Introduction to Marketing

INTRODUCTION TO MARKETING

PAMELA IP

Kwantlen Polytechnic University
Surrey

CONTENTS

Chapter 2: Marketing Environment and Planning

Chapter 3: Consumer Behaviour

Chapter 4: Business Buying Behaviour

Chapter 7: Product

Chapter 8: Price

Chapter 9: Place (Distribution)

Chapter 10: Promotion (Integrated Marketing Communications)

Chapter 11: Ethics & Social Responsibility

Appendix: The Marketing Plan

LICENSING INFO

This book is adapted from Principles of Marketing by University of Minnesota Libraries Publishing.

Image Use

- The cover image used in this book is © Kwantlen Polytechnic University and All Rights Reserved. If this book is being adapted, it must have a different cover.
- Several images are used under the Pixabay License
  - Secretary Desk Sales Office
  - An old woman smiling
- Several images are used under the Pexels License
  - Assorted Variety of Fruits
  - Photograph of a Woman Looking at Crockery
  - Man Standing Beside Man Holding Gray Club
  - Coca Cola Zero Bottle on White Surface
  - Woman Sitting on Beige Floor Tile
  - Men Working in a Warehouse
  - Starbucks Mug Full of Coffee Beans
  - Fidget Spinner

ACCESSIBILITY STATEMENT

For OERs to be truly open, they must be accessible. In the same way that a free resource does not mean the resource is open, a resource is not open just because it is available. When OER projects are accessible, they become more:

- inclusive, accounting for different methods, mediums, and modes of engaging with the content
- sustainable, delivering content when tools and technologies break down
- sharable, expanding reach and impact

Accessibility features of the web version of this resource

The web version of **Introduction to Marketing** has been designed with accessibility in mind by incorporating the following features:

- It has been optimized for people who use screen-reader technology.
  - all content can be navigated using a keyboard
  - links, headings, and tables are formatted to work with screen readers
  - images have alt tags
- Information is not conveyed by colour alone.
- There is an option to increase the font size (see the tab on the top right of the screen).

The web version of this resource follows all guidelines in the BCcampus Checklist for Accessibility.

Other file formats available

In addition to the web version, this book is available in a number of file formats including PDF, EPUB (for eReaders), MOBI (for Kindles), and various editable files. Here is a link to where you can download this book in another file format. Look for the "Download this book" drop-down menu on the landing page to select the file type you want. This book links to a number of external websites.

Known accessibility issues and areas for improvement

While we strive to ensure that this resource is as accessible and usable as possible, we might not always get it right. Any issues we identify will be listed below. There are currently no known issues.

List of Known Accessibility Issues

Location of issue	Need for improvement	Timeline	Work around

This statement was last updated on August 23, 2023.

FOR STUDENTS: HOW TO USE THIS BOOK

If you are unfamiliar with the Pressbooks platform, here is how to get the most out of this webbook.

Available Formats

This textbook is available in the following formats:

- **Online webbook**. You can read this textbook online on a computer or mobile device in one of the following browsers: Chrome, Firefox, Edge, and Safari.
- **PDF**. You can download this book as a PDF to read on a computer (Digital PDF) or print it out (Print PDF).
- **Mobile**. If you want to read this textbook on your phone or tablet, you can use the EPUB (eReader) or MOBI (Kindle) files.
- **HTML**. An HTML file can be opened in a browser. It has very little style so it doesn't look very nice, but some people might find it useful.

You can access the online webbook and download any of the formats for free here: https://kpu.pressbooks.pub/introductiontomarketing/. To download the book in a different format, look for the "Download this book" drop-down menu and select the file type you want.

The following table outlines how you can use the different formats:

Format	Internet required?	Device	Required apps	Accessibility Features	Screen reader compatible
Online webbook	Yes	Computer, tablet, phone	An Internet browser (Chrome, Firefox, Edge, or Safari)	WCAG 2.0 AA compliant, option to enlarge text, and compatible with browser text-to-speech tools	Yes
PDF	No	Computer, print copy	Adobe Reader (for reading on a computer) or a printer	Ability to highlight and annotate the text. If reading on the computer, you can zoom in.	Unsure
EPUB and MOBI	No	Computer, tablet, phone	Kindle app (MOBI) or eReader app (EPUB)	Option to enlarge text, change font style, size, and colour.	Unsure
HTML	No	Computer, tablet, phone	An Internet browser (Chrome, Firefox, Edge, or Safari)	WCAG 2.0 AA compliant and compatible with browser text-to-speech tools.	Yes

Tips for Using This Textbook

- **Search the textbook**.
    - If using the online webbook, you can use the search bar in the top right corner to search the entire book for a key word or phrase. To search a specific chapter, open that chapter and use your browser's search feature by hitting **[Cntr]** + **[f]** on your keyboard if using a Windows computer or **[Command]** + **[f]** if using a Mac computer.
    - The **[Cntr]** + **[f]** and **[Command]** + **[f]** keys will also allow you to search PDF, HTML, EPUB, and MOBI files if you are reading them on a computer.
    - If using an eBook app to read this textbook, the app should have a built-in search tool.
- **Navigate the textbook**.
    - This textbook has a table of contents to help you navigate the book. If using the online webbook, you can find the full table of contents on the book's homepage or by selecting "Contents" from the top menu when you are in a chapter.
    - When using the online webbook, you can move to the previous or next section by using the buttons at the bottom of the screen, or by using the left and right directional arrows on your keyboard.
- **Annotate the textbook**.
    - If you like to highlight or write on your textbooks, you can do so by getting a print copy, using the Digital PDF in Adobe Reader, or using highlighting tools in eReader apps.

Webbook vs. All Other Formats

The webbook includes a number of interactive and multimedia components. These include videos embedded in chapter sections and interactive quizzes at the end of each chapter. If you are not using the webbook to access this textbook, the videos and interactive quizzes will not be included. Instead, your copy of the text will provide a link to where you can access those interactive elements.

Even if you decide to use a PDF or a print copy to access the textbook, you can access the webbook and download any other formats at any time.

Keep an eye out for these features

Learning Objectives

The Learning Objectives box helps to clarify what you are meant to know after you have finished reading the chapter.

Key Takeaways

The Key Takeaways box appears at the end of each chapter section and highlights important information that relate to the Learning Objectives.

Review and Reflect

The Review and Reflect box appears at the end of each chapter section and asks you some questions to reflect on what you read.

Activities

The Activities box appears at the end of each chapter and provides you with some opportunities to practice what you have read about.

Yellow boxes provide supplemental information to the chapter content.

FOR INSTRUCTORS: TEACHING RESOURCES

Here are some resources you may find helpful when using this resource in the classroom.

If you adopt this textbook, please let us know by filling out the BCcampus Open Textbook Adoption Form.

Ancillary Resources

A test bank for *Principles of Marketing* is available through BCcampus. Instructors can request access to the test bank on the BCcampus website.

Thanks to BCcampus for creating this test bank.

ACKNOWLEDGEMENTS

This resource was made possible thanks to the financial support of an Open Education Creation Grant and a KPU Educational Leave. We would also like to thank the Teaching and Learning team for Pressbooks and editing support.

CHAPTER 1: WHAT IS MARKETING?

1.1 DEFINING MARKETING

Learning Objectives

1. Define marketing and outline its components.

Marketing

Marketing is defined by the Canadian Marketing Association (n.d.) as "…a set of business practices designed to plan for and present an organization's products or services in ways that build effective customer relationships."[1] Components include (a) a market, (b) an exchange and (c) an offer. Marketers create offerings and manage exchanges with customers.

The traditional way of viewing the components of marketing is via the four Ps (also known as the **marketing mix**):

1. **Product**. Goods, services, ideas or people (an offer).
2. **Price.** What is given up in exchange for the product. This is usually monetary but not always (an exchange).
3. **Place (or Distribution)**. Making the product available for the customer to purchase.
4. **Promotion**. Informing and persuading the customer.

Value

Value is at the centre of everything marketing does (figure 1.1). What does value mean?

1. Canadian Marketing Association. (n.d.). *Canadian Marketing Code of ethics and standards*. TheCMA. Accessed April 1, 2022.

Figure 1.1. Marketing is composed of four connected activities centered on customer value: creating, communicating, delivering, and exchanging value.

When we use the term **value**, we are referring to the benefits buyers receive that meet their needs. In other words, value is what the customer gets by purchasing and consuming a company's offering. Although the offering is created by the company, the value is determined by the customer.

How each consumer judges the benefits of a product will vary, as will the time and effort he or she puts into shopping. Value, then, varies for each consumer. Value is what companies need to create for customers.

Key Takeaways

The focus of marketing has changed from emphasizing the product, price, place, and promotion mix to one that emphasizes creating, communicating, delivering, and exchanging value. Value is a function of the benefits an individual receives and consists of the price the consumer paid and the time and effort the person expended making the purchase.

To summarize, click on each category and review how the approach to the marketing mix has changed:

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://kpu.pressbooks.pub/introductiontomarketing/?p=22#h5p-4

Review and Reflect

1. What is the marketing mix?

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

here:
https://kpu.pressbooks.pub/introductiontomarketing/?p=22#h5p-5

Word Search

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://kpu.pressbooks.pub/introductiontomarketing/?p=22#h5p-2

Media Attributions

- Four Activities of Marketing © Principles of Marketing is licensed under a CC BY-NC-SA (Attribution NonCommercial ShareAlike) license

1.2 WHY STUDY MARKETING?

Learning Objectives

1. Learn how marketing delivers value and why marketing can be expensive.
2. Explore different careers in marketing and how the marketing role fits within an organization.
3. Understand some common criticisms of marketing.

Marketing Delivers Value

Products don't sell themselves. Good marketing educates customers so that they can find the products they want, make better choices about those products, and extract the most value from them. In this way, marketing facilitates exchanges between buyers and sellers for the mutual benefit of both parties. Marketing also provides people with information and helps them make healthier decisions for themselves and for others.

Not only does marketing deliver value to customers, but that value also translates into the value of the firm as it develops a reliable customer base and increases its sales and profitability. So when we say that marketing delivers value, value is being delivered to both the customer and the company. Marketing finishes the job by ensuring that what is delivered is valuable.

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

Justifying Marketing Costs

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

Some people argue that society does not benefit from marketing when it represents such a huge chunk of a product's final price. In some cases, that argument is justified. Yet when marketing results in more informed consumers receiving a greater amount of value, the cost is justified.

Marketing Offers People Career Opportunities

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

- **Marketing research.** Personnel in marketing research are responsible for studying markets and customers in order to understand what strategies or tactics might work best for firms.
- **Merchandising.** In retailing, merchandisers are responsible for developing strategies regarding what products wholesalers should carry to sell to retailers such as Target and Walmart.
- **Sales.** Salespeople meet with customers, determine their needs, propose offerings, and make sure that the customer is satisfied. Sales departments can also include sales support teams who work on creating the offering.
- **Advertising.** Whether it's for an advertising agency or inside a company, some marketing personnel work on advertising. Television commercials and print ads are only part of the advertising mix. Many people who work in advertising spend all their time creating advertising for electronic media, such as websites, and their pop-up ads, podcasts, and the like.
- **Product development.** People in product development are responsible for identifying and creating features that meet the needs of a firm's customers. They often work with engineers or other technical personnel to ensure that value is created.
- **Direct marketing.** Professionals in direct marketing communicate directly with customers about a company's product offerings via channels such as e-mail, chat lines, telephone, or direct mail.
- **Digital marketing.** Digital marketing professionals combine advertising, direct marketing, and other areas of marketing to communicate directly with customers via social media, the Internet, and mobile media. They also work with statisticians to determine which consumers receive which message and with IT professionals to create the right look and feel of digital media.

- **Event marketing.** Some marketing personnel plan special events to orchestrate face-to-face conversations with potential and current customers in a special setting.
- **Nonprofit marketing.** Nonprofit marketers often don't get to do everything listed previously as nonprofits typically have smaller budgets. But their work is always important as they try to change behaviours without having a product to sell.

A career in marketing can begin in a number of different ways. Entry-level positions for new university graduates are available in many of the positions previously mentioned.

To review the different areas for careers in marketing, click on the hotspots in the picture below:

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://kpu.pressbooks.pub/introductiontomarketing/?p=26#h5p-6

Which area appeals to you and why? To answer this question, learn about specific skills for some examples of careers in marketing.

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://kpu.pressbooks.pub/introductiontomarketing/?p=26#h5p-7

Criticisms of Marketing

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

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

Marketing's Role in the Organization

Marketing is also a functional area in companies, just like operations and accounting are. Within a company, marketing might be the title of a department, but some marketing functions, such as sales, might be handled by another department. Marketing activities do not occur separately from the rest of the company.

Pricing an offering, for example, will involve a company's finance and accounting departments in addition to the marketing department. Similarly, a marketing strategy is not created solely by a firm's marketing personnel; instead, it flows from the company's overall strategy. We'll discuss strategy much more completely in chapter 2.1 "Components of the strategic planning process."

Key Takeaways

By facilitating transactions, marketing delivers value to both consumers and firms. At the broader level, this process creates jobs and improves the quality of life in a society. Marketing can be costly, so firms need to hire good people to manage their marketing activities. Being responsible for both making money for your company and delivering satisfaction to your customers makes marketing a great career.

Review and Reflect

1. Why study marketing?
2. How does marketing provide value?
3. Why does marketing cost so much? Is marketing worth it?

1.3 THE VALUE PROPOSITION

Learning Objectives

1. Explain what a value proposition is.
2. Understand why a company may develop different value propositions for different target markets.

What is a Value Proposition?

Individual buyers and organizational buyers both evaluate products and services to see if they provide desired benefits. For example, when you're exploring your vacation options, you want to know the benefits of each destination and the value you will get by going to each place. Before you (or a firm) can develop a strategy or create a strategic plan, you first have to develop a value proposition. A **value proposition** states the specific benefits a product or service offering provides a buyer. It shows why the product or service is superior to competing offers. The value proposition answers the questions, "Why should I buy from you or why should I hire you?" As such, the value proposition becomes a critical component in shaping strategy.

The following is an example of a value proposition developed by a sales consulting firm: "Our clients grow their business, large or small, typically by a minimum of 30–50% over the previous year. They accomplish this without working 80 hour weeks and sacrificing their personal lives" (Lake, 2019).[1]

Note that although a value proposition will hopefully lead to profits for a firm, when the firm presents its value proposition to its customers, it doesn't mention its own profits. That's because the goal is to focus on the external market or what customers want.

1. Lake, L. *How to develop a value proposition for your business*. LiveAboutDotCom. Accessed July 21, 2022.

Figure 1.2. Like any other company, Beaches, an all-inclusive chain of resorts for families, must explain what its value proposition is to customers. In other words, why does a Beaches resort provide more value to vacationing families than other resorts do?

Firms typically segment markets and then identify different **target markets**, or groups of customers, they want to reach when they are developing their value propositions. Target markets will be discussed in more detail in chapter 5 "Market segmenting, targeting, and positioning." For now, be aware that companies sometimes develop different value propositions for different target markets just as individuals may develop a different value proposition for different employers. The value proposition tells each group of customers (or potential employers) why they should buy a product or service, vacation to a particular destination, donate to an organization, hire you, and so forth.

Once the benefits of a product or service are clear, the firm must develop strategies that support the value proposition. The value proposition serves as a guide for this process. In the case of our sales consulting firm, the strategies it develops must help clients improve their sales by 30–50 percent. Likewise, if a company's value proposition states that the firm is the largest retailer in the region with the most stores and best product selection, opening stores or increasing the firm's inventory might be a key part of the company's strategy. Figure 1.3 below describes the Value Proposition Process through which you: 1. Identify the target market, 2. Define customer needs and wants, 3. Identify features and benefits of products, 4. Perform a competitive analysis, and 5. Create a value proposition that offers benefits that meet customer needs and leads to a competitive advantage.

Figure 1.3. Value Proposition Process.

Individuals and students should also develop their own personal value propositions to tell companies why they should hire you or why a graduate school should accept you or demonstrate the value you bring to the situation. A value proposition will help you in different situations. Think about how your internship experience and/or study abroad experience may help a future employer. For example, you should explain to the employer the benefits and value of going abroad. Perhaps your study abroad experience helped you understand customers that buy from Company X or your customer service experience during your internship increased your ability to generate sales, which improved your employer's profit margin. This may demonstrate that you may be able to quickly contribute to Company X, something they might highly value.

Key Takeaways

A value proposition states the specific value a product or service provides to a target market. Firms may develop different value propositions for different groups of customers. The value proposition shows why the product or service is superior to competing offers and why the customer should buy it or why a firm should hire you.

Review Exercises

1. What is a value proposition?
2. You are interviewing for an internship. Create a value proposition for yourself that you may use as your thirty-second “elevator pitch” to get the company interested in hiring you or talking to you more.
3. In the following activity, you will practice applying your knowledge about value propositions!

