility and ethics, the marketing manager must:
 - (a) Comply with existing standards
 - (b) ***Be sensitive to societal expectations***
 - (c) Cater to each country's policies
 - (d) Implement standards of the highest level
5. Predictions of an internet-based economy have the most effect on the marketer's interaction with which of the following customers?
 - (a) ***Industrial***
 - (b) Individual
 - (c) Generation Y
 - (d) Generation Z
6. The main difference in marketing goods versus services is:
 - (a) Goods require coordination of distribution, whereas services do not.
 - (b) ***Goods are promoted on the basis of physical features, whereas services are associated with the quality of the organization providing them.***

- (c) Goods are bought in greater quantity, whereas services are less often purchased.
 - (d) Goods must be altered to be compliant to international safety and environmental standards, whereas services do not.
7. Which of the following is NOT a key difference between consumer and industrial markets?
- (a) Industrial markets often require face-to-face interaction.
 - (b) ***Consumer purchases require multiple decision-makers.***
 - (c) Industrial negotiations are longer in length.
 - (d) Industrial negotiations require higher technical demands from marketing professionals.
8. When a firm shifts from domestic to international marketing, which of the following enters its marketing horizon?
- (a) Logistics
 - (b) ***Cultural values***
 - (c) Government policies
 - (d) Firm's capabilities and resources
9. How can a marketer more closely match a product to the customers' needs?
- (a) Offering a tailor-made product
 - (b) Modifying the product's features
 - (c) Changing the product's descriptions
 - (d) ***Entering a market in which the product is demanded***
10. The major criticism of McCarthy's 4 Ps is that it:
- (a) ***Emphasizes an inside-out view***
 - (b) Emphasizes an outside-in view
 - (c) Emphasizes only four of the six major marketing activities
 - (d) Emphasizes only the domestic issues, not international concerns
11. Which of the following is the key difference between selling and marketing?
- (a) ***Selling is inward-looking, whereas marketing is outward-looking.***
 - (b) Selling is outward-looking, whereas marketing is inward-looking.
 - (c) Selling is a function of profit maximization, whereas marketing is a function of market understanding.
 - (d) Selling delivers market opportunities, whereas marketing creates product solutions.
12. All the following have been proclaimed reasons for which marketing principles do not apply to services EXCEPT:
- (a) Lack of direct competition
 - (b) Lack of tangibility
 - (c) Lack of mass marketing
 - (d) ***Lack of professional organizations***

13. What are the two elements of the double bottom line oriented marketing management approach?
 - (a) ***Profit and social welfare***
 - (b) Profit and corporate welfare
 - (c) Profit and entrepreneurial welfare
 - (d) Profit and marketer's welfare
14. What are the three different types of internal resources of marketers?
 - (a) Physical resources, technological resources, and environmental resources
 - (b) Legacy-based resources, knowledge-based resources, and industrial resources
 - (c) ***Physical resources, organizational resources, and human resources***
 - (d) Human resources, physical resources, and environmental resources

✓ **Practice Quiz Answer: Chapter 2**

The correct answer is highlighted in **bold** and *italic* font.

1. Which of the following is NOT a benefit of an organization's marketing plan?
 - (a) Consistency
 - (b) ***Commitment***
 - (c) Cost-saving
 - (d) Communication
2. In which of the following approaches for involvement of the organization do the most problems of coordination occur?
 - (a) Top-down planning
 - (b) ***Bottom-up planning***
 - (c) Goals-down-plan-up planning
 - (d) Plan-down-goals-up planning
3. The marketing manager uses the 4 Ps of the marketing mix to answer which of the following questions?
 - (a) Where is the organization now?
 - (b) Where does the organization intend to go in the future?
 - (c) ***How will the organization organize its resources?***
 - (d) When does the organization want to implement its strategy?
4. The benefits of marketing planning does NOT include:
 - (a) Consistency
 - (b) Communication
 - (c) ***Criticism***
 - (d) Commitment

5. A nonprofit organization's objectives may be less clear than a commercial organization for all the following reasons EXCEPT:
 - (a) Environmental turbulence
 - (b) **Measurable outputs**
 - (c) Ambiguous goals
 - (d) Unknown effects of management intervention
6. A corporate mission should NOT include which of the following dimensions?
 - (a) Customer groups to be served.
 - (b) Customer needs to be served.
 - (c) **Customer locations to be served.**
 - (d) Technologies to be utilized.
7. To be most effective, marketing strategies must be converted into a _____.
 - (a) **Long-term vision**
 - (b) Long-term consistency
 - (c) Short-term profit maximizer
 - (d) Short-term harmonizer
8. A traditional product-based format for auditing includes all the following materials EXCEPT:
 - (a) Advertising data
 - (b) Market research
 - (c) Financial data
 - (d) **Competitor research**
9. What is the aim of the marketing audit?
 - (a) **To identify existing factors that have a significant impact on the future plans of the company**
 - (b) To allocate resources such that the future plans of the company will be achieved
 - (c) To minimize the cost of acquiring factors needed for the company's future
 - (d) To check for mistakes in the marketing plan
10. A review of the marketing environment includes a study of all the following EXCEPT:
 - (a) Customers
 - (b) Political environment
 - (c) Developing trends
 - (d) **Marketing organization**
11. Which of the following is the most often overlooked aspect of strategy?
 - (a) Pricing
 - (b) Placement
 - (c) Promotion
 - (d) **Timing**

12. A marketing plan, no matter how detailed and well planned it is, may not work as expected for all the following reasons EXCEPT:
- (a) Lack of support from top management
 - (b) Once-a-year ritual
 - (c) Separation of operational planning from strategic planning
 - (d) ***Contingency plan***
13. Which of the following CANNOT be used to measure relationship-based outputs?
- (a) Profitability
 - (b) Customer loyalty
 - (c) Customer satisfaction
 - (d) ***Return on investment***

✓ **Practice Quiz Answer: Chapter 3**

The correct answer is highlighted in **bold** and *italic* font.