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://kpu.pressbooks.pub/introductiontomarketing/?p=36#h5p-8

1.4 DISCUSSION QUESTIONS AND ACTIVITIES

Review and Reflect

1. Compare and contrast the four Ps approach to marketing versus the value approach (creating, communicating, and delivering value). What would you expect to be the same and what would you expect to be different between two companies that apply one or the other approach?
2. Assume you are about to graduate. How would you apply marketing principles to your job search? In what ways would you be able to create, communicate, and deliver value as a potential employee, and what would that value be, exactly? How would you prove that you can deliver that value?
3. Is marketing always appropriate for political candidates? Why or why not?
4. This chapter addresses several reasons why marketing is an important area of study. Should marketing be required for all university students, no matter their major? Why or why not?
5. Of the four marketing functions, where does it look like most of the jobs are? What are the specific positions? How are the other marketing functions conducted through those job positions, though in a smaller way?
6. What is the difference between a need and a want? How do marketers create wants? Provide several examples.
7. The marketing concept emphasizes the importance of satisfying customer needs and wants. How does marketing satisfy your needs as a college student? Are certain aspects of your life influenced more heavily by marketing than others? Provide examples.
8. A company's offering represents the bundling of the tangible good, the intangible service, and the price. Describe the specific elements of the offering for an airline carrier, a realtor, a restaurant, and an online auction site.
9. The value of a product offering is determined by the customer and varies accordingly. How does a retailer like Superstore deliver value differently than Lululemon?

10. Explain how Apple employed the marketing concept in designing, promoting, and supplying the iPhone. Identify the key benefit(s) for consumers relative to comparable competitive offerings.

Activities

1. One of your friends is contemplating opening a coffee shop near your university campus. She seeks your advice about the size of the prospective customer base and how to market the business according to the four Ps. What strategies can you share with your friend to assist in launching the business?
2. You are considering working for United Way upon graduation. Explain how the marketing goals, strategies, and markets for the nonprofit differ from a for-profit organization.
3. Marketing benefits organizations, customers, and society. Explain how an organization like Tim Hortons benefits the community in which it operates as well as society at large.

CHAPTER 2: MARKETING ENVIRONMENT AND PLANNING

2.1 COMPONENTS OF THE STRATEGIC PLANNING PROCESS

Learning Objectives

1. Explain how a mission statement helps a company with its strategic planning.
2. Describe how a firm analyzes its internal environment.
3. Describe the external environment a firm may face and how it is analyzed.

Strategic planning is a process that helps an organization allocate its resources to capitalize on opportunities in the marketplace; typically, it is a long-term process. The **strategic planning process** includes conducting a situation analysis and developing the organization's mission statement, objectives, value proposition, and strategies. Figure 2.1 shows the components of the strategic planning process. Let's now look at each of these components.

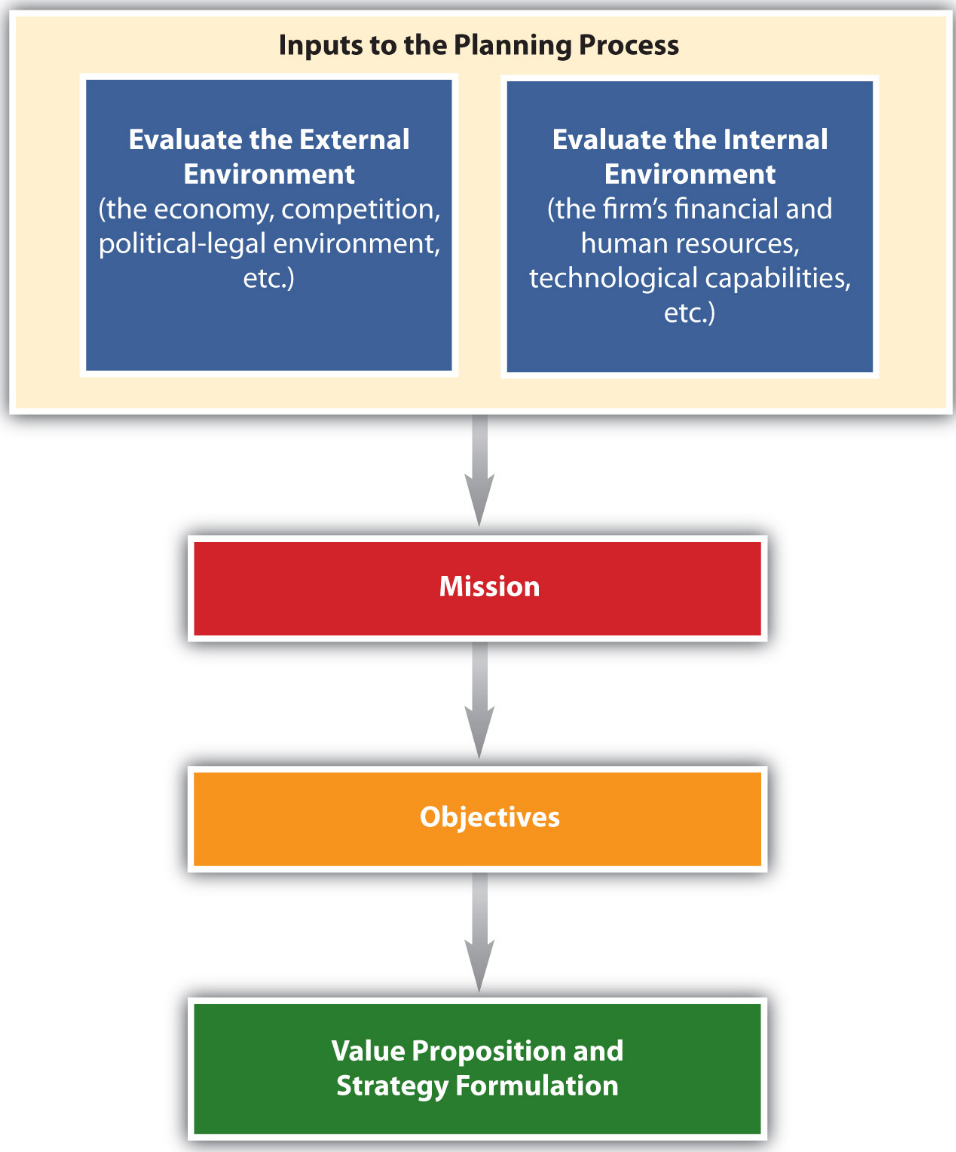


Figure 2.1. The Strategic Planning Process.

Conducting a Situation Analysis

As part of the strategic planning process, a **situation analysis** must be conducted before a company can decide on specific actions. A situation analysis involves analyzing both the external (macro and micro factors outside the organization) and the internal (company) environments. Figure 2.2 shows examples of internal and external factors in a SWOT analysis. The firm's internal environment—such as its financial resources, technological resources, and the capabilities of its personnel and their performance—has to be examined. It is also critical to examine the external macro and micro environments the firm faces, such as the economy and its competitors. The external environment significantly affects the decisions a firm makes, and thus it must be continuously evaluated. For example, during the global financial crisis of 2008, businesses found that many competitors drastically cut the prices of their products. Other companies reduced their package sizes or the amount of product in the packages. Firms also offered customers incentives (free shipping, free gift cards with purchase, rebates, etc.) to purchase their goods and services online, which allowed businesses to cut back on the personnel needed to staff their brick-and-mortar stores. While a business cannot control things such as the economy, changes in demographic trends, or what competitors do, it must decide what actions to take to remain competitive—actions that depend in part on their internal environment.

Conducting a SWOT Analysis

Based on the situation analysis, organizations analyze their **S**trengths, **W**eaknesses, **O**pportunities, and **T**hreats or conduct what's called a **SWOT analysis**. Strengths and weaknesses are internal factors and are somewhat controllable. For example, an organization's strengths might include its brand name, efficient distribution network, reputation for great service, and strong financial position. A firm's weaknesses might include a lack of awareness of its products in the marketplace, a lack of human resources talent, and a poor location. Opportunities and threats are factors that are external to the firm and largely uncontrollable. Opportunities might include the international demand for the type of products the firm makes, a small number of competitors, and favourable social trends such as people living longer. Threats might include a bad economy, high interest rates that increase a firm's borrowing costs, and an aging population that makes it hard for the business to find workers.

You can conduct a SWOT analysis of yourself to help determine your competitive advantage. Perhaps your strengths include strong leadership abilities and communication skills, whereas your weaknesses include a lack of organization. Opportunities for you might exist in specific careers and industries; however, the economy and other people competing for the same position might be threats. Moreover, a factor that is a strength for one person (say, strong accounting skills) might be a weakness for another person (poor accounting skills). The same is true for businesses.

Figure 2.2. Elements of SWOT Analysis.

The easiest way to determine if a factor is external or internal is to take away the company, organization, or individual and see if the factor still exists. Internal factors such as strengths and weaknesses are specific to a company or individual, whereas external factors such as opportunities and threats affect multiple individuals and organizations in the marketplace.

Assessing the Internal Environment

As we have indicated, when an organization evaluates which factors are its strengths and weaknesses, it is assessing its internal environment. Once companies determine their strengths, they can use those strengths to capitalize on opportunities and develop their competitive advantage.

Coca Cola's brand awareness, profitability, and strong presence in global markets are also strengths. In foreign markets in particular, the loyalty of a firm's employees can be a major strength, which can provide it with a competitive advantage. Loyal and knowledgeable employees are easier to train and tend to develop better relationships with customers. This helps organizations pursue more opportunities.

Although the brand awareness for Coca Cola's products is strong, smaller companies often struggle with weaknesses such as low brand awareness, low financial reserves, and poor locations. When organizations assess their internal environments, they must look at factors such as performance and costs as well as brand awareness and location. Managers need to examine both the past and current strategies of their firms and determine what strategies succeeded and which ones failed. This helps a company plan its future actions and improves the odds they will be successful. For example, a company might look at packaging that worked very well for a product and use the same type of packaging for new products. Firms may also look at customers' reactions to changes in products, including packaging, to see what works and doesn't work.

Individuals are also wise to look at the strategies they have tried in the past to see which ones failed and which ones succeeded. Have you ever done poorly on an exam? Was it the instructor's fault, the strategy you used to study, or did you decide not to study? See which strategies work best for you and perhaps try the same type of strategies for future exams. If a strategy did not work, see what went wrong and change it. Doing so is similar to what organizations do when they analyze their internal environments.

Assessing the External Environment

Analyzing the external environment involves tracking conditions in the macro and micro marketplace that, although largely uncontrollable, affect the way an organization does business. The macro environment includes economic factors, demographic trends, cultural and social trends, political and legal regulations, technological changes, and the price and availability of natural resources. Each factor in the macro environment is discussed separately in the next section. The micro environment includes competition, suppliers, marketing intermediaries (retailers, wholesalers), the public, the company, and customers. We focus on competition in our discussion of the external environment in the chapter.

When firms globalize, analyzing the environment becomes more complex because they must examine the external environment in each country in which they do business. Regulations, competitors, technological development, and the economy may be different in each country and will affect how firms do business. To see how factors in the external environment such as technology may change education and lives of people around the world, watch *Did You Know 2021* (video 2.1), which provides information on social media sites compared to populations in the world.

Video 2.1. Did You Know 2021 by Jose Esteves.

Although the external environment affects all organizations, companies must focus on factors that are relevant for their operations. For example, government regulations on food packaging will affect PepsiCo but not Goodyear. Similarly, students getting a business degree don't need to focus on job opportunities for registered nurses.

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://kpu.pressbooks.pub/introductiontomarketing/?p=44#h5p-9

Microenvironment (3 C's)

Company Capabilities

What is the company good at and what are its competitive advantages? For example, Apple is known for its design and has many patents and trademarks.

Customers

Who are the company's customers and what are their wants and needs? Listening to customers is critical.

Competitors

All organizations must consider their competition, whether it is direct or indirect competition vying for the consumer's dollar. Both nonprofit and for-profit organizations compete for customers' resources. Coke and Pepsi are direct competitors in the soft drink industry, Expedia and Priceline are competitors in the travel industry, and organizations such as United Way and the Canadian Cancer Society compete for resources in the nonprofit sector.

Competitive Analysis

When a firm conducts a competitive analysis, they tend to focus on direct competitors and try to determine a competitor firm's strengths and weaknesses, its image, and its resources. Doing so helps the firm figure out how much money a competitor may be able to spend on things such as research, new product development, promotion, and new locations. Competitive analysis involves looking at any information (annual reports, financial statements, news stories, observation details obtained on visits, etc.) available on competitors.

Also, the world is becoming "smaller" and more of a global marketplace. Companies everywhere are finding that no matter what they make, numerous firms around the world are producing the same "widget" or a similar offering (substitute) and are eager to compete with them. Employees are in the same position. The Internet has made it easier than ever for customers to find products and services and for workers to find the best jobs available, even if they are abroad. Companies are also acquiring foreign firms. These factors all have an effect on the strategic decisions companies make.

Macroenvironment (PEST)

The Political and Legal Environment

All organizations must comply with government regulations and understand the political and legal environments in which they do business. Different government agencies enforce the numerous regulations that have been established to protect both consumers and businesses. For example, the **Competition Act** is a Canadian federal law governing competition in Canada. The regulations related to the act are enforced by the Competition Bureau, which is an independent law enforcement agency that protects and promotes competition for Canadian consumers. **Health Canada,** through the Food and Drug Act, regulates the labelling of food products in Canada. The Canadian Food Inspection Agency is responsible for enforcing these regulations.

Figure 2.3. In 2022, Transport Canada issued a recall on all 2022 Mitsubishi Outlanders due to a software problem potentially causing the rearview camera image not to appear on the display. Canadian regulations require the rearview image to display when the transmission is shifted into reverse gear.

As we have explained, when organizations conduct business in multiple markets, they must understand that regulations vary across countries and across states. Many provinces and countries have different laws that affect strategy. For example, suppose you are opening up a new factory because you cannot keep up with the demand for your products. If you are considering opening the factory in France (perhaps because the demand for your product in Europe is strong), you need to know that it is illegal for employees in that country to work more than thirty-five hours per week.

The Economic Environment

The economy has a major impact on spending by both consumers and businesses, which, in turn, affects the goals and strategies of organizations. Economic factors include variables such as inflation, unemployment, interest rates, and whether the economy is in a growth period or a recession. Inflation occurs when the cost of living continues to rise, eroding the purchasing power of money. When this happens, you and other consumers and businesses need more money to purchase goods and services. Interest rates often rise when inflation rises. Recessions can also occur when inflation rises because higher prices sometimes cause low or negative growth in the economy.

During a recessionary period, it is possible for both high-end and low-end products to sell well. Consumers who can afford luxury goods may continue to buy them, while consumers with lower incomes tend to become more value conscious. Other goods and services, such as products sold in traditional department stores, may suffer. In the face of a severe economic downturn, even the sales of luxury goods can suffer. The economic downturn that began in 2008 affected consumers and businesses at all levels worldwide. Consumers reduced their spending, holiday sales dropped, financial institutions went bankrupt, the mortgage industry collapsed, and the "Big Three" U.S. auto manufacturers (Ford, Chrysler, and General Motors) asked for emergency loans.

The Social and Natural Environment

The demographic and social and cultural environments—including social trends, such as people's attitudes toward fitness and nutrition; demographic characteristics, such as people's age, income, marital status, education, and occupation; and culture, which relates to people's beliefs and values—are constantly changing in the global marketplace. Fitness, nutrition, and health trends affect the product offerings of many firms. For example, Coca Cola produces Vitamin Water and sports drinks. An increase in dual-income family households has led to a rise in the demand for services such as house cleaning and daycare. Generation X are reaching retirement age, sending their children to college, and trying to care for their elderly parents all at the same time.

Firms are responding to the time constraints their buyers face by creating products that are more convenient, such as meal delivery and meal replacements.

The composition of the population is also constantly changing. Chinese people are the largest minority in Canada. Consumers in this group and other diverse groups prefer different types of products and brands. In many cities, stores cater specifically to Chinese customers.

Natural resources are scarce commodities, and consumers are becoming increasingly aware of this fact. Today, many firms are doing more to engage in "sustainable" practices that help protect the environment and conserve natural resources. **Green marketing** involves marketing environmentally safe products and services in a way that is good for the environment. Water shortages often occur in the summer months, so many restaurants now only serve water to patrons upon request. Hotels voluntarily conserve water by not washing guests' sheets and towels every day unless they request it. Reusing packages (refillable containers) and reducing the amount of packaging, paper, energy, and water in the production of goods and services are becoming key considerations for many organizations, whether they sell their products to other businesses or to final users (consumers). Construction companies are using more energy-efficient materials and often have to comply with green building solutions. Green marketing not only helps the environment but also saves the company, and ultimately the consumer, money. Sustainability, ethics (doing the right things), and social responsibility (helping society, communities, and other people) influence an organization's planning process and the strategies they implement.

The Technological Environment

The technology available in the world is changing the way people communicate and the way firms do business. Everyone is affected by technological changes. Self-scanners and video displays at stores, the Internet, and smartphones are a few examples of how technology is affecting businesses and consumers. Many consumers get information, read the news, use text messaging, and shop online. As a result, marketers have begun allocating more of their promotion budgets to online ads and mobile marketing and not just to traditional print media such as newspapers and magazines. Applications for telephones and electronic devices are changing the way people obtain information and shop, allowing customers to comparison shop without having to visit physical stores. As you saw in *Did You Know 2021* (video 2.1), technology and social media are changing people's lives. Many young people may rely more on electronic books, magazines, and newspapers and depend on mobile devices for most of their information needs. Organizations must adapt to new technologies to succeed.

Figure 2.4. Technology changes the way we do business. Purchasing goods with a cell phone adds convenience for customers.

Although environmental conditions change and must be monitored continuously, the situation analysis is a critical input to an organization's or an individual's strategic plan. Let's look at the other components of the strategic planning process.

The Mission Statement

After assessing the firm's internal and external environment, they develop a **mission statement**, which states the purpose of the organization and why it exists. Both for-profit and non-profit organizations have mission statements, which they often publicize.

Key Takeaways

A firm must analyze factors in the external and internal environments it faces throughout the strategic planning process. These factors are inputs to the planning process. As they change, the company must be prepared to adjust its plans. Different factors are relevant for different companies. Once a company has analyzed its internal and external environments, managers can begin to decide which strategies are best, given the firm's mission statement.

Review and Reflect

1. What factors in the external environment are affecting Canadian universities?
2. What are some examples of Costco's strengths?

Media Attributions

- The Strategic Planning Process © Anonymous is licensed under a CC BY-NC-SA (Attribution

2.2 OBJECTIVES AND GROWTH STRATEGIES

Learning Objectives

1. Explain how companies develop the objectives driving their strategies.
2. Describe the different types of product strategies and market entry strategies that companies pursue.

Developing Objectives

Objectives are what organizations want to accomplish—the end results they want to achieve—in a given time frame. In addition to being accomplished within a certain time frame, objectives should be 'specific', 'measurable', 'achievable', 'relevant' and 'time-bound' (S.M.A.R.T.), if possible. "To increase sales in 'x' product line by 2 percent by the end of the year" is an example of an objective an organization might develop. You have probably set objectives for yourself that you want to achieve in a given time frame. For example, your objectives might be to maintain a certain grade point average and get work experience or an internship before you graduate.

Objectives help guide and motivate a company's employees and give its managers reference points for evaluating the firm's marketing actions. Although many organizations publish their mission statements, most for-profit companies do not publish their objectives. Accomplishments at each level of the organization have helped PepsiCo meet its corporate objectives over the course of the past few years. PepsiCo's business units (divisions) have increased the number of their facilities to grow their brands and enter new markets. PepsiCo's beverage and snack units have gained market share by developing healthier products and products that are more convenient to use.

A firm's marketing objectives should be consistent with the company's objectives at other levels, such as the corporate level and business level. An example of a marketing objective for PepsiCo might be "to increase by 4 percent the market share of Gatorade by the end of the year." The way firms analyze their different divisions or businesses will be discussed later in the chapter.

Formulating Strategies

Strategies are the means to the ends, the game plan, or what a firm is going to do to achieve its objectives. Successful strategies help organizations establish and maintain a competitive advantage that competitors cannot imitate easily. **Tactics** include specific actions, such as the use of coupons, television commercials, banner ads, and so on, taken to execute a strategy. PepsiCo attempts to sustain its competitive advantage by constantly developing new products and innovations, including "mega brands," which include nineteen individual brands that generate over $1 billion each in sales. Tactics may consist of specific actions (commercials during the Super Bowl; coupons; buy one, get one free, etc.) to advertise each brand.

Firms often use multiple strategies to accomplish their objectives and capitalize on marketing opportunities. For example, in addition to pursuing a low-cost strategy (selling products inexpensively), Walmart has simultaneously pursued a strategy of opening new stores rapidly around the world. Many companies develop marketing strategies as part of their general, overall business plans. Other companies prepare separate marketing plans.

A **marketing plan** is a strategic plan at the functional level that provides a firm's marketing group with direction. It is a road map that improves the firm's understanding of its competitive situation. The marketing plan also helps the firm allocate resources and divide up the tasks employees need to do for the company to meet its objectives. The different components of marketing plans will be discussed throughout the book and then discussed together at the end of the book. Next, let's take a look at the different types of growth strategies firms pursue before they develop their marketing plans.

Growth Strategies

Figure 2.5. Product and Market Entry Strategies.

Market penetration strategies focus on increasing a firm's sales of its existing products to its existing customers. Companies often offer consumers special promotions or low prices to increase their usage and encourage them to buy products. When Frito-Lay distributes money-saving coupons to customers or offers them discounts to buy multiple packages of snacks, the company is utilizing a penetration strategy. The Campbell Soup Company gets consumers to buy more soup by providing easy recipes using their soup as an ingredient for cooking quick meals.

Product development strategies involve creating new products for existing customers. A new product can be a completely new innovation, an improved product, or a product with enhanced value, such as one with a new feature. Cell phones that allow consumers to purchase goods and services with the phone or take pictures are examples of a product with enhanced value. A new product can also be one that comes in different variations, such as new flavors, colours, and sizes. Timbiebs, introduced by Tim Hortons in 2021, is an example. Keep in mind, however, that what works for one company might not work for another. For example, just after Starbucks announced it was cutting back on the number of its lunch offerings, Tim Hortons announced it was adding items to its lunch menu.

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

New markets can include any new groups of customers such as different age groups, new geographic areas, or international markets. Many companies, including PepsiCo and Hyundai, have entered—and been successful in—rapidly emerging markets such as Russia, China, and India. Decisions to enter foreign markets are based on a company's resources as well as the complexity of factors such as the political environmental, economic conditions, competition, customer knowledge, and probability of success in the desired market. As figure 2.5 shows, there are different ways, or strategies, by which firms can enter international markets. The strategies vary in the amount of risk, control, and investment that firms face. Firms can simply **export** or sell their products to buyers abroad, which is the least risky and least expensive method but also offers the least amount of control. Many small firms export their products to foreign markets.

Firms can also **licence** or sell the right to use some aspect of their production processes, trademarks, or patents to individuals or firms in foreign markets. Licensing is a popular strategy, but firms must figure out how to protect their interests if the licencee decides to open its own business and void the licence agreement. The French luggage and handbag maker Louis Vuitton faced this problem when it entered China. Competitors started illegally putting the Louis Vuitton logo on different products, which cut into its profits.

Figure 2.6. The front of a KFC franchise in Asia may be much larger than KFC stores in the United States. Selling franchises is a popular way for firms to enter foreign markets.

Diversification strategies involve entering new markets with new products or doing something outside a firm's current business. Firms that have little experience with different markets or different products often diversify their product lines by acquiring other companies. Diversification can be profitable, but it can also be risky if a company does not have the expertise or resources it needs to successfully implement the strategy. For example, in 2014, Amazon acquired Twitch, expanding into the livestreaming market.

Key Takeaways

The strategic planning process includes a company's mission (purpose), objectives (end results desired), and strategies (means), all while keeping the company's value proposition in mind. A firm's objectives should be S.M.A.R.T. (specific, measurable, achievable, relevant and time-bound). The different growth strategies firms pursue include market penetration, product development, market development, and diversification.

Review Exercises

1. How do product development strategies differ from market development strategies?
2. Explain why some strategies work for some companies but not others.

Media Attributions

- Ansoff Matrix © JaisonAbeySabu is licensed under a CC BY-SA (Attribution ShareAlike) license
- Vietnamese KFC © Christopher is licensed under a CC BY (Attribution) license

2.3 DISCUSSION QUESTIONS AND ACTIVITIES

Review and Reflect

1. Explain how a marketing objective differs from a marketing strategy. How are they related?
2. Explain how an organization like McDonald's can use licensing to create value for the brand.
3. How has PepsiCo employed a product development strategy?
4. Discuss how conducting a SWOT (strengths, weaknesses, opportunities, threats) analysis helps a firm (or an individual) develop its strategic plan.
5. Describe the value propositions social media sites like YouTube and Twitter offer users.

Activities

1. Outline a strategic plan for yourself to begin planning for a job after graduation. Include your value proposition, targeted organizations, objectives, strategies, and the internal and external factors that may affect your plans.
2. Assume you have an interview for an entry-level sales position. Write a value proposition emphasizing why you are the best candidate for the position relative to other recent college graduates.
3. A mission statement outlines an organization's purpose and answers the question of how a company defines its business. Write a mission statement for a campus organization.

4. Fjallraven Kanken (Kånken Me Mini) allows customers to customize Fjallraven backpacks in different colours. Identify and explain the product market or market development strategies Fjallraven pursued when it introduced personalized backpacks.
5. Explain how changing demographics and the social and cultural environment have impacted the health care industry. Identify new venues for health care that didn't exist a decade ago.
6. Select an organization for which you would like to work. Look up its mission statement. What do you think the organization's objectives and strategies are? What macro and micro environmental and internal factors might affect its success?
7. Break up into teams. Come up with as many real-world examples as you can of companies that pursued market penetration, market development, product development, or diversification strategies. Explain what the company did and how successful you think each strategy will be.

CHAPTER 3: CONSUMER BEHAVIOUR

3.1 CONSUMER DECISION-MAKING PROCESS

Learning Objectives

1. Understand what the stages of the buying process are and what happens in each stage.
2. Distinguish between low-involvement and high-involvement buying decisions.

Stages in the Consumer Decision-Making Process

Figure 3.1 outlines the buying stages consumers go through. At any given time, you're probably in a buying stage for a product or service. You're thinking about the different types of things you want or need to eventually buy, how you are going to find the best ones at the best price, and where and how you will buy them. Meanwhile, there are other products you have already purchased that you're evaluating. Some might be better than others. Will you discard them and, if so, how? Then what will you buy? Where does that process start?

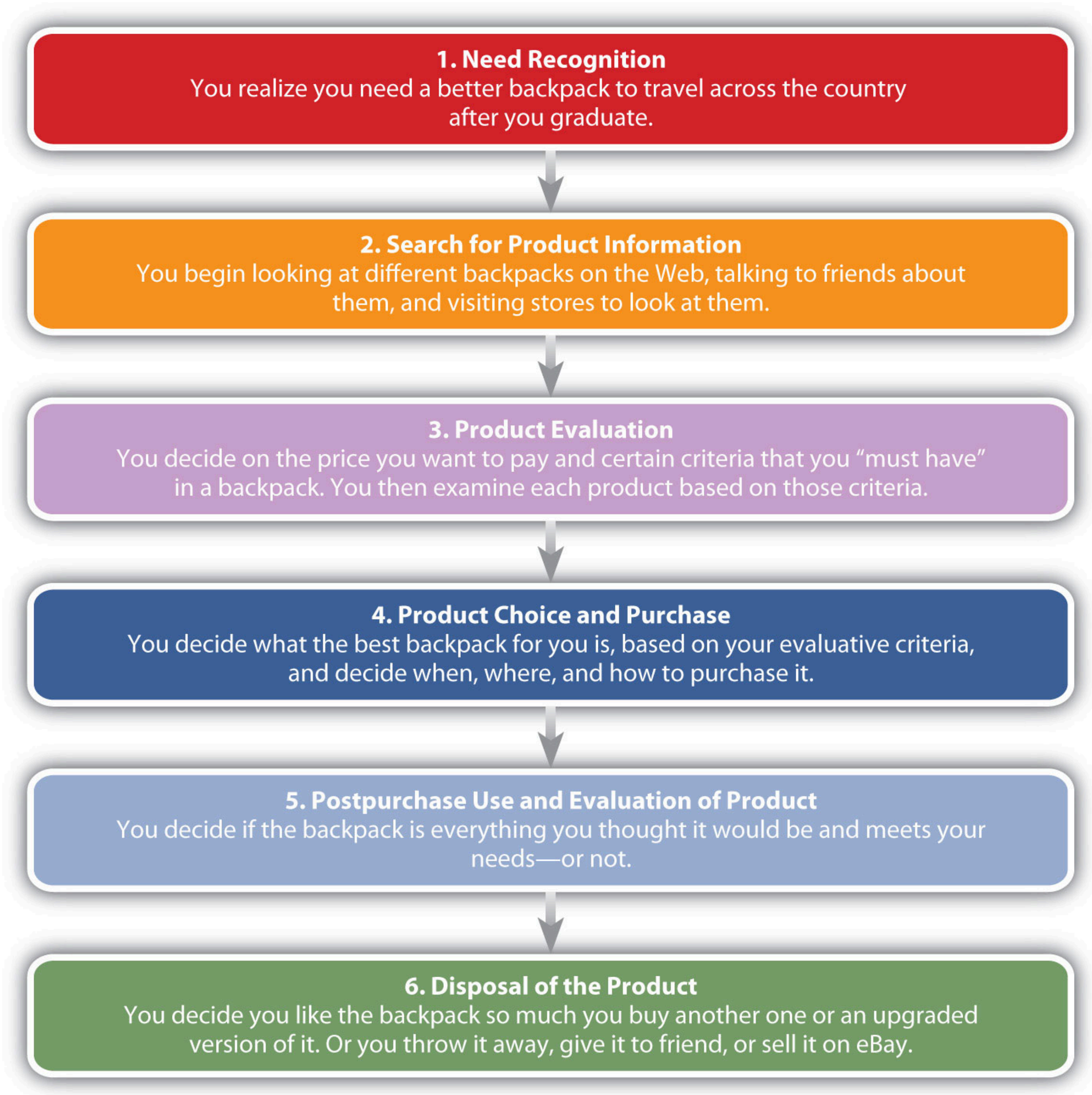


Figure 3.1. Stages in the Consumer's Decision-Making Process. *[Read full image description.]*

Stage 1. Need Recognition

You plan to backpack around the country after you graduate and don't have a particularly good backpack. You realize that you must get a new backpack. You may also be thinking about the job you've accepted after graduation and know that you must get a vehicle to commute. Recognizing a need may involve something as simple as running out of bread or milk or realizing that you must get a new backpack or a car after you graduate. Marketers try to show consumers how their products and services add value and help satisfy needs and wants. Do you think it's a coincidence that Gatorade, Powerade, and other beverage makers locate their machines in gymnasiums so you see them after a long, tiring workout? Or that you hear a McDonald's ad on the radio during your morning commute?

Functional vs Psychological Needs

Functional needs refer to the performance of the product or service.

Psychological needs refer to the gratification from the product or service.

Maslow's Hierarchy of Needs

One of the most important humanists, Abraham Maslow (1908–1970), conceptualized personality in terms of a pyramid-shaped hierarchy of motives, also called the **Hierarchy of Needs**. Maslow's Hierarchy of Needs will be discussed in further detail in chapter 3.2 "Factors that influence consumers' buying behaviour".

Stage 2. Search for (Product) Information

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

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

Internet shopping sites such as Amazon have become a common source of information about products. *Consumer Reports* is an example of a non-profit review company. The site offers product ratings, buying tips, and price information. Amazon also offers product reviews written by consumers. People prefer "independent" sources such as this when they are looking for product information. However, they also often consult non-neutral sources of information, such as advertisements, brochures, company websites, and salespeople.

Stage 3. Product Evaluation/Evaluate Alternatives

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

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

Figure 3.2. Osprey backpacks are known for their durability. The company has a special design and quality control centre, and Osprey's salespeople annually take a "canyon testing" trip to see how well the company's products perform.

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

Consumers don't have the time or desire to ponder endlessly about every purchase! Fortunately for us, heuristics, also described as shortcuts or mental "rules of thumb", help us make decisions quickly and painlessly. Heuristics are especially important to draw on when we are faced with choosing among products in a category where we don't see huge differences or if the outcome isn't 'do or die.'

Heuristics are helpful sets of rules that simplify the decision-making process by making it quick and easy for consumers.

Stage 4. Product Choice (Decision) and Purchase

With low-involvement purchases, consumers may go from recognizing a need to purchasing the product. However, for backpacks and cars, you will likely decide which one to purchase after you have evaluated different alternatives. In addition to which backpack or which car, you are probably also making other decisions at this stage, including where and how to purchase the backpack (or car) and on what terms. Maybe the backpack was cheaper at one store than another but the salesperson there was rude. Or maybe you decide to order online because you're too busy to go to the mall. Other decisions related to the purchase, particularly those related to big-ticket items, are made at this point. For example, if you're buying a Smart TV, you might look for a store that will offer you a discount or a warranty. Before purchasing an Amazon Prime subscription, you are eligible for a 30-day free trial.

Ritual consumption refers to patterns consumers exhibit that are connected to life events (birthdays, anniversaries) or everyday behaviours (coffee breaks or happy hour).

Stage 5. Post-Purchase Use and Evaluation

At this point in the process, you decide whether the backpack you purchased is everything it was cracked up to be. Hopefully it is, but if it's not, you're likely to suffer what's called **post-purchase dissonance** or "buyer's remorse." Typically, dissonance occurs when a product or service does not meet your expectations. Consumers are more likely to experience dissonance with products that are relatively expensive and purchased infrequently.

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

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

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

Stage 6. Disposal of the Product

There was a time when neither manufacturers nor consumers thought much about how products got disposed of, so long as people bought them. But that's changed. How products are being disposed of is becoming extremely important to consumers and society in general. Computers and batteries, which leach chemicals into landfills, are a huge problem. Consumers don't want to degrade the environment if they don't have to, and companies are becoming more aware of this fact.