1. Which of the following technologies is NOT restructuring the way firms now do business?
- (a) EDI
 - (b) Scanning
 - (c) Data sharing
 - (d) ***Standard hardware***
2. The use of information technology at the _____ represents a crucial node of information.
- (a) Point of production
 - (b) Point of distribution
 - (c) ***Point of purchase***
 - (d) Point of collection
3. Information provides greater _____ the market and therefore enhances the customer's ability to make better decisions.
- (a) ***Transparency of***
 - (b) Cost reductions in
 - (c) Communication within
 - (d) Profitability in
4. All the following are benefits of global integration EXCEPT the:
- (a) Reduction of red tape
 - (b) Reduction of transportation difficulties
 - (c) Increase in efficiency
 - (d) ***Increased opportunities of marketing activities***

5. In dealing with onerous laws, the marketer can do all the following EXCEPT:
 - (a) Ignore prevailing rules
 - (b) Accept traditional rules
 - (c) ***Accept rules of other markets***
 - (d) Implement change
6. Marketers must perform a/an _____ analysis to discover an organization's opportunities and threats.
 - (a) Environmental
 - (b) External
 - (c) Internal
 - (d) ***International***
7. Environmental scanning can help the manager in all the following EXCEPT:
 - (a) Incorporating new dimensions
 - (b) ***Assisting in the development of short-term policies***
 - (c) Helping in the formulation of action plans
 - (d) Aiding in the development of operating programs
8. All the following are benefits of Delphi studies EXCEPT:
 - (a) Overcome distances
 - (b) Maintain relatively low cost
 - (c) ***Decrease participants' interaction***
 - (d) Increase individuals' accessibility
9. All the following are included in Porter's framework for assessing competition EXCEPT:
 - (a) ***Rivalry among firms***
 - (b) Threat of substitutes
 - (c) Bargaining power of buyers
 - (d) Bargaining power of potential entrants
10. All the following are potentially successful strategic approaches to outperforming other firms in an industry EXCEPT:
 - (a) Low-cost leadership
 - (b) ***High-cost leadership***
 - (c) Differentiation
 - (d) Focus

✓ **Practice Quiz Answer: Chapter 4**

The correct answer is highlighted in **bold** and *italic* font.

1. The most influential promotion and recommendation usually comes from all the following EXCEPT:
 - (a) Friends
 - (b) Opinion leaders

- (c) Family
 - (d) **Innovators**
2. In which strategy of evaluating a product does the consumer set minimum standards for all attributes?
- (a) Lexicographic decision.
 - (b) **Conjunctive decision.**
 - (c) Cooperative decision.
 - (d) Attribution decision.
 - (e) The feedback loop can help suppliers increase consumer traffic.
3. New opinion leadership now initiates from:
- (a) The upper class
 - (b) **Peers in the same class**
 - (c) Innovators
 - (d) Achievers
4. According to the Values and Lifestyles System (VALS), which of the following does NOT belong to the VAL group with greater resources?
- (a) Actualizers
 - (b) Fulfilleds
 - (c) Achievers
 - (d) **Believers**
5. Which of the following is NOT true about the marketing of industrial products?
- (a) They are purchased by governments.
 - (b) They are purchased in large quantities.
 - (c) **They have lesser value than consumer products.**
 - (d) They gain rapid acceptance.
6. Which of the following is NOT an industrial product type?
- (a) Raw materials
 - (b) Capital goods
 - (c) **Complements**
 - (d) Supplies
7. In which level of the industrial buying decision are funds allocated for the purchase?
- (a) **Economic buying influence**
 - (b) User buying influence
 - (c) Technical buying influence
 - (d) Approver buying influence

8. Which of the following typical patterns of loyalty behavior is the weakest?
 - (a) Hard-core
 - (b) Split
 - (c) Shifting
 - (d) ***Switchers***
9. Customer franchise is:
 - (a) A firm's operations in multiple locations
 - (b) ***A firm's relationship with its buyers***
 - (c) A firm's fixed assets
 - (d) A firm's investment in its sales professionals

✓ Practice Quiz Answer: Chapter 5

The correct answer is highlighted in **bold** and *italic* font.

1. Data that has/have been selected and ordered with some specific purpose in mind is:
 - (a) Data
 - (b) ***Information***
 - (c) Intelligence
 - (d) Statistics
2. How are reports sorted in ABC analysis?
 - (a) Alphabetical order
 - (b) ***Level of sales volume***
 - (c) Effectiveness of marketing campaigns
 - (d) Level of meeting performance criteria such as budgets
3. All the following are sources of secondary data EXCEPT:
 - (a) Libraries
 - (b) Directories
 - (c) Trade associations
 - (d) ***Consumers***
4. Before too many resources are spent obtaining secondary data, all the following should be taken into account EXCEPT:
 - (a) Quality of data source
 - (b) Quality of actual data
 - (c) ***Quantity of actual data***
 - (d) Compatibility of data with information requirements
5. Before data are acquired, both data sources and data quality must be carefully checked in terms of all the following EXCEPT:
 - (a) Coverage
 - (b) Availability
 - (c) Accuracy
 - (d) ***Historical grounding***

6. Which of the following is NOT a possible level of research?
 - (a) Exploratory
 - (b) **Analytical**
 - (c) Descriptive
 - (d) Causal
7. Which level of research should be used if the primary objective is to define problems?
 - (a) **Exploratory**
 - (b) Analytical
 - (c) Descriptive
 - (d) Causal
8. Which level of research should be used if the primary objective is to provide information about market phenomena?
 - (a) Exploratory
 - (b) Analytical
 - (c) **Descriptive**
 - (d) Causal
9. All the following are types of qualitative data-gathering techniques EXCEPT:
 - (a) Observation
 - (b) In-depth interviews
 - (c) Focus groups
 - (d) **Experiments**
10. Which method of contacting respondents is most effective if time is of the essence?
 - (a) Mail
 - (b) **Telephone**
 - (c) Personal interviews
 - (d) Samples
11. Which type of sampling is most subject to bias?
 - (a) Random
 - (b) Cluster
 - (c) Strata
 - (d) **Quota**

✔ Practice Quiz Answer: Chapter 6

The correct answer is highlighted in **bold** and *italic* font.

1. Which of the following is input to the normal business planning and control processes?
 - (a) **Tactical**
 - (b) Strategic
 - (c) Medium-term
 - (d) Long-term

2. All the following are types of decisions associated with long-term forecasts EXCEPT:
 - (a) Strategic direction
 - (b) Resource planning
 - (c) Communication
 - (d) **Control**
3. Budget variants include all the following EXCEPT:
 - (a) **Resource forecasts**
 - (b) Manufacturing forecasts
 - (c) Salesforce forecasts
 - (d) Profit forecasts
4. Microforecasting builds on the predictions of:
 - (a) The market
 - (b) National economies
 - (c) **Customer behavior**
 - (d) Profitability
5. Which of the following forecasts is most important for an organization with high market shares?
 - (a) Global
 - (b) National
 - (c) **Industry**
 - (d) Product
6. Qualitative forecasts can be compiled from all the following sources EXCEPT:
 - (a) Individual opinion
 - (b) Panel opinion
 - (c) Decision tree
 - (d) **Time-series models**
7. Members of a Delphi study are not brought together primarily because it reduces:
 - (a) Costs
 - (b) Interaction
 - (c) **Bandwagon effects**
 - (d) Specificity
8. Mathematical techniques allow for all the following components for forecasting EXCEPT:
 - (a) Trend
 - (b) Cyclical
 - (c) Seasonal
 - (d) **Planned effects**

 Practice Quiz Answer: Chapter 7

The correct answer is highlighted in **bold** and *italic* font.

1. In the long run, it is customers with their _____ who decide what the market really is.
 - (a) Needs
 - (b) ***Purchasing power***
 - (c) Suppliers
 - (d) Market responses

2. _____ is the proportion of individuals in the market who are users of the specific product or service.
 - (a) Market share
 - (b) Brand share
 - (c) ***Penetration***
 - (d) Market segment

3. Consumer behavior can be divided into which of the following?
 - (a) ***Consumer characteristics and consumer responses***
 - (b) Consumer characteristics and consumer purchases
 - (c) Consumer responses and consumer purchases
 - (d) Consumer purchases and consumer values

4. _____ are the most powerful tools for segmentation.
 - (a) Consumer responses
 - (b) ***Consumer characteristics***
 - (c) Consumer purchases
 - (d) Consumer values

5. To address the shortcomings of the country segmentation approach, all the following alternative procedures should be considered EXCEPT:
 - (a) Criteria development
 - (b) Preliminary screening
 - (c) Microsegmentation
 - (d) ***Geographic groupings***

6. To be viable, a segment needs to meet all the following broad criteria EXCEPT:
 - (a) Size
 - (b) Identity
 - (c) Relevance
 - (d) ***Price-fit***

7. The most productive bases for segmentation are those that relate to the customer's _____ in the market.
 - (a) ***Own grouping***
 - (b) Fit to the product
 - (c) Profitability
 - (d) Relevance

8. In cyberspace, the _____ model is replaced by the _____ model.
 - (a) ***Sales push, market pull***
 - (b) Market pull, sales push
 - (c) Market push, sales push
 - (d) Sales pull, market pull
9. Which of the following positions characterizes a niche product?
 - (a) High quality, low price
 - (b) ***High quality, high price***
 - (c) Low quality, low price
 - (d) Low quality, high price
10. The positioning process includes all the following steps EXCEPT:
 - (a) Market segmentation
 - (b) ***Product segmentation***
 - (c) Target marketing
 - (d) Product positioning
11. In _____, the product is given a character, an image, almost like a personality.
 - (a) Product segmentation
 - (b) Product positioning
 - (c) ***Product branding***
 - (d) Product differentiation
12. All the following are levels of branding strategy EXCEPT:
 - (a) Company name
 - (b) ***Family name***
 - (c) Family branding
 - (d) Individual branding

✔ Practice Quiz Answer: Chapter 8

The correct answer is highlighted in **bold** and *italic* font.

1. The _____ indicates elements such as design, color, and packaging.
 - (a) Core product
 - (b) Intangible product
 - (c) ***Tangible product***
 - (d) Augmented product
2. All the following questions are answered in product auditing EXCEPT:
 - (a) What market segment does this brand address?
 - (b) Who are the prospective customers?
 - (c) How does it compare with competitive products?
 - (d) ***How can the price be adjusted to best fit the customers' needs?***

3. _____ involves modification of quality, style, performance, or variety.
 - (a) Market penetration
 - (b) **Product development**
 - (c) Market development
 - (d) Diversification

4. _____ involves finding new uses for an existing product.
 - (a) Market penetration
 - (b) Product development
 - (c) **Market development**
 - (d) Diversification

5. _____ involves offering a new product in a new market.
 - (a) Market penetration
 - (b) Product development
 - (c) Market development
 - (d) **Diversification**

6. According to the Ansoff Matrix, all the following are elements of product strategy EXCEPT:
 - (a) Market penetration
 - (b) Market development
 - (c) Diversification
 - (d) **Collaboration**

7. Which of the following is NOT a part of the product life cycle?
 - (a) Growth
 - (b) Maturity
 - (c) Decline
 - (d) **Rejuvenation**

8. Maximum sales acceleration is the goal at which product life-cycle stage?
 - (a) **Growth**
 - (b) Maturity
 - (c) Decline
 - (d) Rejuvenation

9. All the following are organizational strategies for a market in decline EXCEPT:
 - (a) Leadership
 - (b) Niche
 - (c) Harvest
 - (d) **Investment**

10. In which international product life-cycle stage are profit margins thin and competition fierce?
 - (a) New product
 - (b) Maturing product
 - (c) ***Standardized product***
 - (d) Declining product
11. According to the Boston Consulting Group Matrix, _____ are characterized with high market share and low market growth rate.
 - (a) Stars
 - (b) Questions
 - (c) ***Cash cows***
 - (d) Dogs

✓ Practice Quiz Answer: Chapter 9

The correct answer is highlighted in **bold** and *italic* font.