Take, for example, Soda Stream, an appliance that makes sparkling water. By using this product, customers don't have to buy and dispose of plastic bottle after plastic bottle, damaging the environment in the process. Instead of buying new bottles of it all the time, you can make your own carbonated drinks. You have probably noticed that most grocery stores now sell cloth bags consumers can reuse and are charging for paper bags. Ikea, Patagonia and Arc'teryx offer their customers a chance to resell their products back to the company who will in turn sell it on their website.

Figure 3.3. The hike up to Mount Everest used to be pristine. Now it looks more like this. Who's responsible? Are consumers or companies responsible, or both?

Other companies are less concerned about conservation than they are about **planned obsolescence**. Planned obsolescence is a deliberate effort by companies to make their products obsolete, or unusable, after a period of time. The goal is to improve a company's sales by reducing the amount of time between the repeat purchases consumers make of products. In 2020, Apple was found guilty of deliberately slowing down its older phones so customers would purchase new models.

Products that are disposable are another way in which firms have managed to reduce the amount of time between purchases. Disposable pens are an example. Do you know anyone today that owns a refillable pen? There are many more disposable products today than there were in years past—including everything from bottled water and individually wrapped snacks to single-use eye drops and cell phones. How many disposable masks have you used since the COVID-19 pandemic first started?

Figure 3.4. Disposable masks on the street are a common sight nowadays.

Low-involvement and High-involvement Decisions

As you have seen, many factors influence a consumer's behaviour. Depending on a consumer's experience and knowledge, some consumers may be able to make quick purchase decisions, while other consumers may need to get information and be more involved in the decision process before making a purchase. The **level of involvement** reflects how personally important or interested you are in consuming a product and how much information you need to make a decision. The level of involvement in buying decisions may be considered a continuum from decisions that are fairly routine (consumers are not very involved) to decisions that require extensive thought and a high level of involvement. Whether a decision is low, high, or limited, involvement varies by consumer, not by product, though some products such as purchasing a house typically require a high level of involvement for all consumers. Consumers with no experience purchasing a product may have more involvement than someone who is replacing a product. You have probably thought about many products you want or need but never did much more than that. At other times, you've probably looked at dozens of products, compared them, and then decided not to purchase any one of them. When you run out of products such as milk or bread that you buy on a regular basis, you may buy the product as soon as you recognize the need because you do not need to search for information or evaluate alternatives. As Nike would put it, you "just do it." Low-involvement decisions are, however, typically products that are relatively inexpensive and pose a low risk to the buyer if purchased by mistake.

Consumers often engage in routine response behaviour when they make low-involvement decisions—that is, they make automatic purchase decisions based on limited information or information they have gathered in the past. For example, if you always order a Diet Coke at lunch, you're engaging in routine response behaviour. You may not even think about other drink options at lunch because your routine is to order a Diet Coke, and you simply do it. Similarly, if you run out of Diet Coke at home, you may buy more without any information search. Some low-involvement purchases are made with no planning or previous thought. These buying decisions are called impulse buying. While you're waiting to check out at the grocery store, perhaps you see a magazine with your favourite celebrity on the cover and buy it on the spot simply because you want it. You might see a roll of tape at a check-out stand and remember you need one, or you might see a bag of chips and realize you're hungry or just want them. These are items that are typically low-involvement decisions. Low-involvement decisions aren't necessarily products purchased on impulse, though they can be.

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

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

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

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

When it comes to the car, you might engage in extensive problem solving but, again, only be willing to consider a certain brand or brands. For example, when considering an electric car, some buyers may only consider Tesla. If it's a high-involvement product you're purchasing, a good brand name is probably going to be very important to you. That's why the manufacturers of products that are typically high-involvement decisions can't become complacent about the value of their brands.

Maybe you already thought of examples from your own decision-making while reading this chapter. Use the exercise below to think through a decision in detail.

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://kpu.pressbooks.pub/introductiontomarketing/?p=75#h5p-10

Key Takeaways

Consumer behaviour looks at the many reasons why people buy things and later dispose of them. Consumers go through distinct buying phases when they purchase products:

1. realizing the need or wanting something,
2. searching for information about the item,
3. evaluating different alternatives,
4. making a decision and purchasing it,
5. evaluating the product after the purchase, and
6. disposing of the product.

Review and Reflect

1. What can marketers do at each stage to influence the customer in their favour?
2. What is post-purchase dissonance and what can companies do to reduce it?
3. How do low-involvement decisions differ from high-involvement decisions in terms of relevance, price, frequency, and the risks their buyers face? Name some products in each category that you've recently purchased.
4. What stages do people go through in the buying process for high-involvement decisions? How do the stages vary for low-involvement decisions?

Media Attributions

- Stages of Consumer's Decision-Making Process © Principles of Marketing is licensed under a CC BY-NC-SA (Attribution NonCommercial ShareAlike) license
- Osprey Backpack © Melanie Innis is licensed under a CC BY-NC-ND (Attribution NonCommercial NoDerivatives) license

- Recycling Center Pile © jqpubliq is licensed under a CC BY-SA (Attribution ShareAlike) license
- Disposable Face Mask on street, East Downtown, Vancouver during coronavirus pandemic © GoToVan is licensed under a CC BY (Attribution) license

3.2 FACTORS THAT INFLUENCE CONSUMERS' BUYING BEHAVIOUR

Learning Objectives

1. Describe the personal and psychological factors that may influence what consumers buy and when they buy it.
2. Explain what marketing professionals can do to influence consumers' behaviour.
3. Explain how looking at lifestyle information helps firms understand what consumers want to purchase.
4. Explain how Maslow's hierarchy of needs works.
5. Explain how culture, subcultures, social classes, families, and reference groups affect consumers' buying behaviour.

Consumer behaviour is influenced by many things, including environmental and marketing factors, the situation, personal and psychological factors, family, and culture. Businesses try to figure out **trends** so they can reach the people most likely to buy their products in the most cost-effective way possible. Businesses often try to influence a consumer's behaviour with things they can control such as the layout of a store, music, grouping and availability of products, pricing, and advertising. While some influences may be temporary and others are long lasting, different factors can affect how buyers behave—whether they influence you to make a purchase, buy additional products, or buy nothing at all. Let's now look at some of the influences on consumer behaviour in more detail.

Situational Factors

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

Store locations also influence behaviour. Starbucks has done a good job in terms of locating its stores. It has the process down to a science; you can scarcely drive a few blocks without passing a Starbucks. You can also buy Starbucks coffee at many grocery stores, in shopping malls, and in airports—virtually any place where there are people.

Physical factors that firms can control, such as the layout of a store, the music played at stores, the lighting, the temperature, and even the smells you experience are called **atmospherics**. Research shows that "strategic fragrancing" results in customers staying in stores longer, buying more, and leaving with better impressions of the quality of stores' services and products. Mirrors near hotel elevators are another example. Hotel operators have found that when people are busy looking at themselves in the mirrors, they don't feel like they are waiting as long for their elevators (Moore, 2008).[1]

Not all physical factors are under a company's control, however. Take the COVID-19 pandemic, for example. COVID-19 was a boon to some companies, like delivery companies Uber Eats and Doordash, bike manufacturers, online shopping retailers, and companies that sell health items, but a problem for others. Hotels, airlines, and tourism suffered greatly during the onset of the pandemic.

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

Crowding is another situational factor. Have you ever left a store and not purchased anything because it was just too crowded? Some studies have shown that consumers feel better about retailers who attempt to prevent overcrowding in their stores. However, other studies have shown that to a certain extent, crowding can have

1. Moore, P. (2008, February). Smells sell. *NZ Business*, 26–27.

a positive impact on a person's buying experience. The phenomenon is often referred to as "herd behaviour" (Gaumer & Leif, 2005).[2]

If people are lined up to buy something, you want to know why. Should you get in line to buy it too? Think of the lineups in front of the Apple Store days before the release of the new iPhone and the related media coverage.

Social Situation

The social situation you're in can significantly affect your purchase behaviour. Perhaps you have seen Girl Guides selling cookies outside grocery stores and other retail establishments and purchased nothing from them, but what if your neighbour's daughter is selling the cookies? Are you going to turn her down or be a friendly neighbour and buy a box (or two)?

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://kpu.pressbooks.pub/introductiontomarketing/?p=68#oembed-1

Video 3.1. Thin mints, anyone? Source: Funny Dairy Queen Commercial on SLTV98.

Companies like Epicure that sell their products at parties understand that the social situation makes a difference. When you're at a friend's Epicure party, you don't want to look cheap or disappoint your friend by not buying anything. Likewise, if you have turned down a drink or dessert on a date because you were worried about what the person you were with might have thought, your consumption was affected by your social situation (Matilla & Wirtz, 2008).[3]

2. Gaumer, C. J., & Leif, W. C. (2005). Social facilitation: Affect and application in consumer buying situations. *Journal of Food Products Marketing, 11*(1), 75–82.
3. Matilla, A. S., & Wirtz, J. (2008). The role of store environmental stimulation and social factors on impulse purchasing. *Journal of Services Marketing, 22*(7), 562–67.

Time

The time of day, time of year, and how much time consumers feel like they have to shop affect what they buy. Researchers have even discovered that whether someone is a "morning person" or "evening person" affects shopping patterns. Have you ever gone to the grocery store when you are hungry or after payday when you have cash in your pocket? When you are hungry or have cash, you may purchase more than you would at other times. 7-Eleven Japan is a company that's extremely in tune to time and how it affects buyers. The company's point-of-sale systems at its checkout counters monitor what is selling well and when, and stores are restocked with those items immediately—sometimes via motorcycle deliveries that zip in and out of traffic along Japan's crowded streets. The goal is to get the products on the shelves when and where consumers want them. 7-Eleven Japan also knows that, like Americans, its customers are "time starved." Shoppers can pay their utility bills, local taxes, and insurance or pension premiums at Seven-Eleven Japan stores, and even make photocopies (Bird, 2002).[4]

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

Reason for the Purchase

The reason you are shopping also affects the amount of time you will spend shopping. Are you making an emergency purchase? What if you need something for an important dinner or a project and only have an hour to get everything? Are you shopping for a gift or for a special occasion? Are you buying something to complete a task/project and need it quickly? In recent years, emergency clinics have sprung up in strip malls all over the country. Convenience is one reason. The other is sheer necessity. If you cut yourself and you are bleeding badly, you're probably not going to shop around much to find the best clinic. You will go to the one that's closest to you. The same thing may happen if you need something immediately.

Purchasing a gift might not be an emergency situation, but you might not want to spend much time shopping for the gift either. Gift certificates have been popular for years. You can purchase gift cards for numerous

4. Bird, A. (2002). Retail industry. In *Encyclopedia of Japanese Business and Management* (pp. 399–400). Routledge.

merchants at your local grocery store or online. By contrast, suppose you need to buy an engagement ring. Sure, you could buy one online in a jiffy, but you probably wouldn't do that. What if the diamond was fake? What if your significant other turned you down and you had to return the ring? How hard would it be to get back online and return the ring (Hornik & Miniero, 2009)?[5]

Mood

People's moods temporarily affect their spending patterns. Some people enjoy shopping. It's entertaining for them. At the extreme are compulsive spenders who get a temporary "high" from spending.

A bad mood can spoil a consumer's desire to shop. The crash of the U.S. stock market in 2008 left many people feeling poorer, leading to a dramatic downturn in consumer spending. Penny pinching came into vogue, and conspicuous spending was out. Costco and Walmart experienced heightened sales of their low-cost Kirkland Signature and Great Value brands as consumers scrimped (Birchall, 2009).[6] Saks Fifth Avenue wasn't so lucky. Its annual release of spring fashions usually leads to a feeding frenzy among shoppers, but spring 2009 was different. "We've definitely seen a drop-off of this idea of shopping for entertainment," says Kimberly Grabel, Saks Fifth Avenue's senior vice president of marketing (Rosenbloom, 2009).[7] To get buyers in the shopping mood, companies resorted to different measures. The upscale retailer Neiman Marcus began introducing more mid-priced brands. By studying customers' loyalty cards, the French hypermarket Carrefour hoped to find ways to get its customers to purchase nonfood items that have higher profit margins.

The glum mood wasn't bad for all businesses, though. Dollarama saw their sales surge. So did seed sellers as people began planting their own gardens. Amazon saw its best sales ever. Apparently, consumers who weren't able to go on vacation or shop in stores were instead watching Netflix and shopping online.

Psychological Factors

Motivation

Motivation is the inward drive we have to get what we need. In the mid-1900s, Abraham Maslow, an American psychologist, developed the hierarchy of needs shown in figure 3.4. At the base of the pyramid

5. Hornik, J., & Miniero, G. (2009). Synchrony effects on customers' responses and behaviours. *International Journal of Research in Marketing, 26*(1), 34–40.
6. Birchall, J. (2009, March 17). Wal-Mart unveils plans for own-label revamp. *Financial Times, 15*.
7. Rosenbloom, S. (2009, March 18). "Where have all the shoppers gone?" *Fort Worth Star-Telegram*, 5E.

are the lowest-level motivations, including hunger, thirst, safety and belongingness. Maslow argued that only when people are able to meet the lower-level needs are they able to move on to achieve the higher-level needs of self-esteem and eventually self-actualization, which is the motivation to develop our innate potential to the fullest possible extent.

Figure 3.4. Maslow's Hierarchy of Needs begins at the bottom with basic or physiological needs such as water and food. Once those needs are met the next level of needs are safety, such as security and good health. The next level of needs are belonging (or social), such as friendship and family. Once met, the next level of needs are esteem (or ego) such as the respect and admiration of others. And the final level of needs to be met are self-actualization which may be fulfilled through volunteering or creative endeavours.

Maslow believed that human behaviour is driven and guided by a set of basic needs: physiological needs, safety needs, belongingness and love needs, esteem needs, and the need for self-actualization. Maslow theorized that people have to fulfill their basic needs—food, water, and sleep—before they can begin fulfilling higher-level needs. Have you ever gone shopping when you were tired or hungry? Even if you were shopping for something that would make you the envy of your friends (maybe a new car), you probably wanted to sleep or eat even more (forget the car. Just give me a nap and a candy bar).

Individuals must move through the hierarchy in order, satisfying the needs at each level before moving on to a higher level.

- Physiological: Food, Water, Air, Sleep
- Safety: Security, Employment, Health
- Love/Belonging: Relationships, Friends, Social Connection
- Esteem: Respect, Status, Esteem, Recognition, Freedom, Confidence
- Self-Actualization: Reaching your highest potential

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

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

Motivating Consumers in a Time of Crisis

Following the economic crisis that began in 2008, the sales of new automobiles dropped sharply virtually everywhere around the world — except the sales of Hyundai vehicles. Hyundai understood that people needed to feel secure and safe and ran an ad campaign that assured car buyers they could return their vehicles if they couldn't make the payments on them without damaging their credit. Seeing Hyundai's success, other carmakers began offering similar programs. Likewise, banks began offering "worry-free" mortgages to ease the minds of would-be homebuyers. For a fee of about $500, First Mortgage Corp., a Texas-based bank, offered to make a homeowner's mortgage payment for six months if he or she got laid off (Jares, 2010).[8]

Likewise, during the 2020 coronavirus pandemic, brands started to adopt a new line of "worry-free" messaging such as Pizza Hut's "contact-free" delivery option for consumers living under conditions of quarantine and physical isolation.

Chances are, Maslow's hierarchy will cross your path many times in your life. Let's practice the order of categories so that you can be a pro!

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://kpu.pressbooks.pub/introductiontomarketing/?p=68#h5p-11

Perception

Perception is how you interpret the world around you and make sense of it in your brain. You do so via stimuli that affect your different senses—sight, hearing, touch, smell, and taste. How you combine these senses also makes a difference. For example, in one study, consumers were blindfolded and asked to drink a new brand of

8. Jares, A. (2010, March 7). New programs are taking worries from home buying. Fort Worth Star-Telegram, 1C–2C.

clear beer. Most of them said the product tasted like regular beer. However, when the blindfolds came off and they drank the beer, many of them described it as "watery" tasting (Ries, 2009).[9]

Consumers are bombarded with messages on television, radio, magazines, the Internet, and even bathroom walls. The average consumer is exposed to about three thousand advertisements per day (Lasn, 1999).[10] Consumers are online, streaming shows, and checking their cell phones for messages simultaneously. Some, but not all, information makes it into our brains. Selecting information we see or hear is called "selective exposure."

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

Another potential problem that advertisers (or your friends) may experience is **selective distortion** or misinterpretation of the intended message. Promotions for weight loss products show models that look slim and trim after using their products, and consumers may believe they will look like the model if they use the product. They misinterpret other factors such as how the model looked before or how long it will take to achieve the results. Similarly, have you ever told someone a story about a friend and that person told another person who told someone else? By the time the story gets back to you, it is completely different. The same thing can happen with many types of messages.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://kpu.pressbooks.pub/introductiontomarketing/?p=68#oembed-3

9. Ries, L. (2009). *In the boardroom: Why left-brained management and right-brain marketing don't see eye-to-eye*. HarperCollins.
10. Lasn, K. (1999). *Culture Jam: The uncooling of America*. William Morrow & Company.