1. All the following are elements of the planning gap EXCEPT:
 - (a) Usage gap
 - (b) Distribution gap
 - (c) Product gap
 - (d) ***Collaborative gap***
2. All the following are new product strategies EXCEPT:
 - (a) Technology-driven
 - (b) ***Broad***
 - (c) Low-budget
 - (d) Balanced
3. Which of the following is NOT a type of product modification?
 - (a) Feature
 - (b) ***Value***
 - (c) Style
 - (d) Image
4. Perceived quality changes are also known as which of the following type of modification?
 - (a) Feature
 - (b) Quality
 - (c) ***Style***
 - (d) Image
5. A firm's greatest source of new product ideas is its _____.
 - (a) Marketing managers
 - (b) Product engineers
 - (c) ***Customers***
 - (d) Test field

6. The first consideration in determining a new product's profitability is examining its fit with the firm's:
 - (a) **Strategy**
 - (b) Capital resources
 - (c) Human resources
 - (d) Supply
7. All the following affect a firm's marketing response to a new product EXCEPT:
 - (a) Match with existing product lines
 - (b) Price
 - (c) **Quantity**
 - (d) Seasonality
8. The aim of the product development process is to:
 - (a) **Minimize risk**
 - (b) Maximize profit
 - (c) Maximize efficiency
 - (d) Minimize production lags
9. According to Booz Allen Hamilton Inc.'s research, _____ percent of all new product ideas fail.
 - (a) 20
 - (b) 40
 - (c) 60
 - (d) **80**
10. Which "area" of test marketing is known as field trials and serves as a useful device for debugging some of the potential problems in advance of the new product launch?
 - (a) **Test sites**
 - (b) Residential neighborhoods
 - (c) Test city
 - (d) Lead countries
11. Which of the following has been the most important change to the product development process over recent decades?
 - (a) Cost
 - (b) **Speed**
 - (c) Supplier networks
 - (d) Distribution systems

 Practice Quiz Answer: Chapter 10

The correct answer is highlighted in **bold** and *italic* font.

1. The most important decision in marketing is _____.
 - (a) **Price**
 - (b) Product
 - (c) Place
 - (d) Promotion

2. What is a major problem posed by the traditional economic approach to pricing?
 - (a) Supply is difficult to determine.
 - (b) **Demand is difficult to determine.**
 - (c) Supply is inelastic to price.
 - (d) Demand is inelastic to price.

3. Inelastic demand is characterized by:
 - (a) Demand sensitive to price change
 - (b) Demand insensitive to supply change
 - (c) Demand sensitive to supply change
 - (d) **Demand insensitive to price change**

4. All the following are theoretical ways to measure the demand curve EXCEPT:
 - (a) Regression analysis
 - (b) Survey research
 - (c) Experiment
 - (d) **Product life cycle analysis**

5. All the following are factors that affect prices and are under direct control of the organization EXCEPT:
 - (a) Product life cycle
 - (b) Product portfolio
 - (c) Product line pricing
 - (d) **Product competition**

6. If price competition is severe, the firm should undertake which of the following to offer a degree of protection?
 - (a) **Segmentation**
 - (b) Differentiation
 - (c) Penetration
 - (d) Collaboration

7. Which of the following is NOT a strategy to cope with geographical pricing?
 - (a) Uniform
 - (b) FOB
 - (c) Zone
 - (d) **Peak**

8. Which of the following is NOT a benefit of penetration pricing?
 - (a) Growth of demand
 - (b) Earlier economies of scale
 - (c) Increased market share
 - (d) ***Higher profit margins***
9. Market-based pricing is also called _____.
 - (a) Quality pricing
 - (b) Customer group pricing
 - (c) ***Perceived value pricing***
 - (d) Competitive pricing
10. All the following are dangers of initiating a price war EXCEPT:
 - (a) Low-quality image
 - (b) Temporary advantage
 - (c) Decreased profitability
 - (d) ***Excess capacity***

✓ **Practice Quiz Answer: Chapter 11**

The correct answer is highlighted in **bold** and *italic* font.

1. The _____ channel is used when contact between the manufacturer and the end user is direct and no intermediaries are involved.
 - (a) Three-level
 - (b) Two-level
 - (c) One-level
 - (d) ***Zero-level***
2. All the following are factors that determine the channel decision EXCEPT:
 - (a) Corporate strategy
 - (b) ***Marketing strategy***
 - (c) Product cost
 - (d) Consumer location
3. Which of the following forms of discounts given to distribution chains is usually expressed as a fixed percentage?
 - (a) ***Trade discounts***
 - (b) Quantity discounts
 - (c) Promotional discounts
 - (d) Cash discounts
4. Which of the following is the key aim of all discounts or bonuses to distribution chains?
 - (a) To motivate the channel members to support the supplier's strategy
 - (b) ***To motivate the channel members to support the producer's strategy***
 - (c) To motivate the channel members to deliver superior customer service
 - (d) To motivate the channel members to minimize a firm's distribution costs

5. Forward or backward integration is best pursued at which stage of the market or product?
 - (a) Introduction
 - (b) Growth
 - (c) **Mature**
 - (d) Decline
6. Retailers can be categorized in all the following ways EXCEPT:
 - (a) Type of product sold
 - (b) Type of customer service
 - (c) Type of organization
 - (d) **Type of country of origin**
7. The production decision concerns all the following issues EXCEPT:
 - (a) Quantity
 - (b) **Quality**
 - (c) Lead time
 - (d) Buffer stock
8. All the following are benefits of the just-in-time approach EXCEPT:
 - (a) Minimized stock
 - (b) Increased efficiency
 - (c) Improved performance
 - (d) **Increased flexibility**
9. What is the foremost reason why a firm would NOT want to maximize its service level?
 - (a) **High costs**
 - (b) Limited human resources
 - (c) Decreased customer complaints
 - (d) Decreased customer satisfaction
10. _____ is used to optimize the use of a firm's human resources.
 - (a) **Internal marketing**
 - (b) Employer marketing
 - (c) Labor relations marketing
 - (d) Human resource marketing

✓ **Practice Quiz Answer: Chapter 12**

The correct answer is highlighted in **bold** and *italic* font.