Video 3.2. Kelloggs – Special K – Pinch More Than An Inch – UK Advert by Nina Perez.

Learning

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

Companies try to get consumers to learn about their products in different ways. Car dealerships offer test drives. Pharmaceutical reps leave samples and brochures at doctor's offices. Other companies give consumers free samples. To promote products, Costco offered customers free samples to try. While sampling is an expensive strategy, it gets consumers to try the product and many customers buy it, especially right after trying it in the store.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://kpu.pressbooks.pub/introductiontomarketing/?p=68#oembed-2

Video 3.3. Coca-Cola Sunset by Coca-Cola Nederland.

Attitude

Attitudes are "mental positions" or emotional feelings, favourable or unfavourable evaluations, and action tendencies people have about products, services, companies, ideas, issues, or institutions (AllBusiness, 2007).[11] Attitudes tend to be enduring, and because they are based on people's values and beliefs, they are hard to change. Companies want people to have positive feelings about their offerings. Subway's Eat Fresh Refresh campaign launched in 2021 is a good example. Fast food has a negative connotation, so Subway is trying to get consumers to think about its sandwiches as being better. In the ad above, Coca-Cola is enlightening people about Ramadan and inspiring people to see each other through their similarities.

11. AllBusiness. (2007). Attitudes. In *AllBusiness.com*. Accessed October 14, 2009.

Lifestyle

To better understand and connect with consumers, companies interview or ask people to complete questionnaires about their lifestyles or their activities, interests, and opinions (often referred to as AIO statements). Consumers are not only asked about products they like, where they live, and what their age is but also about what they do—that is, how they spend their time and what their priorities, values, opinions, and general outlooks on the world are. Where do they go other than work? Who do they like to talk to? What do they talk about? Researchers hired by Procter & Gamble have gone so far as to follow women around for weeks as they shop, run errands, and socialize with one another (Berner, 2006).[12] Other companies have paid people to keep a daily journal of their activities and routines.

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

Societal Factors

Situational factors and psychological factors influence what you buy but only on a temporary basis. Societal factors are a bit different. They are more outward and have broad influences on your beliefs and the way you do things. They depend on the world around you and how it works.

Culture

Culture refers to the shared beliefs, customs, behaviours, and attitudes that characterize a society. Culture is a handed down way of life and is often considered as having the broadest influence on a consumer's behaviour. Your culture prescribes the way in which you should live and has a huge effect on the things you purchase. Marketers must understand how strategies that have worked in Canada may not work well in China or India because their cultures are different.

12. Berner, R. (2006, May 1). Detergent can be so much more. *Business Week*, 66–68.

Subcultures

A **subculture** is a group of people within a culture who are different from the dominant culture but have something in common with one another such as common interests, vocations or jobs, religions, ethnic backgrounds, and geographic locations. British Columbia is home to many minorities. In Richmond, many businesses display bilingual signs.

Figure 3.5. Are you a “sneakeherhead”?

Subcultures, such as university students, can develop in response to people's interests, similarities, and behaviours, and marketing professionals design specific products for them. You have probably heard of the sneakerhead subculture, people who engage in extreme types of sports such as rock climbing or people who go to Comic-Con.

Reference Groups

Reference groups are groups (social groups, work groups, family, or close friends) a consumer identifies with and may want to join. They influence consumers' attitudes and behaviours. If you have ever dreamed of being a professional player of basketball or another sport, you have an aspirational reference group. That's why, for example, Nike hires celebrities such as LeBron James to pitch the company's products.

Family

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

Companies are interested in which family members have the most influence over certain purchases. Children have a great deal of influence over many household purchases. For example, in a 2019 survey, 87% of parents said that their children influence their purchase decisions.

The practice of marketing to children has come under increasing scrutiny. Some critics accuse companies of deliberately manipulating children to nag their parents for certain products. For example, Lucky Charms commercials on children's TV channels seek to get children to influence their parents to buy the cereal.

Key Takeaways

- Situational influences are temporary conditions that affect how buyers behave. They include physical factors such as a store's buying locations, layout, music, lighting, and even scent. Companies try to make the physical factors in which consumers shop as favourable as possible. If they can't, they utilize other tactics such as discounts. The consumer's social situation, time factors, the reason for their purchases, and their moods also affect their buying behaviour.
- Your personality describes your disposition as other people see it. Market researchers believe people buy products to enhance how they feel about themselves. Your gender also affects what you buy and how you shop. Men shop differently than women; however, there's some evidence that this is changing. Younger men and women are beginning to shop more alike. People buy different things based on their ages and life stages. A person's cognitive age is how old one "feels" oneself to be. To further understand consumers and connect with them, companies have begun looking more closely at their lifestyles (what they do, how they spend their time, what their priorities and values are, and how they see the world).
- Psychologist Abraham Maslow theorized that people have to fulfill their basic needs—like the need for food, water, and sleep—before they can begin fulfilling higher-level needs. Perception is how you interpret the world around you and make sense of it in your brain. To be sure their advertising messages get through to you, companies often resort to repetition. Shock advertising and product placement are two other methods. Learning is the process by which consumers change their behaviour after they gain information about or experience with a product. Consumers' attitudes are the "mental positions" people take based on their values and beliefs. Attitudes tend to be enduring and are often difficult for companies to change.
- Culture prescribes the way in which you should live and affects the things you purchase. A subculture is a group of people within a culture who are different from the dominant culture but have something in common with one another—common interests, vocations or jobs, religions, ethnic backgrounds, sexual orientations, and so forth. To some degree, consumers in the same social class exhibit similar purchasing behaviour. Most market researchers consider a person's family to be one of the biggest determinants of buying behaviour. Reference groups are groups that a consumer identifies with and wants to join. Companies often hire celebrities to endorse their products to appeal to people's reference groups. Opinion leaders are people with expertise in certain areas. Consumers respect these people and often ask their opinions before they buy goods and services.

Review and Reflect

1. Explain what physical factors, social situations, time factors, and/or moods have affected your buying behaviour for different products.
2. How do Maslow's hierarchy of needs and learning affect how companies market to consumers?
3. Why do people's cultures and subcultures affect what they buy?
4. How do subcultures differ from cultures? Can you belong to more than one culture or subculture?

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://kpu.pressbooks.pub/introductiontomarketing/?p=68#h5p-12

Media Attributions

3.3 DISCUSSION QUESTIONS AND ACTIVITIES

Review and Reflect

1. Why do people in different cultures buy different products? Discuss with your class the types of vehicles you have seen in other countries. Why are they different, and how do they better meet buyers' needs in those countries?
2. What is your opinion of companies like Google that gather information about your browsing patterns? What advantages and drawbacks does this pose for consumers? If you were a business owner, what kinds of information would you gather on your customers and how would you use it?
3. Are there any areas in which you consider yourself an opinion leader? What are they? How are companies getting information about opinion leaders?
4. What purchasing decisions have you been able to influence in your family and why? Is marketing to children a good idea? If not, what if one of your competitors were successful in doing so? Would it change your opinion?
5. Name some products that have led to post-purchase dissonance on your part. Then categorize them as high- or low-involvement products.
6. Describe the decision process for impulse purchases at the retail level. Would they be classified as high- or low-involvement purchases?
7. How do you think the manufacturers of products sold through infomercials reduce post-purchase dissonance?
8. Explain the relationship between extensive, limited, and routine decision making relative to high- and low-involvement decisions. Identify examples of extensive, limited, and routine decision making based on your personal consumption behaviour.
9. Why is understanding consumer behaviour so important for companies? Think of examples where you do not think companies understood their consumers.

Activities

1. Go to the Osprey Backpacks website and enter the blog site. Does the blog make you more or less inclined to purchase an Osprey backpack?
2. Select three advertisements and describe the needs identified by Abraham Maslow that each ad addresses. Find an international version of an advertisement for one of the products. What differences do you detect in the international version of the ad?
3. Break up into groups and visit an ethnic part of your town that differs from your own ethnicity(ies). Walk around the neighbourhood and its stores. What types of marketing and buying differences do you see? Write a report of your findings.
4. Using Maslow's hierarchy of needs, identify a list of popular advertising slogans that appeal to each of the five levels.
5. Identify how McDonald's targets both users (primarily children) and buyers (parents, grandparents, etc.). Provide specific examples of strategies used by the fast-food marketer to target both groups. Make it a point to incorporate Happy Meals into your discussion.

CHAPTER 4: BUSINESS BUYING BEHAVIOUR

4.1 BUSINESS-TO-BUSINESS (B2B) MARKETS

Learning Objectives

1. Identify the ways in which business-to-business (B2B) markets differ from business-to-consumer (B2C) markets.
2. Explain why business buying is acutely affected by the behaviour of consumers.

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

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

Business products can be very complex. Some need to be custom built or retrofitted for buyers. The products include everything from high-dollar construction equipment to commercial real estate and buildings, military equipment, and billion-dollar cruise liners used in the tourism industry.

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

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

Another characteristic of B2B markets is the level of personal selling that goes on. Salespeople personally call on business customers to a far greater extent than they do consumers. Most of us have had door-to-door salespeople call on us occasionally. However, businesses often have multiple salespeople call on them in person daily, and some customers even provide office space for key vendors' salespeople. Table 4.1 outlines the main differences between B2C and B2B markets.

Table 4.1. Business-to-Consumer Markets versus Business-to-Business Markets: How They Compare

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

The Demand for B2B Products

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

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

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

Because consumers are such a powerful force, some companies go so far as to try to influence their B2B sales by directly influencing consumers even though they don't sell their products to them. Intel is a classic case. Do you really care what sort of microprocessing chip gets built into your computer? Intel would like you to, which is why it has run a long series of commercials on TV to think about what chip is inside your computer. Video 4.1 shows how they've continued to promote "Intel Inside" even though their actual product has changed. The commercial isn't likely to persuade a computer manufacturer to buy Intel's chips. But the manufacturer might be persuaded to buy them if it's important to you. Derived demand is also the reason Intel demands that the buyers of its chips put a little "Intel Inside" sticker on each computer they make—so you get to know Intel and demand its products.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://kpu.pressbooks.pub/introductiontomarketing/?p=80#oembed-1

Video 4.1. Does this commercial make you want to buy a computer with "Intel Inside"? Intel hopes so. Source: All Intel animations 2010 on kiramonk15.

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

Watch video 4.2 to see the first video game ever invented, Pong, and learn about its maker. Of course, Pong got old pretty fast, so more games were quickly developed and continue to be, especially when new gaming systems hit the market.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://kpu.pressbooks.pub/introductiontomarketing/?p=80#oembed-2

Video 4.2. The History of Pong by tr0d.

Key Takeaways

B2B markets differ from B2C markets in many ways. There are more transactions in B2B markets and more high-dollar transactions because business products are often costly and complex. There are also fewer buyers in B2B markets, but they spend much more than the typical consumer does and have more rigid product standards. The demand for business products is based on derived demand. Derived demand is demand that springs from, or is derived from, a secondary source other than the primary buyer of a product. For businesses, this source is consumers. Fluctuating demand is another characteristic of B2B markets: a small change in demand by consumers can have a big effect throughout the chain of businesses that supply all the goods and services that produce it.

Review and Reflect

1. Why are there more transactions in B2B markets than B2C markets? Why are there fewer buyers?
2. Explain what derived demand is.
3. Why do firms experience a bullwhip effect in the demand for their products when consumers demand changes?
4. In the following accordion, you can see the differences between B2B and B2C:

   An interactive H5P element has been excluded from this version of the text. You can view it online here:
   https://kpu.pressbooks.pub/introductiontomarketing/?p=80#h5p-13

5. Reflect on this: Do you consider B2B or B2C marketing more creative?

4.2 TYPES OF B2B BUYERS

Learning Objectives

1. Describe the major categories of business buyers.
2. Explain why finding decision makers in business markets is challenging for sellers.

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

Producer (Manufacturer)

Figure 4.1. Your local tattoo parlor is a producer.

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

Resellers

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

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

"The whole visit to Wal-Mart's headquarters is a great experience," said Wier about his trip. "It's so crowded, you have to drive around, waiting for a parking space. You have to follow someone who is leaving, walking back to their car, and get their spot. Then you go inside this building, you register for your appointment, they give you a badge, and then you wait in the pews with the rest of the peddlers, the guy with the bras draped over his shoulder." Eventually, would-be suppliers were taken into small cubicles where they had thirty minutes to make their case. "It's a little like going to see the principal, really," he said (Fishman, 2007).[1]

Governments

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

1. Fishman, C. (2006, January 1). *The man who said no to Wal-Mart*. Fast Company. Accessed December 13, 2009.

There is no one central department or place in which all these products are bought and sold. Companies that want to sell to the Canadian government should consult the [Public Services and Procurement webpage](#).

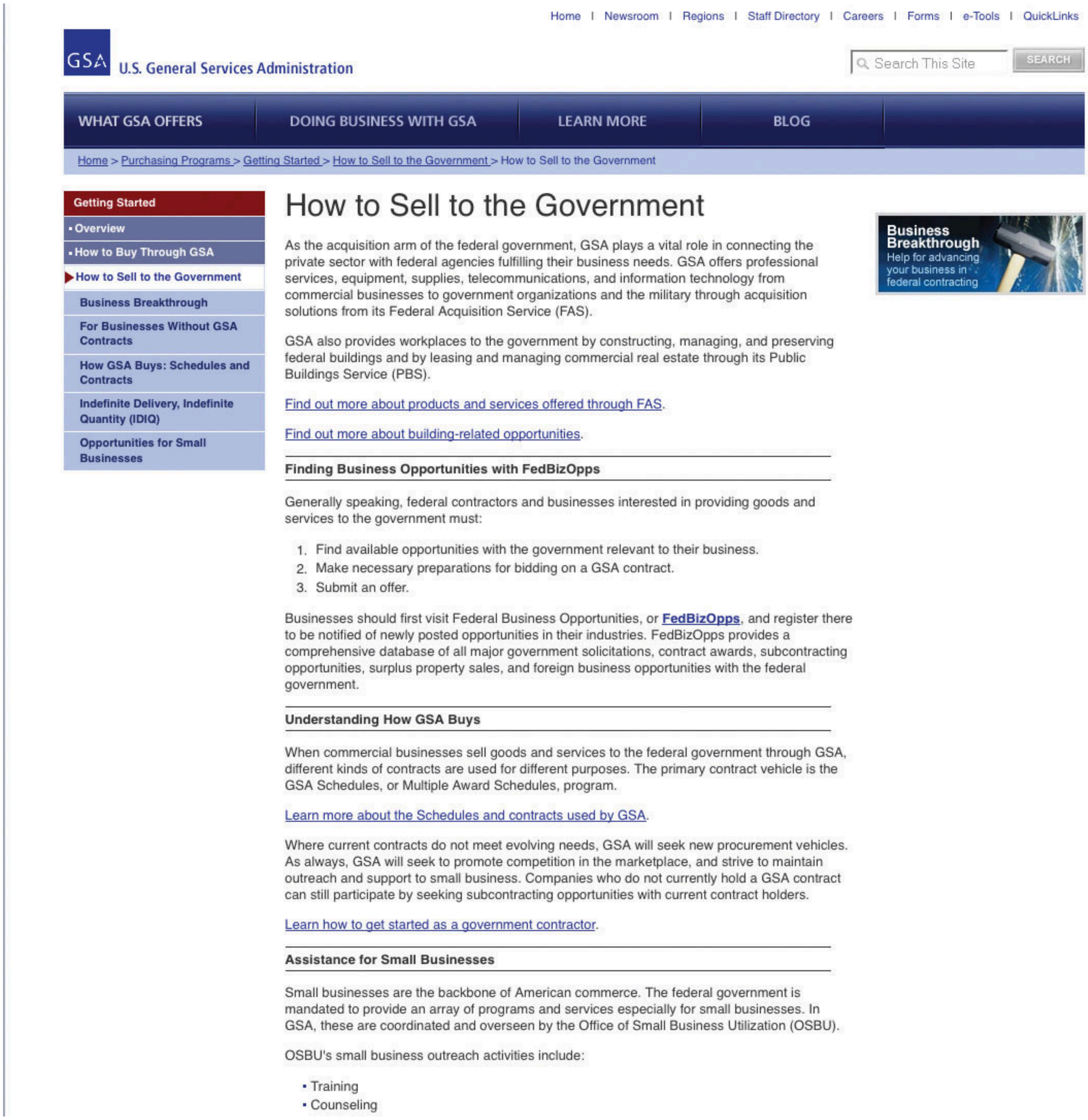


Figure 4.2. [The General Services Administration (GSA)](#) is a good starting point for companies that want to do business with the federal government. The U.S. Small Business Administration (SBA) also offers sellers a great deal of information on marketing to the government, including online courses that explain how to do it.