1. The promotional mix includes all the following EXCEPT:
 - (a) Direct contact
 - (b) Indirect contact
 - (c) **Customized support**
 - (d) Complementary support

2. The most important element of the marketing mix is the:
 - (a) **Product**
 - (b) Price
 - (c) Promotion
 - (d) Placement

3. All the following characterize industrial advertising EXCEPT:
 - (a) Purchase decisions are short range.
 - (b) Advertising supports the sales influence.
 - (c) Product usage cycle is long.
 - (d) **Test marketing is uncommon.**

4. All the following are part of a consumer's psychological stages for a purchase decision EXCEPT:
 - (a) Awareness
 - (b) Interest
 - (c) **Opinion leading**
 - (d) Buying decision

5. A unique selling proposition (USP) can be found through all the following ways EXCEPT:
 - (a) Physical features
 - (b) Intangible features
 - (c) Psychological features
 - (d) **Beneficial features**

6. Which type of USP message is particularly easy to target, communicate, and monitor?
 - (a) **Product features**
 - (b) Psychological features
 - (c) Beneficial features
 - (d) Association

7. The cost of cumulative coverage:
 - (a) Decreases linearly
 - (b) Decreases exponentially
 - (c) Increases linearly
 - (d) **Increases exponentially**

8. Which of the following is the major challenge to cyberspace advertising?
 - (a) Cost
 - (b) Coverage
 - (c) **Measuring results**
 - (d) Extent of interaction

9. The advertising budget can be determined through all the following ways EXCEPT:
 - (a) Percent of sales
 - (b) Affordability
 - (c) Parity
 - (d) ***Quality of product***
10. Which of the following is NOT an advertising objective?
 - (a) Informing
 - (b) ***Introducing***
 - (c) Persuading
 - (d) Reinforcing

✓ Practice Quiz Answer: Chapter 13

The correct answer is highlighted in **bold** and *italic* font.

1. Which of the following has most contributed to the viability of precision marketing?
 - (a) Minimized costs
 - (b) Higher coverage
 - (c) ***Increased data***
 - (d) Larger market
2. Which of the following is the aim of direct mail communication?
 - (a) ***Personalized messaging***
 - (b) Immediate sales inquiries
 - (c) Increased market share
 - (d) Greater salesforce efficiency
3. All the following are advantages of direct mail EXCEPT:
 - (a) Personalization
 - (b) Variation
 - (c) ***Cost***
 - (d) Specific Targeting
4. Which of the following has shown to significantly increase the direct mail response rate?
 - (a) Offer
 - (b) Timing
 - (c) ***Letter***
 - (d) Sample
5. The door-to-door approach of direct mailing has the advantage of:
 - (a) Specific targeting
 - (b) Personalization
 - (c) Wide coverage
 - (d) ***Precision***

6. _____ refers to retail selling channels that use independent distributors to recruit new distributors over time.
 - (a) Telemarketing
 - (b) **Network marketing**
 - (c) Channel marketing
 - (d) Direct marketing
7. All the following are advantages of sales promotion EXCEPT:
 - (a) **Lower costs**
 - (b) Sales increase
 - (c) Defined target
 - (d) Defined roles
8. Which type of sales promotion is often used to extend the penetration or trial of the product to new customers?
 - (a) Free goods
 - (b) Tied offers
 - (c) **Coupons**
 - (d) Cash refund

✓ **Practice Quiz Answer: Chapter 14**

The correct answer is highlighted in **bold** and *italic* font.

1. Which of the following is a characteristic of geographical territories?
 - (a) Steeped salesforce knowledge
 - (b) Absent national barriers
 - (c) Decreased contention
 - (d) **Ease of defining territories**
2. All the following are benefits of territory based on industry EXCEPT:
 - (a) Steeped salesforce knowledge
 - (b) Absent national barriers
 - (c) Decreased contention
 - (d) **Ease of defining territories**
3. The specific sales objectives should include all the following elements EXCEPT:
 - (a) Total shares to be achieved
 - (b) Product mix
 - (c) Market mix
 - (d) **Promotion mix**
4. The product mix element of the sales objective states:
 - (a) The volume to be achieved
 - (b) **The relative contribution of each product to total sales**
 - (c) The proportion of total sales in each market
 - (d) The percentage over competitors to achieve

5. The market mix element of the sales objective states:
 - (a) The volume to be achieved
 - (b) The relative contribution of each product to total market
 - (c) ***The proportion of total sales in each market***
 - (d) The percentage over competitors to achieve
6. Which of the following industrial buying situations requires the most effort by both buyers and sellers?
 - (a) Straight rebuy
 - (b) Dissatisfied rebuy
 - (c) Modified rebuy
 - (d) ***New task rebuy***
7. Which of the following buyers is the ultimate decision-maker?
 - (a) ***Economic***
 - (b) User
 - (c) Technical
 - (d) Direct
8. All the following are benefits of sales proposals EXCEPT:
 - (a) Increased competitiveness
 - (b) ***Time efficiency***
 - (c) Documented agreements
 - (d) Better communication
9. All the following are elements of Hofstede's scale of cultural dimensions EXCEPT:
 - (a) Power distance
 - (b) Individualism
 - (c) Masculinity
 - (d) ***Purchase power***
10. Motivating a team of salespeople can be difficult for all the following reasons EXCEPT:
 - (a) Complexity of roles
 - (b) Entrepreneurship
 - (c) Lack of contact
 - (d) ***Lack of motivation techniques***

Glossary

Agents The link between producers and retailers that represent one or more suppliers on the basis of a formal agreement and profit by earning a commission on sales.

AIDA model The attention, interest, desire, action model that describes consumers' psychological stages prior to a purchase decision.

Alliances One of the physical outcomes of collaboration, resulting in firms' increased coverage to customers and decreased expenses.

Augmented product A product enriched by characteristics such as its warranty and service benefits, the reputation of the firm, and the psychological benefits conveyed by the product.

Backward integration The channel management approach in which the retailer owns its own suppliers.

Benefit segmentation A type of segmentation in which different customers are grouped based on their needs of a different combination of benefits.

Boston Consulting Group Matrix A map of an organization's product strengths and weaknesses varying on two dimensions: market growth and relative market share.

Brand equity Consumers' and investor's image of the firm as a whole, which can translate into higher prices and which is valued most apparently at the initial public offering of the firm's stocks.

Branding The epitome of product differentiation; a process in which a product is given a character or an image that is almost like a personality.

Budgets The classic quantification of a marketing plan; the most powerful tool by which managers can analyze the relationship between desired results and available means.

Bypass attack A strategy in which a challenger puts its efforts into leap-frogging existing technology and winning the battle for the next generation of technology to be brought to the market.

Category pricing The pricing strategy in which the supplier aims to cover the range of price categories with a range of brands based on the same product.

Causal research The research level most appropriate when the primary objective is to identify precise cause-and-effect relationships present in the market.

Cluster analysis A type of factor analysis in which a specified number of maximally different clusters, or segments, of consumers is identified and the resulting product is a set of prioritized position maps.

Coach The person in the buying decision process who provides the salesperson with information needed to close the sale, thus guaranteeing not only the order but satisfied customers and repeat business.

Cognitive dissonance The postpurchase stage during which tension arises due to conflicting elements in the original purchase decision.

Collaboration Joint agreements developed by firms to ensure their greater competitiveness in the marketplace.

Competitive gap The differences in the effectiveness of a firm's marketing strategy relative to its competitors in the same product market.

Complementary promotions Activities such as direct marketing, sales promotion, and public relations, which complement advertising and personal selling.

Concept test The first true consumer filter applied in testing a new product in which the aim is to find out what consumers' attitudes will be and whether they would be likely to purchase it.

Conglomerate diversification The riskiest diversification of all, in which a firm moves into completely new areas.

Conjunctive decision rule A process of evaluating products in which minimum standards are set for all attributes and only those products that meet all the standards are chosen.

Consumer advertising Promotion that is directed to the end-user audience.

Consumer behaviorists The forerunners of modern marketers who evaluated consumers and their behavior in the context of business decisions.

Consumption system The postpurchase cycle in which consumers alternate between expecting product and service satisfaction.

Content analysis A technique that investigates the content of communication in a society and entails counting the number of times preselected words, themes, symbols, or pictures appear in a given medium.

Core product The good or service itself, without any amenities.

Core services The necessary outputs of an organization that consumers seek.

Corporate advertising The form of promotion in which the overall organization rather than its individual brands is promoted.

Corporate mission A definition of what the organization is and of what it does.

Corporate plan The starting point and context for the marketing plan; it contains three main components: where the organization is now, where the organization intends to go in the future, and how the organization will organize its resources to get there.

Corporate vision The most important factor in successful marketing; the driver of organizational progress.

Cost-benefit relationship The notion that the value of a decision with the benefit of research should be greater than the value of the same decision without research by an amount exceeding the cost of the research.

Counter-segmentation The process of consolidating several segments by launching a brand, repositioning a brand, or integrating several existing brands to cover several segments.

Coverage The maximum number of the target audience that is reached by advertising.

Customer focus The fundamental marketing tenet in which customers reign supreme because their purchasing decisions determine the winners of competition between firms.

Customer franchise The prime asset of the relationship between a firm and its buyers.

Customer group pricing The pricing strategy in which different categories of prices are set to match various groups' ability to pay.

Customer-consumer orientation The key to successful marketing; the focus on understanding and responding to the wishes and needs of the buyer.

Data Collection of facts.

Decision-makers Individuals in the buying decision who determine the purchase transaction.

Decision trees An aid to qualitative forecasting in which the main factors affecting an organization's environment, for example, are plotted, and possible alternatives or decisions are shown at each stage (or branch).

Decoding The portion of the communication process during which the receiver interprets the received message, which was encoded by the sender.

Delphi studies A type of research that aims at qualitative rather than quantitative measures by collecting information from a small group of experts.

Derived demand Demand that depends on some other product or process.

Derived forecast A specific forecast based on information from global forecasts.

Descriptive research The research level most appropriate when the primary objective is to provide information about existing market phenomena.

Detailed plans The most important elements in the overall marketing strategy that spell out exactly what programs and individual activities will take place over the period of the plans and constitute the “marketing” of the organization.

Dialogue Marketers’ strive to understand customers’ needs via market research and the communication of specific exchange advantages to potential customers.

Diffusion The pattern that describes how a new idea or product spreads to different groups.

Digital age The current era in which all kinds of information—numbers, text, sound, and video—can be put into digital form such that any computer can store, process, and forward.

Direct mail A personalized means of advertisement that contributes largely to targeted precision marketing campaigns.

Dissatisfiers Characteristics that prevent a product’s purchase by a given customer.

Distribution gap The limits in the distribution of a firm’s goods or services.

Distributor A wholesaler that deals with industrial establishments and business-to-business marketing.

Economic buyers The ultimate decision-makers; these people or this group holds the “purse strings” and must approve the purchase decision.

Economic integration A process where countries engage in economic cooperation to use their respective resources more efficiently and reduce barriers between themselves in order to achieve larger markets for members.

Economies of scale An economic condition in which unit cost decreases as production increases.

Electronic data interchange An electronic data entry system that allows manufacturers, logisticians, and vendors to communicate to maximize efficiency in production, delivery, and sales.

Electronic-point-of-sale (EPOS) systems Electronic systems that track the details and buying habits of an individual transaction but not the identity of the purchaser.

Encirclement attack A strategy in which a grand offensive against the enemy is taken out on several fronts such that the aggressor is able to break the opponent's will to resist.

Encoding The portion of the communication process during which the sender creates the message that the receiver (consumer) obtains.

Envelope curve A model of extrapolation that expects technology to develop by quantum leaps, with new techniques gradually being improved until they reach the ceiling of their performance, at which point they are overtaken by the next development.

Equilibrium price The point at which the quantity demanded by consumers matches the quality supplied by sellers; thus, the market sets the price.

Errors of commission A failure that results from actively introducing research mistakes such as slanting questions to produce the answers that the organization expects or desires.

Exclusive distribution The level of distribution in which only a few resellers are allowed to sell the product to ensure that the product is properly supported and seen as special.

Explanatory models Models that try to explain how systems work so that the effect of future changes can be predicted.

Exploratory research The research level most appropriate when the primary objective is to identify problems, to define problems, or to investigate the possibility of new, alternative courses of action.

External environment The context of federations, associations, government agencies, customers, suppliers, and competitors on which the organization's profits are dependent.

Fad An extremely short version of a fashion; a product with a rapid growth and decline phase, which are separated by only a very short maturity phase.

Fishbone effect A sales projection in which a significant mismatch exists between organizational resources and opportunities.