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

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

Yet selling to the government is not always easy. Because many purchases can be rather large, decision cycles can be very long and involve large buying centres. Some businesses avoid selling to the government because the perceived hassle is too great to warrant the effort. Other businesses, though, realize that learning the ins and outs of government purchases can become a sustainable competitive advantage.

Figure 4.3. Politics can come into play when it comes to large government purchases. Although the F-22 is the most sophisticated fighter jet in the world, it has never been used in battle. But when the Pentagon wanted to stop production on seven of the jets so it could spend the money on other conventional weapons being used in the wars the United States is currently fighting, it had a fight on its hands from the members of Congress. They didn't want the companies in their states that helped produce the plane to lose business.

Institutions

Institutional markets include nonprofit organizations such as the Canadian Red Cross Society, churches, hospitals, charitable organizations, universities, clubs, and so on. Like government and for-profit organizations, they buy a huge quantity of products and services. Keeping costs low is especially important to them. The lower their costs are, the more people they can provide their services to.

The businesses and products we have mentioned so far are broad generalizations intended to help you think about the various markets in which products can be sold. In addition, not all products a company buys are high dollar or complex. Businesses buy huge quantities of inexpensive products, too. McDonald's, for example, buys a lot of toilet paper, napkins, bags, employee uniforms, etc.

Who Makes the Purchasing Decisions in Business Markets?

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

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

The question is, which professors? Some professors choose their own books. Adjunct professors often don't have a choice—their books are chosen by a course coordinator or the dean or chair of the department. Still other decisions are made by groups of professors, some of whom have more say over the final decision than others. Are you getting the picture? Figuring out where to start in B2B sales can be a little bit like a scavenger hunt.

Key Takeaways

Business buyers can be either non-profit or for-profit businesses. There are four basic categories of business buyers: producers, resellers, governments, and institutions. Producers are companies that purchase goods and services that they transform into other products. They include both manufacturers and service providers. Resellers are companies that sell goods and services produced by other firms without materially changing them. They include wholesalers, brokers, and retailers. Local, provincial, and national governments purchase large quantities of goods and services. Institutional markets include nonprofit organizations such as the Canadian Red Cross Society, churches, hospitals, charitable organizations, private colleges, civic clubs, and so on. Keeping costs low is especially important to them because it enables them to provide their services to more people. Figuring out who exactly in B2B markets is responsible for what gets purchased and when often requires some detective work by marketing professionals and the salespeople they work with.

Review and Reflect

1. What sorts of products do producers buy?
2. What role do resellers play in B2B markets, and why are they important to sellers?
3. How do sellers find government buyers? Institutional buyers?
4. Why is it difficult to figure out whom to call on in business markets?
5. Remember the keywords and topics from this chapter? Find them all in the word jumble!

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://kpu.pressbooks.pub/introductiontomarketing/?p=86#h5p-3

Media Attributions

- Apartment Tattoo © romana klee is licensed under a CC BY-SA (Attribution ShareAlike) license
- U.S. General Services Administration Website Screenshot
- F22 Raptor: RIAT 2010 © Airwolfhound is licensed under a CC BY-SA (Attribution ShareAlike) license

4.3 STAGES IN THE B2B BUYING PROCESS AND B2B BUYING SITUATIONS

Learning Objectives

1. Outline the stages in the B2B buying process.
2. Explain the scorecard process of evaluating proposals.
3. Describe the different types of B2B buying situations and how they affect sellers.

Stages in the B2B Buying Process

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

Step 1 – A need is recognized

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

Step 2 – The need is described and quantified (Product Specification).

Next, the buying centre, or group of people brought together to help make the buying decision, work to put some parameters around what needs to be purchased. In other words, they describe what they believe is needed, the features it should have, how much of it is needed, where, and so on. For more technical or complex products the buyer will define the product's technical specifications. Will an off-the-shelf product do, or does it have to be customized? Users and influencers come into play here. In the case of our electronic book, the professor who teaches the online course, his teaching assistants, and the college's information technology staff would try to describe the type of book best suited for the course. Should the book be posted on the web as this book is? Should it be downloadable? Maybe it should be compatible with Amazon's Kindle. Figure 4.4 shows the specifications developed for a janitorial services purchase by the state of Kentucky.

Who: Division of Building Services

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

Background:

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

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

Specifications:

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

DIVISION OF PURCHASES

Figure 4.4. An example of product specifications developed for a B2B purchase. *[Read full image description.]*

Step 3 – Potential suppliers are searched for

At this stage, the people involved in the buying process seek out information about the products they are looking for and the vendors that can supply them. Most buyers look online first to find vendors and products, then attend industry trade shows and conventions and telephone or e-mail the suppliers with whom they have relationships. The buyers might also consult trade magazines, the blogs of industry experts, and perhaps attend webinars conducted by vendors or visit their facilities. Purchasing agents often play a key role when it comes to deciding which vendors are the most qualified. Are they reliable and financially stable? Will they be around in the future? Do they need to be located near the organization or can they be in another region of the country or in a foreign country? The vendors that don't make the cut are quickly eliminated from the running.

Step 4 – Qualified suppliers are asked to complete responses to **requests for proposal (RFPs)**

Each vendor that makes the cut is sent an RFP, which is an invitation to submit a bid to supply the good or service. An RFP outlines what the vendor is able to offer in terms of its product—its quality, price, financing, delivery, after-sales service, whether it can be customized or returned, and even the product's disposal, in some cases. Good sales and marketing professionals do more than just provide basic information to potential buyers in RFPs. They focus on the buyer's problems and how to adapt their offers to solve those problems. Oftentimes the vendors formally present their products to the people involved in the buying decision. If the good is a physical product, the vendors generally provide the purchaser with samples, which are then inspected and sometimes tested. They might also ask satisfied customers to make testimonials or initiate a discussion with the buyer to help the buyer get comfortable with the product and offer advice on how best to go about using it.

Step 5 – The proposals are evaluated, and suppliers are selected

During this stage, the RFPs are reviewed and the vendor or vendors are selected. RFPs are best evaluated if the members agree on the criteria being evaluated and the importance of each. Different organizations will weigh different parts of a proposal differently, depending on their goals and the products they purchase. The price might be very important to some sellers, such as discount and dollar stores. Other organizations might be more focused on top-of-the-line goods and the service a seller provides. Recall that the maker of Snapper mowers and snowblowers was more focused on purchasing quality materials to produce top-of-the-line equipment that could be sold at a premium. Still other factors include the availability of products and the reliability with which vendors can supply them. Reliability of supply is extremely important because delays in the supply chain can shut down a company's production of goods and services and cost the firm its customers and reputation. For high-priced, complex products, after-sales service is likely to be important. A fast-food restaurant might not care too much about the after-sales service for the paper napkins it buys—just that they are inexpensive and readily available. However, if the restaurant purchases a new drive-thru ordering system, it wants to be assured that the seller will be on hand to repair the system if it breaks down and perhaps train its personnel to use the system. A scorecard approach can help a company rate the RFPs. Figure 4.7 is a simple example of a scorecard completed by one member of a buying team. The scorecards completed by all the members of the buying team can then be tabulated to help determine the vendor with the highest rating.

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

Figure 4.5. A Scorecard Used to Evaluate RFPs. *[Read full image description.]*

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

Step 6 – An order routine is established

This is the stage in which the actual order is put together. The order includes the agreed-upon price, quantities, expected time of delivery, return policies, warranties, and any other terms of negotiation (Brauner, 2008).[1] The order can be made on paper, online, or sent electronically from the buyer's computer system to the seller's. It can also be a one-time order or consist of multiple orders that are made periodically as a company needs a good or service. Some buyers order products continuously by having their vendors electronically monitor their inventory for them and ship replacement items as the buyer needs them.

Step 7 – A post-purchase evaluation is conducted, and the feedback is provided to the vendor

Just as consumers go through an evaluation period after they purchase goods and services, so do businesses. The buying unit might survey users of the product to see how satisfied they were with it. Cessna Aircraft Company, a small U.S. airplane maker, routinely surveys the users of the products it buys so they can voice their opinions on a supplier's performance.[2] Some buyers establish on-time performance, quality, customer satisfaction, and other measures for their vendors to meet, and regularly provide those vendors with the information, such as trend reports that show if their performance is improving, remaining the same, or worsening (this process is similar to a performance evaluation you might receive as an employee.) For example, Food Lion shares a wide variety of daily retail data and performance calculations with its suppliers in exchange for their commitment to closely collaborate with the grocery-store chain. Keep in mind that a supplier with a poor performance record might not be entirely to blame. The purchasing company might play a role, too. For example, if the U.S. Postal Service contracts with FedEx to help deliver its holiday packages on time but a large number of the packages are delivered late, FedEx may or may not be to blame. Perhaps a large number of loads the U.S. Postal Service delivered to FedEx were late, weather played a role, or shipping volumes were unusually high. Companies need to collaborate with their suppliers to look for ways to improve their joint performance. Some companies hold annual symposiums with their suppliers to facilitate cooperation among them and to honour their best suppliers (Copacino, 2009).[3]

Can you complete this paragraph about the buying process for B2B purchases?

1. Brauner, R. (2008, July 31). *The B2B process: Eight stages of the business sales funnel*. Ron Brauner Integrated Marketing Strategies. Accessed December 13, 2009.
2. Cessna expands scorecard to indirect suppliers. (2009, June). *Purchasing, 138*(6), 58.
3. Copacino, W. (2009, July 8). Unlocking value through the supplier scorecard. *Supply Chain Management Review*.

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://kpu.pressbooks.pub/introductiontomarketing/?p=93#h5p-14

Types of B2B Buying Situations

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

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

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

By contrast, a **new-buy** selling situation occurs when a firm purchases a product for the first time. Generally speaking, all the buying stages we described in the last section occur. New buys are the most time consuming for both the purchasing firm and the firms selling to them. If the product is complex, many vendors and products will be considered and many RFPs will be solicited.

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

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

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

Key Takeaways

The stages in the B2B buying process are as follows: Someone recognizes that the organization has a need that can be solved by purchasing a good or service. The need is described and quantified. Qualified suppliers are searched for, and each qualified supplier is sent a request for proposal (RFP), which is an invitation to submit a bid to supply the good or service. The proposals suppliers submit are evaluated, one or more supplier(s) are selected, and an order routine with each is established. A post-purchase evaluation is later conducted, and the feedback is provided to the suppliers. The buying stages an organization goes through often depend on the buying situation—whether it's a straight rebuy, new buy, or modified rebuy.

Review and Reflect

1. What buying stages do buying centres typically go through?
2. Why should business buyers collaborate with the companies they buy products from?
3. Explain how a straight rebuy, new buy, and modified rebuy differ from one another.

Media Attributions

- Product Specifications Example © State of Kentucky
- Scorecard Used to Evaluate RFPs © Principles of Marketing is licensed under a CC BY-NC-SA (Attribution NonCommercial ShareAlike) license

4.4 BUYING CENTRES

Learning Objectives

1. Explain what a buying centre is.
2. Explain who the members of buying centres are and describe their roles.
3. Describe the duties of professional buyers.
4. Describe the personal and interpersonal dynamics that affect the decisions buying centres make.

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

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

1. U.S. Bureau of Labor Statistics. (2009, December 17). Purchasing managers, buyers, and purchasing agents. In *Occupational Outlook Handbook* (2010–11 ed.). Accessed January 8, 2010.

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

The Duties of Professional Buyers

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

Increasingly, purchasing managers have become responsible for buying not only products but also for identifying functions their firms want to outsource. These functions aren't limited to manufacturing, as they also include product innovation and design services, customer and order fulfillment services, and information technology and networking services to name a few. Purchasing agents responsible for finding offshore providers of goods and services often take trips abroad to inspect the providers' facilities and get a better sense of their capabilities.

Other Players

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

Initiators

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

Users

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

Influencers

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

Gatekeepers

If you want to sell a product to a large company like Walmart, you can't just walk in the door of its corporate headquarters and demand to see a purchasing agent. You will first have to get past a number of **gatekeepers**, or people who will decide if and when you get access to members of the buying centre. These are people such as buying assistants, personal assistants, and other individuals who have some say about which sellers are able to get a foot in the door.

Figure 4.6. Warning: Do not be rude to or otherwise anger the faculty secretary. This is good advice for salespeople and students as well as faculty members.

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

Deciders

The **decider** is the person who makes the final purchasing decision. The decider might or might not be the purchasing manager. Purchasing managers are generally solely responsible for deciding upon routine purchases and small purchases. However, the decision to purchase a large, expensive product that will have a major impact on a company is likely to be made by or with the help of other people in the organization, perhaps even the

CEO. The decision may be made by a single decider, or there may be a few who reach consensus. Further, deciders take into account the input of all the other participants: the users, influencers, and so forth. Sellers, of course, pay special attention to what deciders want. "Who makes the buying decision?" is a key question B2B sales and marketing personnel are trained to quickly ask potential customers.

The Interpersonal and Personal Dynamics of B2B Marketing

We made it a point earlier in our discussion to explain how rational and calculating business buyers are. So, would it surprise you to learn that sometimes the dynamics that surround B2B marketing don't lead to the best purchasing decisions? Interpersonal factors among the people making the buying decision often have an impact, good or bad, on the products chosen (you can think of this phenomenon as "office politics"). For example, one person in a buying unit might wield a lot of power and greatly influence the purchasing decision; however, other people in the unit might resent the power he or she wields and insist on a different offering, even if doesn't best meet the organization's needs. Savvy B2B marketers are aware of these dynamics and try their best to influence the outcome.

Personal factors play a part. B2B buyers are overwhelmed with choices, features, benefits, information, data, and metrics. They often have to interview dozens of potential vendors and ask them hundreds of questions. No matter how disciplined they are in their buying procedures, they will often find a way to simplify their decision making either consciously or subconsciously (Miller, 2007).[2] For example, a buyer deciding upon multiple vendors running neck and neck might decide to simply choose the vendor whose sales representative he likes the most.

Factors such as these can be difficult for a company to control. However, branding—how successful a company is at marketing its brands—*is* a factor under a company's control, says Kevin Randall of Movéo Integrated Branding, an Illinois-based marketing-consulting firm. Sellers can use their brands to their advantage to help business buyers come to the conclusion that their products are the best choice. IBM, for example, has long had a strong brand name when it comes to business products. The company's reputation was so solid that for years the catchphrase "Nobody ever got fired for buying IBM" was often repeated among purchasing agents—and by IBM salespeople, of course (Miller, 2007)!

In short, B2B marketing is very strategic. Selling firms try to gather as much information about their customers as they can and use that information to their advantage. As an analogy, imagine if you were interested in

2. Miller, J. (2007, March 18). *Why B2B branding matters in B2B marketing*. Marketo.com. Accessed December 13, 2009.

asking out someone you had seen on campus. Sure, you could simply show up at a party or somewhere on campus in the hopes of meeting the person. But if you were thinking strategically, you might try to find out everything you could about the person, what he or she likes to do and so forth, and then try to arrange a meeting. That way, when you did meet the person, you would be better able to strike up a conversation and develop a relationship with him or her. B2B selling is similarly strategic—little is left to chance.

Key Takeaways

- Buying centres are groups of people within organizations who make purchasing decisions.
- The buying centres of large organizations employ professional buyers who, in a sense, shop for a living. They don't make all the buying decisions in their companies, though.
- The other people who provide input are users, or the people and groups within the organization that actually use the product; influencers, or people who may or may not use the product but have experience or expertise that can help improve the buying decision; gatekeepers, or people who will decide if and when a seller gets access to members of the buying centre; and deciders, or the people who make the final purchasing decision.
- Interpersonal dynamics between the people in a buying centre will affect the choices the centre makes. Personal factors, such as how likeable a seller is, play a part because buyers are often overwhelmed with information and will find ways to simplify their decision making.

Review and Reflect

1. Which people do you think have the most influence on the decisions a buying centre makes? Why?
2. Describe the duties of professional buyers. What aspects of their jobs seem attractive?

Which aspects seem unattractive to you?

3. How do personal and interpersonal dynamics affect the decisions buying centres make?
4. Make sure to review your knowledge of buying centres with this exercise:

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://kpu.pressbooks.pub/introductiontomarketing/?p=89#h5p-15

Media Attributions

- Secretary Desk Sales Office © Patrice Audet is licensed under a All Rights Reserved license

4.5 ETHICS IN B2B MARKETS

Learning Objectives

1. Explain how the ethical dilemmas B2B marketers face differ from the ethical dilemmas B2C marketers face.
2. Outline the measures companies take to encourage their employees and executives to act in ethical ways.

It's likely that every topic we have talked about so far in this chapter has an ethical dimension to it. Take procurement, for example: unlike B2C markets, offering customers free dinners, golf games, and so forth is very common in B2B settings. In many foreign countries, business and government buyers not only expect perks such as these but also actually demand bribes be paid if you want to do business with them. And firms pay them, even though some countries prohibit them. (The United States is one such country.) Which countries have a penchant for bribery? In a report called the *Bribe Payers Index*, Transparency International, a watchdog organization, annually ranks the likelihood of firms from the world's industrialized countries to bribe abroad. The top five countries are shown in table 4.2.

Table 4.2. Transparency International's Bribe Payers Index (Transparency International, 2011)[1]

1. Russia
2. China
3. Mexico
4. Indonesia
5. United Arab Emirates

Or take, for example, the straight-rebuy situation we discussed earlier. Recall that in a straight rebuy, buyers repurchase products automatically. Recently, Dean Foods, which manufactures the Silk brand of soy milk, experienced negative press after the company changed the word "organic" to "natural" on the labels of its milk and quietly switched to conventional soybeans, which are often grown with pesticides. But since Dean didn't change the barcode for the product, the packaging of the product, or the price much, stores kept ordering what they thought was the same product—making a straight rebuy—even though it wasn't. Many stores and consumers felt as though they had been duped. Some grocers dropped the entire Silk lineup of products (Waters & Tait, 2009).[2]

And remember Intel's strategy to increase the demand for its chips by insisting that PC makers use "Intel Inside" stickers? Recently, Intel paid a competitor more than a billion dollars to settle a court case contending that it strong-armed PC makers into doing business exclusively with Intel (does that make you feel less warm and fuzzy about the "Intel Inside" campaign?).

What Dean Foods and Intel did might strike you as being wrong. However, what is ethical and what is not is often not clear-cut. Walmart has a reputation for using its market power to squeeze its suppliers for the best deals possible, in some cases putting them out of business. Is that ethical? What about companies that hire suppliers abroad, putting U.S. companies and workers out of business? Is that wrong? It depends on whom you ask. Some economists believe Walmart's ability to keep costs low has benefited consumers far more than it has hurt the suppliers of products. Is it fair to prohibit U.S. companies from offering bribes when their foreign competitors can?

Clearly, people have different ideas about what's ethical and what's not. So how does a business get all its employees on the same page in terms of how they behave? Laws and regulations—state, federal, and international—are an obvious starting point for companies, their executives, and employees wanting to do the right thing. The U.S. Federal Trade Commission (FTC) often plays a role when it comes to B2B laws and regulations. The FTC regulates companies in an effort to prevent them from engaging in unfair trade practices that can harm consumers and hamper competition.

Further, companies that sell to the government must, by law, follow strict ethical guidelines. These companies tend to make such guidelines their policy because it is easier to make sure that the federal regulations are followed all the time rather than only when selling to the government.

---

1. Transparency International. (2011). *Bribe Payers Index 2011*. Transparency International. Accessed August 14, 2022.
2. Waters, R., & Tait, N. (2009, November 13). Intel settles antitrust AMD case for $1.2 billion. *Financial Times*. Accessed December 13, 2009.

Companies are also adopting ethics codes that provide general guidelines about how their employees should behave. Many firms require employees to go through ethics training so they know what to do when they face tricky ethical dilemmas. Large corporations have begun hiring "chief ethics officers" to ensure ethics are properly implemented within their organizations. The Business Marketing Association has also developed a code of ethics that discourages bribery and other practices, such as disparaging a competitor's products unfairly, and encourages treating one's suppliers equitably.

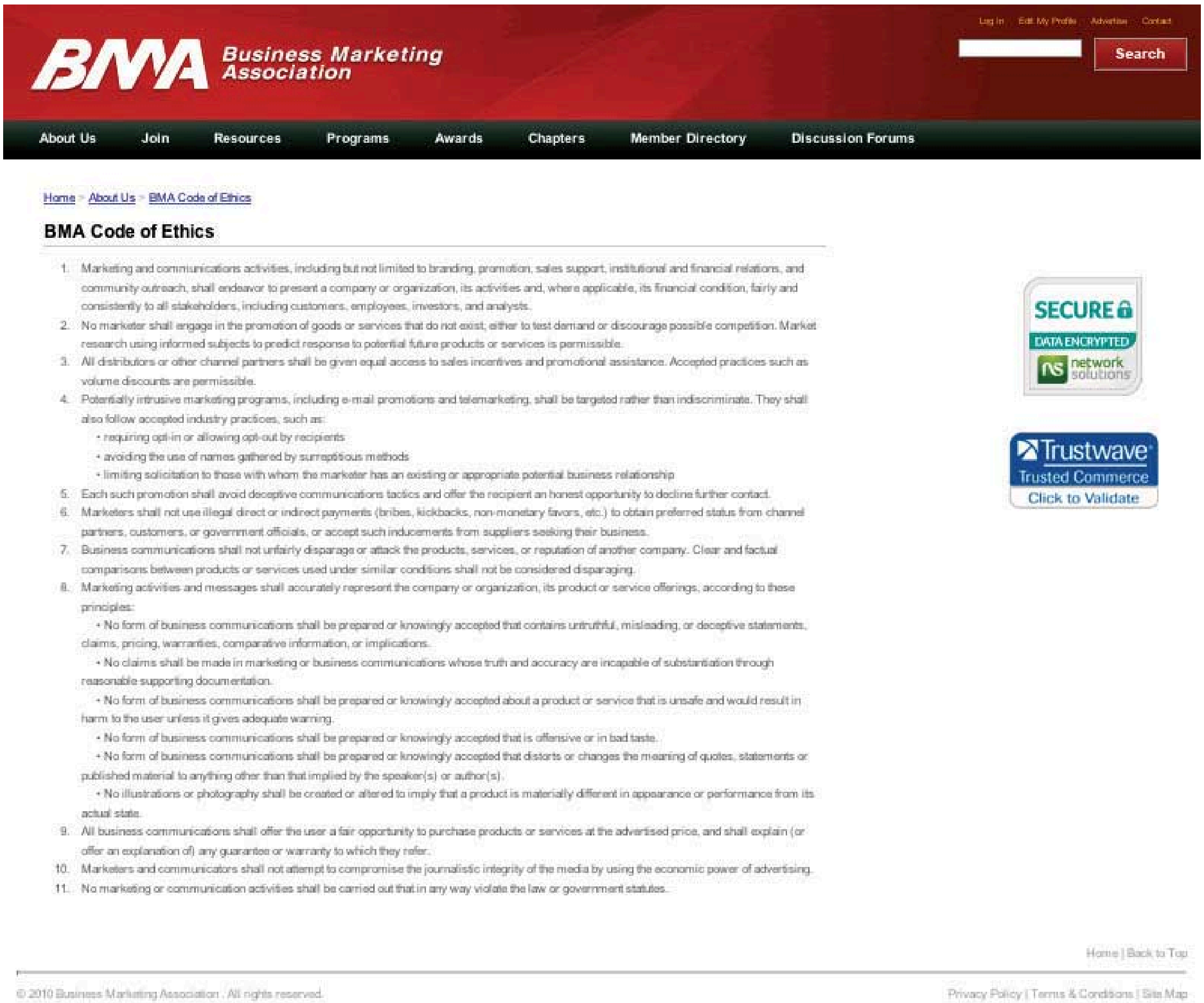


Figure 4.7. Business Marketing Association (BMA) website.

As for Walmart, you can't fault the company's procurement practices. Walmart's purchasing agents aren't allowed to accept a lunch, dinner, golf game, or so much as a cup of coffee from potential vendors. Walmart is not the only company to have implemented such a policy. More and more firms have followed suit because (1) they realize that perks such as these drive up product costs and (2) they don't want their buyers making decisions based on what they personally can get out of them rather than what's best for the company.

All things equal, companies want to do business with firms that are responsible. They don't want to be associated with firms that are not. Why is this important? Because that's what consumers are increasingly demanding. A few years ago, Nike and a number of other apparel makers were lambasted when it came to light that the factories they contracted with were using child labour and keeping workers toiling for long hours under terrible conditions. Nike didn't own the factories, but it still got a bad rap. Today, Nike, Inc. uses a "balanced scorecard." When evaluating suppliers, it looks at their labour-code compliance along with measures such as price, quality, and delivery time. During crunch times, it allows some Chinese factories latitude by, for example, permitting them to adjust when employees can take days off (Roberts et al., 2006).[3]

Similarly, Walmart has developed a scorecard to rate its suppliers on how their packaging of products affects the environment (Arzoumanian, 2008).[4] Walmart does so because its customers are becoming more conscious of environmental damage and see value in products that are produced in as environmentally friendly a way as possible.

Key Takeaways

Ethics come into play in almost all business settings. B2B markets are no different. For example, unlike B2C markets, offering customers perks is very common in B2B settings. In many foreign countries, government buyers demand bribes be paid if a company wants to do business with them. Understanding the laws and regulations that apply to their firms is an obvious starting point for companies, their executives, and employees in terms of knowing how to act ethically. Companies are also adopting ethics codes that provide general guidelines about how their

3. Roberts, D., Engardio, P., Bernstein, A., Holmes, S., & Ji, X. (2006, November 27). [How to make factories play fair](). BusinessWeek. Accessed August 18, 2021.
4. Arzoumanian, M. (2008, November 15). Wal-Mart updates scorecard status. *Official Board Markets, 84*(46), 1-4.

employees should behave, requiring their employees to go through ethics training, and hiring chief ethics officers. Companies want to do business with firms that are responsible. They don't want to be associated with firms that are not. Why? Because they know ethics are important to consumers and that they are increasingly demanding firms behave responsibly.

Review and Reflect

1. Name some of the types of ethical dilemmas facing firms in B2B markets.
2. Why is it difficult for employees and firms to know what is considered ethical behaviour and what is not?

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://kpu.pressbooks.pub/introductiontomarketing/?p=102#h5p-16

4.6 DISCUSSION QUESTIONS AND ACTIVITIES

Review and Reflect

1. Assume your company makes shop towels, hand-washing stations, and similar products. Make a list of all the companies that could be potential customers of your firm. Then, identify all the markets from which their demand is derived. (Who are their customers and their customers' customers?) What factors might influence the success or failure of your business in these markets?
2. How might a buying centre be different for a company that is considering building a new plant versus choosing a new copier?
3. Imagine you are a salesperson for a company that sells maintenance items used in keeping a manufacturing plant running. There is a large plant in your territory that buys 60 percent of its products from one competitor and the other 40 percent from another competitor. What could you do to try to make a sale in that plant if they have never purchased from you before? How would your answer change if you were the 40 percent vendor and wanted to increase your share of the buyer's business? Would your answer change if you were the other vendor? Why or why not?
4. When your family makes a major purchase, such as choosing a vacation destination or buying furniture, does it resemble a buying centre? If so, who plays what roles?
5. Katie is a forklift operator who is tired of her forklift breaking down. She points out to her boss, the plant supervisor, that her forklift is broken down at least 20 percent of the time and it is beginning to impact production. The plant supervisor tells the purchasing agent that a new forklift is needed and asks the purchasing agent to get three bids on new ones with similar features. The purchasing agent calls three companies and gets bids, which the plant supervisor uses to narrow the choice down to two. He then has Katie test drive the two, and since she liked the Yamamatsu best he decides to purchase that one. What roles do the supervisor and Katie play in this firm's buying centre? Does the process followed resemble

the process outlined in the chapter? If not, why not?

6. Someone who works in a company is also a consumer at home. You have already learned about how consumers buy. How does what you already know about how consumers buy relate to what you would expect those same people to do at work when making a purchase?
7. A major office equipment manufacturer and an airline once teamed up to offer a special deal: Buy a copier/printer and get a free round-trip ticket anywhere in the United States where the airline flies. The promotion didn't last long—buyers complained it was unethical. What about it was unethical? Who was really doing the complaining?
8. Congratulations, you just made a sale! For the first time in five years, the Humongo Corporation purchased from your company. How do you turn this into a straight rebuy? What product characteristics might make this goal easier to accomplish? What buyer characteristics might make it more difficult to accomplish?
9. Consider a company where marketing and sales are two different departments. Their customers are other businesses. Using both the buying centre and buying process, describe what the marketing department actually does. What do salespeople actually do?

Activities

1. Interview someone you know who makes purchasing decisions as part of the job. The person may or may not be a professional purchasing agent as long as business purchasing decisions are a fairly regular part of his or her position. What are the key principles to making good purchasing decisions at work? How do those principles influence people's purchases for their own personal consumption?
2. Locate three different types of websites that cater to markets discussed in this chapter. How do these differ from sites like eBay or Overstock.com? How are they similar? B2C models like Groupon and LivingSocial are being adopted by B2B companies. Examples include Bizy Deal; take a look at their site and identify the types of offerings that seem prevalent. What characteristics of the product or service would make such a model right for a B2B company?

3. Many B2B marketers use NAICS to segment their market. Go to North American Industry Classification System. Answer these questions. What is NAICS and how is it used? How does NAICS handle market-based rather than production-based statistical classifications, and why is that distinction important?

CHAPTER 5: MARKET SEGMENTING, TARGETING, AND POSITIONING

5.1 TARGETED MARKETING VS MASS MARKETING

Learning Objectives

1. Distinguish between targeted marketing and mass marketing and explain what led to the rise of each.
2. Describe how targeted marketing can benefit firms.
3. Explain why companies differentiate among their customers.

The segment(s) or group(s) of people and organizations you decide to sell to is called a **target market**. Targeted marketing, or *differentiated marketing*, means that you may differentiate some aspect of the marketing mix (product, promotion, price, place) for different groups of customers selected. It is a relatively new phenomenon. **Mass marketing**, or *undifferentiated marketing*, came first. It evolved along with mass production and involves selling the same product to everybody. Mass marketing means broadcasting a message that will reach the largest number of people possible (Wikipedia, 2022).[1]

Automaker Henry Ford was very successful at both mass production and mass marketing. Ford pioneered the modern-day assembly line early in the twentieth century, which helped him cost-effectively produce huge numbers of identical Model T automobiles. They came in only one colour: black. "Any customer can have a car painted any colour he wants, so long as it is black," Ford used to joke. He also advertised in every major newspaper and persuaded all kinds of publications to carry stories about the new, inexpensive cars. By 1918, half of all cars on America's roads were Model Ts (Ford, 1922).[2] Many of the daily products you use, such as soap, shampoo, and detergent, are *examples* of mass products. McDonald's is a great example of mass

1. Mass marketing. (2022). *Wikipedia*
2. Ford, H. (1922). *My life and work*. Garden City Publishing.

marketing. You see their ads everywhere: on the bus, on the train, radio, social media, TV, Spotify ads, and on billboards (Figure 5.1).

Figure 5.1. McDonald's 59 and 99 Cent Cones Billboard.

Then, Alfred P. Sloan, the head of General Motors (GM), appeared on the scene. Sloan began to segment consumers in the automobile market—to divide them up by the prices they wanted to pay and the different cars they wanted to buy. The idea was to offer a car for every target market or for every income level. His efforts were successful, and in the 1950s GM overtook Ford as the nation's top automaker (Stein, 2005).[3]

3. Stein, T. (2005, February 20). *Market segmentation strategies: How to maximize opportunities on the potential market*. Daemon Quest. Accessed August 18, 2021.

Benefits of Segmenting and Targeting Markets

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

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

The trend today is toward more precise, targeted marketing, which involves market research (see chapter 6). A variety of tools and research techniques can be used to segment markets. Government agencies, such as Statistics Canada, offers population information and economic data that can reveal changing consumption trends. Technology is also making it easier for even small companies and entrepreneurs to gather information about potential customers. With the increased use of social media, companies are able to get information on consumers' search behaviour. Loyalty cards that consumers scan at many grocery and drug stores provide an incredible amount of information on consumers' buying behaviour.

Companies are now using the Internet to track people's web browsing patterns and segment them into target groups. Even small businesses are able to do this cost-effectively because they don't need their own software and programs—they can simply sign up online for products like Google Ads and Google Analytics programs. You can locate potential customers by looking at blog sites and discussion forums on the web. If you have a website, you can download an application onto your iPhone that will give you up-to-the-minute information and statistics on your site's visitors.

Getting a read on potential target markets doesn't necessarily have to involve technology. Your own personal experience and talking to potential customers is an important part of the puzzle. Go to restaurants, malls, gyms, subways, grocery stores, schools, and offices—and ask questions to find out what they do during the day, what they talk about, what products or services do you see them using, and do they seem to be having an enjoyable experience when using those products or are they frustrated?

Figure 5.2. The Healthy Choice line of frozen dinners was launched by a heart attack victim.

Healthy Choice frozen dinners were conceived as a result of questioning potential customers. The food-maker ConAgra launched this line of dinners in the late 1980s after its CEO, Charlie Harper, suffered a heart attack. One day, a colleague complimented Harper on his wife's tasty low-fat turkey stew. That's when Harper realized there were people like him who wanted healthy convenience foods, so he began talking to them about what they wanted. Two years after the Healthy Choice line was launched, it controlled 10 percent of the frozen-dinner market by concentrating on the health-conscious segment (Birchall, 2009).[4]

Key Takeaways

4. Birchall, J. (2009, June 4). Out to launch in a downturn. *Financial Times, 10*.

Choosing select groups of people to sell to is called target marketing or differentiated marketing. Mass marketing, or undifferentiated marketing, involves selling the same product to everyone. The trend today is toward more precise, targeted marketing. Finding and attracting new customers is generally far more difficult than retaining one's current customers, which is why organizations try to interact with and form relationships with their current customers. The goal of firms is to do as much business with their best customers as possible. Forming close, personal relationships with customers and giving them exactly what they want is a process called targeted marketing. It is the opposite of mass marketing.