Flank attack A strategy in which the challenger zeros in on a segment where the market leader is most vulnerable.

Forecasts Predictions of what will happen in the future.

Foreign concern The phenomenon in which those who have achieved high levels of needs fulfillment begin to focus on individuals in other countries.

Forward integration The channel management approach in which the supplier owns its own retail outlets.

Free on board (FOB) pricing The pricing strategy in which the cost of all transportation is charged to the customer.

Frontal attack A very resource-intensive strategy in which the challenger takes on the opponent directly on its strongest market position.

Gap analysis The technique used to identify the difference between what the existing products offer the consumer and what the consumer demands.

Generation X Those who were born in the 1970s and tend to live at home through their late 20s, which results in becoming the designated decision-makers for parents and relatives.

Generic brands Unbranded goods.

Guerrilla warfare A strategy in which the attacker makes intermittent forays so that the cost to the attacker is minimized and that of the opponent is maximized.

Hard information Quantitative data about shipments, inventory levels, and retail sales.

Hierarchy of needs Maslow's pyramid-shaped diagram that defines human requirements ranging from immediate physical needs to luxurious nonessentials.

Hockey stick effect The mistake of changing a forecast's starting point due to failure to meet previous forecasts without changing the slope of the forecast line.

Industrial advertising Business-to-business promotion, which is designed to create the initial awareness and generate leads before the face-to-face process is conducted by the producer's salesforce.

Industry A group of organizations that offer products that are near substitutes for each other; in economic terms, these products have a high cross-elasticity of demand.

Influences Individuals in the buying decision who can affect the decision-maker in his or her purchase transaction.

Information Data that have been selected and ordered with some specific purpose in mind.

Information float The amount of time information spends traveling through communication channels.

Innovators A consumer group including those who are adventurous and willing to take risks.

Intelligence The interpretation of the analysis of information.

Intensive distribution The level of distribution in which the majority of resellers stock the product.

Intermediaries Actors such as retailers and wholesalers that provide the product to the end user or other members of the channel.

Joint demand Demand for two or more products that are interrelated.

Just-in-time (JIT) The inventory approach in which components are delivered from the suppliers directly to the production line just as they are needed.

Leading indicators Certain factors that provide advance warning about future trends.

Lexicographic decision strategy A process of evaluating products in which only the most important attributes of similar products are compared.

Life cycle Individuals' and families' varying stages of activities, needs, and purchases over time.

Lifestyle classification A method that links different dimensions of consumers, such as activities, interests, and opinions, with their spending or product use patterns.

Line rationalization The product mix decision in which items are removed to reduce costs and improve profitability.

Line stretching The product mix decision in which additional items are added to tap potentially profitable extra business.

Lobbyists Well-connected individuals and firms that can provide access to policy-makers and legislators.

Longitudinal measures Measurements repeated over time because after-the-fact measurements alone cannot fully explain the effect of causality.

Marginal analysis The decision which determines the benefit that is derived from the investment of an additional unit of effort.

Market The group of all potential customers who share particular needs and wants and may be willing to engage in exchange to satisfy their needs and wants.

Market Information Systems (MIS) Computerized databases that collect and organize data that are relevant to the marketer in terms of planning, implementation, and control.

Market orientation The organization-wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organization-wide responsiveness to it.

Market space The context in which a firm competes; a new context offers the firm unprecedented new opportunities to serve and satisfy customers without changing its content.

Marketing An organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders.

Marketing audit A comprehensive, systematic, independent, and periodic examination of a company's marketing environment, objectives, strategies, and activities.

Marketing mix McCarthy's 4 Ps—product, price, promotion, and place—that can serve as a preliminary framework for assessing marketing activities. (Promotion is often referred to as *communication* and place as *supply chain management*.) A very-company-oriented approach.

Marketing myopia The marketing mistake in not differentiating the key difference between a product's features and its benefits.

Marketing objectives The crux of the marketing process; the match between products and markets based on realistic customer behavior.

Marketing plan A formal strategy that encompasses the overall objectives of an organization, from general goals to individual action steps.

Marketing strategy A pattern or plan that generally encompasses the 4 Ps and integrates an organization's major goals, policies, and action sequences into a cohesive whole.

Marketing system The relationship between a firm and its suppliers and customers that has the purpose of increasing the firm's competitiveness in meeting customers' needs.

Micro-analysis The management process of investigating detailed problems and the individual elements that are failing to meet targets specified in the marketing plan.

Modified rebuy The reevaluation of a previous buying decision that resulted in dissatisfaction.

Multinational corporations Firms that operate facilities outside their home country, which is the location of the headquarters.

Narrowcast The ability to advertise messages to more targeted audiences due to the explosive growth of specialized communication channels, such as cable television.

National forecasts 4 or 5-year forecasts based on a country's cycles of economic activity, moving from boom to recession and back again.

Need recognition The stage of consumer behavior in which the consumer searches for fulfillment of a need, which is triggered either internally or by outside stimuli.

Net contribution A firm's marginal profit from its products, services, or activities.

Net profit The optimal point at which the marginal costs of the products, services, or activities added are exactly matched by the marginal revenues they generate.

Network marketing The retail selling channels that use independent distributors not only to buy and resell products at retail but also to recruit new distributors into a growing network over time.

New task buying The buying situation in which there is no previous purchase history; therefore, all suppliers begin with the same chance of winning the contract.

Not Invented Here (NIH) syndrome The phenomenon in which managers do not scan the outside resources available, particularly the literature, to find ideas for new products.

Omnibus surveys Market research where space on a questionnaire is "sublet" to different researchers, which results in a mini-survey within a survey.

Opinion leaders Those who are more apt to try new products or services and successfully carry their message to those who are less exposed to the firms' promotions.

Overhead costs Any fixed costs, which are normally allocated via "absorption costing" to a firm's products or services.

Panel research Market research aimed to create consumer profiles; usually collected via home audit or the diary method.

Partnership techniques Marketers' strategy of involving both suppliers and purchasers in the decision-making process.

Pattern standardization The process of synchronizing advertisement messages in different countries while using each country's respective locally popular features such as movie and sport stars.

Peak pricing The pricing strategy in which the price is matched to the demand; high prices are demanded at peak times, while lower prices are offered at off-peak times.

Penetration The proportion of individuals in the market who are users of the specific product or service.

Perceptual maps An alternative graphical approach to the static positioning map in which a computerized plotting compression technique is used.

Physical environment The surroundings in which organizations must operate.

Planning gap The difference between actual outcome and expected outcome.

Postpurchase evaluation The stage after consumption during which the consumer becomes satisfied or dissatisfied.

Precision marketing A form of direct marketing in which firms make use of the increasing availability of consumer data to target individual consumers.

Price elasticity of demand The degree to which demand is sensitive to price changes.

Private brand A retailer's own branded product.

Product depth The number of variations of one particular product.

Product differentiation A product strategy in which products are given unique identities to distinguish them from their competitors.

Product gap The part of the market from which the individual organization is excluded because of product or service characteristics.

Product life extension A marketing practice in which the aim is to extend the life cycle of the product by lengthening the growth phase as far as possible.

Product line length The number of products within a product line.

Product testing A consumer filter that is much like concept testing but is more detailed and may lead to modification of the product itself to match consumers' needs.

Public relations A valuable secondary source of communication that is based on what is perceived as impartial, independent recommendations.

Pull promotion A form of communication in which the supplier focuses the promotional effort, typically advertising, on the consumer in the belief that demand will "pull" the product through the channel.

Push promotion A form of promotion in which the supplier directs the bulk of the communication effort at selling the product into the channel to persuade members of the channel that supply pushes the product forward to the final consumer.

Reference groups Individuals' desire to belong to certain social cliques, which results in pressures on them to conform to certain purchasing patterns.

Regression analysis Models that determine the strength of the relationship of one variable with other variables involved.

Rejuvenation The redesign of a product's features to bring it in line with current tastes without significantly changing its performance.

Relationship marketing An interdependent buyer-seller relationship that helps build an opportunity share in the future, if not a market share immediately.

Repeat purchases The "marriage" between a customer and the firm; repeat purchasers are a firm's most valuable customers because their lifetime value far overshadows any specific transaction.

Retail audits Market research in which an auditor regularly visits each retail outlet on the panel and carries out a physical stock check on the products being surveyed.

Retailing The largest part of the service sector; all the activities involved in selling goods or services directly to final consumers for their personal, nonbusiness use.

Reverse marketing The process in which firms need to collaborate to accommodate the flow of products from the end user back to the manufacturer, for reasons such as safety or environmental responsibility.

Rolling forecasts Forecasts in which a new time period is added at the end of each period; thus at any given time, a full forecast is available.

Sales promotion A short-term activity used to stimulate some specific action by consumers, the salesforce, or channel members carrying a product.

Sales-wave research A technique used to analyze consumers' trial, first repeat, adoption, and purchase frequency behavior to ensure that the product will have a life beyond the first purchase.

Sampling The most powerful form of promotion in the early stages of a new product launch, which has the immediate aim of obtaining trial by users.

Satisficing A solution that reaches corporate objectives without maximizing performance satisfactorily due to the inability to know the optimum solution with perfect precision.

Satisfiers Characteristics that will positively persuade the customer to choose that brand.

Segment The first stage of market positioning in which the market itself is divided into smaller parts based on key variables chosen by customers and identified by firms.

Segmentation The separation of consumers based on demographic, lifestyle, and consumption information.

Selective distribution The level of distribution in which only specially chosen resellers stock the product, with the selection being a function of location, image, or other reseller attributes important to the product.

Sensitivity analysis A process in which responsiveness of variable to change can be analyzed.

Service level The percentage of product availability.

Service level pricing The pricing strategy in which the level of service determines the price.

Simulation Role playing in which experts attempt to deduce how they might react in real-life situations.

Skimming The alternative pricing strategy in which the initial price is set high to maximize profit and the image of “quality.”

Soft data Data that are obtained from visits to dealers and other channel members.

Sovereignty The notion that consumers’ purchasing decisions determine who will survive in the market.

Straight rebuy The repeat purchase of an existing product or service that has given satisfactory performance.

Superordinate goals The cult-like devotion to accomplish difficult tasks as if they were a corporate driving principle.

Supplementary services The indispensable outputs of an organization that are available only to improve the overall quality of service offerings.

SWOT Strengths, weaknesses, opportunities, threats—A useful technique in the analysis of the material contained in the marketing audit that groups key information into categories of internal and external factors and sorts again by their dual positive and negative aspects.

Symbolic analysts A new class of workers who concentrate not on the production but on analysis.

Syndicated research The practice of obtaining research information from a few customers and applying the information to the rest of the customer population; usually carried out as retail audits, panel research, and omnibus surveys.

Tangible product Elements such as design, color, packaging, and any other physical dimensions that provide benefits to the customer.

Target marketing Placing a product such that its most critical features to users have optimal position relative to its competitors.

Technical buyers Those in the buying decision process who examine the specifications of the product or service for technical conformance.

Technological forecasting A series of techniques used to plot long-term trends with changes in technology.

Telemarketing The personal and interactive technique of direct marketing in which calls are made to individual potential consumers.

Test marketing The technique of replicating everything—from promotion to distribution—as well as “product” but on a smaller scale to extrapolate national and international results.

Trade shows Trade fairs for manufacturers, distributors, and other vendors who display their products or describe their services to current and prospective customers, suppliers, other business associates and the press.

Uniform pricing The pricing strategy in which the same price is offered at all locations, regardless of delivery costs, exchange rates, or tax rates.

Usage gap The difference between a firm's market potential and its products' existing usage.

User buyers Those in the buying decision process who will use whichever product is being offered.

Variable costs Any additional or marginal costs incurred by a firm associated with the production of one additional unit.

Verbal data The most prevalent type of data within an organization that is available only as memos or reports and does not provide numerical information.

Worker's councils A group of nonexecutive employees who have the power to share decisions in personnel and social matters.

Yield management A strategy used to maximize revenue under uncertainties of customer purchase by discounting, overbooking, and limiting early sales for capacity-contained services.

Yield pricing A variant of peak pricing in which the price of each product is matched by the benefits it provides.

Zone pricing The pricing strategy in which the price is different for each geographical region, or "zone," to incorporate the average transport costs incurred in shipping to that region.

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