Review and Reflect

1. How do mass marketing and targeted marketing compare with one another?
2. How is technology making it easier for firms to target potential customers?
3. What are the benefits of segmenting markets?

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://kpu.pressbooks.pub/introductiontomarketing/?p=110#h5p-17

Media Attributions

- McDonald's 59 and 99 Cent Cones Billboard © ParentingPatch is licensed under a CC BY-SA (Attribution ShareAlike) license

5.2 HOW MARKETS ARE SEGMENTED

Learning Objectives

1. Understand and outline the ways in which markets are segmented.
2. Explain why marketers use some segmentation bases versus others.

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

Different factors influence consumers to buy certain things. Many of the same factors can also be used to segment customers. A firm will often use multiple **segmentation bases** or criteria to classify buyers, to get a fuller picture of its customers and to create real value for them. Each variable can be used alone or together for additional layers of information.

Types of Segmentation Bases

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

- **Geographic segmentation.** Where are our customers located, and how can we reach them? What products do they buy based on their locations?
- **Demographic segmentation.** How do the ages, races, and ethnic backgrounds of our customers affect what they buy?

- **Psychographic segmentation.** What do our customers think about and value? How do they live their lives?
- **Behavioural segmentation.** What benefits do customers want, and how do they use our product?
-

Table 5.1. Common Ways of Segmenting Buyers

By Behaviour	By Demographics	By Geography	By Psychographics
• Benefits sought from the product • How often the product is used (usage rate) • Usage situation (daily use, holiday use, etc.) • Buyer's status and loyalty to product (nonuser, potential user, first-time users, regular user)	• Age/generation • Income • Gender • Family life cycle • Ethnicity • Family size • Occupation • Education • Nationality • Religion • Social class	• Region (continent, country, state, neighbourhood) • Size of city or town • Population density • Climate	• Activities • Interests • Opinions • Values • Attitudes • Lifestyles

Segmenting by Geography

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

Geographic segmentation divides the market into areas based on location and explains why the checkout clerks at stores sometimes ask for your postal code. It's also why businesses print codes on coupons that correspond to postal codes. When the coupons are redeemed, the store can find out where its customers are located—or not located. **Geocoding** is a process that takes data such as this and plots it on a map. Geocoding can help businesses see where prospective customers might be clustered and target them with various ad campaigns, including direct mail. One of the most popular geocoding software programs is PRIZM, which is produced by a company called Environics Analytics. PRIZM uses postal codes and demographic information to classify the population into segments. Combining both demographic and geographic information is referred to as **geodemographics** or neighbourhood geography. The idea is that housing areas in different postal codes typically attract certain types of buyers with certain income levels. To see how geodemographics works, visit the Environics Analytics website. Type in your postal code, and you will see **customer profiles** of the types of buyers who live in your area.

Proximity marketing is an interesting new technology firms are using to segment and target buyers geographically within a few hundred feet of their businesses using wireless technology. In some areas, you can switch your mobile phone to a "discoverable mode" while you're shopping and, if you want, get ads and deals from stores as you pass by them, which is often less expensive than hiring people to hand you a flier as you walk by ("Bluetooth Proximity," 2007). [1]

To learn about how proximity marketing works at a real company, listen to Apurva Ghelani's audio clip. Ghelani is a senior sales engineer for Air2Web, a company that helps businesses promote their brands and conduct transactions with people via their mobile phones.

In addition to figuring out where to locate stores and advertise to customers in that area, geographic segmentation helps firms tailor their products. Chances are you won't be able to find the same heavy winter coat you see at a Walmart in Montreal and at a Walmart in Victoria because of the climate differences between the two places. Market researchers also look at migration patterns to evaluate opportunities.

Segmenting by Demographics

Segmenting buyers by personal characteristics such as age, income, ethnicity and nationality, education, occupation, religion, social class, and family size is called **demographic segmentation**. Demographics are commonly utilized to segment markets because demographic information is publicly available in databases around the world. You can obtain a great deal of demographic information on the Statistics Canada website (https://www.statcan.gc.ca/en/start). *The World Factbook* (https://www.cia.gov/the-world-factbook/) contains statistics about countries around the world. In addition to current statistics, the sites contain forecasts of demographic trends, such as whether some segments of the population are expected to grow or decline.

Age

At this point in your life, you are probably more likely to buy a car than a funeral plot. Marketing professionals

1. *Bluetooth proximity marketing*. (2007, April 27). BlueTomorrow. Accessed December 2, 2009.

know this. That's why they try to segment consumers by their ages. You're probably familiar with some of the age groups most commonly segmented. Into which category do you fall?

Table 5.2. North American. Generations and Characteristics

Generation	Also Known As	Birth Years	Characteristics
Seniors	"The Silent Generation," "Matures," "Veterans," and "Traditionalists"	1945 and prior	• Experienced very limited credit growing up • Tend to live within their means • Spend more on health care than any other age group • Internet usage rates increasing faster than any other group
Baby Boomers		1946–1964	
Generation X		1965–1980	
Generation Y	"Millennials," "Echo Boomers," includes "Tweens" (preteens)	1981–1996	• Largest U.S. generation • Grew up with credit cards • Adept at multitasking; technology use is innate • Ignore irrelevant media
Generation Z	"Zoomers"	1997–2012	• Grew up with technology • Passionate about social causes
Note: Not all demographers agree on the cutoff dates between the generations.			

The baby boomer and Generation X demographic have been a very attractive market for sellers. **Retro**

brands—old brands or products that companies "bring back" for a period of time—were aimed at baby boomers during the recent economic downturn. Pepsi Throwback and Mountain Dew Throwback, which are made with cane sugar—like they were "back in the good old days"—instead of corn syrup, are examples (Schlacter, 2009).[2] Marketing professionals believe they appealed to baby boomers because they reminded them of better times—times when they didn't have to worry about being laid off, about losing their homes, or about their retirement funds and pensions drying up.

Baby boomers are aging, and the size of the group will eventually decline. By contrast, the members of Generation Y have a lifetime of buying still ahead of them, which translates to a lot of potential customer lifetime value, the amount a customer will spend on a particular brand over his/her lifetime, for marketers if they can capture this group of buyers. However, a recent survey found that the latest recession had forced teens to change their spending habits and college plans and that roughly half of older Generation Yers reported they had no savings ("Generation Y," 2009).[3]

So which group or groups should your firm target? Although it's hard to be all things to all people, many companies try to broaden their customer bases by appealing to multiple generations so they don't lose market share when demographics change. Several companies have introduced lower-cost brands targeting Generation Xers, who have less spending power than boomers. For example, kitchenware and home-furnishings company Williams-Sonoma opened the Elm Street chain, a less-pricey version of the Pottery Barn franchise. The Starwood hotel chain's W hotels, which feature contemporary designs and hip bars, are aimed at Generation Xers (Miller & Washington, 2009).[4]

The video game market is very proud of the fact that along with Generation X and Generation Y, many older adults still play video games (you probably know some baby boomers who own a Nintendo Wii). Products and services in the spa market used to be aimed squarely at adults, but not anymore. Parents are now paying for their tweens to get facials, pedicures, and other pampering in numbers no one in years past could have imagined.

As early as the 1970s, U.S. automakers found themselves in trouble because of changing demographic trends. Many of the companies' buyers were older Americans inclined to "buy American." Japanese cars had developed a better reputation. Despite the challenges U.S. automakers face today, they have taken great pains to cater to the "younger" generation—today's baby boomers who don't think of themselves as being old. If you are a car buff, you perhaps have noticed that the once-stodgy Cadillac now has a sportier look and stiffer suspension.

2. Schlacter, B. (2009, April 22). Sugar-sweetened soda is back in the mainstream. *Fort Worth Star-Telegram*, 1C-5C.
3. Generation Y lacking savings. (2009, September 13). *Fort Worth Star-Telegram*, 2D.
4. Miller, R. K., & Washington, K. (2009). *The 2009 entertainment, media & advertising market research handbook* (10th ed.). Richard K. Miller & Associates.

Likewise, the Chrysler 300 looks more like a muscle car than the old Chrysler Fifth Avenue your great-grandpa might have driven.

Automakers have begun reaching out to Generations X and Y, too. GM has sought to revamp the century-old company by hiring a new younger group of managers—managers who understand how Generation X and Y consumers are wired and what they want. "If you're going to appeal to my daughter, you're going to have to be in the digital world," explained one GM vice president (Cox, 2009).[5]

Companies have to develop new products designed to appeal to Generation Z and also find new ways to reach them. People in these generations not only tend to ignore traditional advertising but also are downright annoyed by it. To market to gym enthusiasts, who are generally younger, Gymshark has reached out to influencers, where they can show off new lines of clothing for the brand.

Income

Tweens might appear to be an attractive market when you consider they will be buying products for years to come. But would you change your mind if you knew that baby boomers account for 50 percent of all consumer spending in the United States? Americans *over* sixty-five now control nearly three-quarters of the net worth of U.S. households; this group spends $200 billion a year on major "discretionary" (optional) purchases such as luxury cars, alcohol, vacations, and financial products (Reisenwitz et al., 2007).[6]

Income is used as a segmentation variable because it indicates a group's buying power and may partially reflect their education levels, occupation, and social classes. Higher education levels usually result in higher-paying jobs and greater social status. The makers of upscale products such as Rolexes and Lamborghinis aim their products at high-income groups. However, a growing number of firms today are aiming their products at lower-income consumers. The fastest-growing product in the financial services sector is prepaid debit cards, most of which are being bought and used by people who don't have bank accounts. Firms are finding that this group is a large, untapped pool of customers who tend to be more brand loyal than most. If you capture enough of them, you can earn a profit (von Hoffman, 2006).[7] Based on the targeted market, businesses can determine the location and type of stores where they want to sell their products.

5. Cox, B. (2009, August 29). GM hopes its new managers will energize it. *Fort Worth Star-Telegram*, 1C–4C.
6. Reisenwitz, T., Iyer, R., Kuhlmeier, D. B., & Eastman, J. K. (2007). The elderly's internet usage: An updated look. *Journal of Consumer Marketing, 24*(7), 406–18.
7. von Hoffman, C. (2006, September 11). *For some marketers, low income is hot*. Brandweek. Accessed December 2, 2009.

Figure 5.3. Automobile companies may segment markets based on income, age, social class, and gender.

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

Gender Identity

Gender identity has traditionally been a way to segment consumers, but changes are coming. People who identify as male or female or other have different needs and also shop differently. Consequently, these groups are often, but not always, segmented and targeted differently. Marketing professionals don't stop there, though. For example, because women make many of the purchases for their households, market researchers sometimes try to further divide them into subsegments.

In addition to segmenting by gender identity, market researchers might combine gender identity with marital status and other demographic characteristics.

Family Life Cycle

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

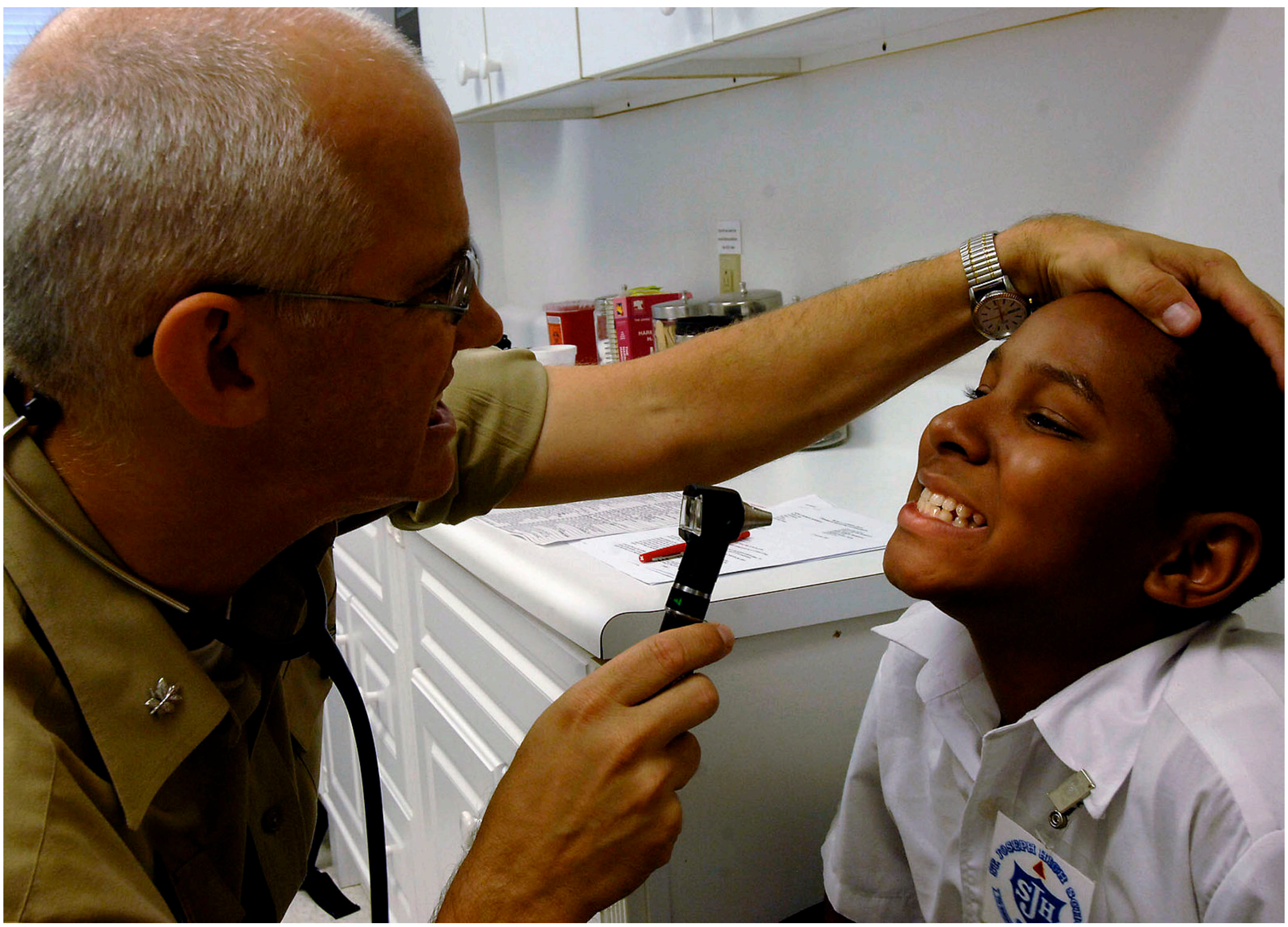


Figure 5.4. Many markets are segmented based on people's family life cycle needs.

Resorts also segment vacationers depending on where they are in their family life cycles. When you think of family vacations, you probably think of Disney resorts. Some vacation properties, such as Sandals, exclude children from some of their resorts. Perhaps they do so because some studies show that the market segment with the greatest financial potential is married couples without children (Hill et al., 1990).[8] Keep in mind that although you might be able to isolate a segment in the marketplace, including one based on family life cycle, you can't make assumptions about what the people in it will want. Just like people's demographics change, so do their tastes. For example, over the past few decades, families have been getting smaller. Households with a single occupant are more commonplace than ever, but until recently that hasn't stopped people from demanding bigger cars (and more of them) as well as larger houses.

The trends toward larger cars and larger houses appear to be reversing. High energy costs, inflation and concern for the environment are leading people to demand smaller houses.

Ethnicity

People's ethnic backgrounds have a big impact on what they buy. If you've visited a grocery store that caters to a different ethnic group than your own, you've probably been surprised to see the types of products sold there. It's no secret that Canada is becoming—and will continue to become—more diverse.

Asian Canadians are the second-largest ethnic group in Canada. Collectively, they have the most buying power of any ethnic group in Canada. Many people of Asian descent are known to be early adapters of new technology and have above-average incomes. As a result, companies that sell luxury products spend more money segmenting and targeting the Asian community (The Insight Research Corporation, 2003).[9]

As you can guess, even within various ethnic groups there are many differences in terms of the goods and services buyers choose. Consequently, painting each group with a broad brush would leave you with an incomplete picture of your buyers. For example, although Asians share the same race, Chinese, Japanese, and Korean immigrants do not share the same language (The Insight Research Corporation, 2003).[10] Moreover, Asian market segments include new immigrants, people who immigrated to Canada decades ago, and native-born Canadians. So what language will you use to communicate your offerings to these people and where?

---

8. Hill, B. J., McDonald, C., & Uysal, M. (1990). Resort motivations for different family life cycle stages. *Visions in Leisure and Business, 8*(4), 18–27.
9. The Insight Research Corporation. (2003). *Telecommunications marketing opportunities to ethnic groups: Segmenting consumer markets by ethnicity, age, income and household buying patterns: 1998–2003*. The Insight Research Corporation. Accessed July 29, 2023).
10. The Insight Research Corporation. (2003). *Telecommunications marketing opportunities to ethnic groups: Segmenting consumer markets by ethnicity, age, income and household buying patterns: 1998–2003*. The Insight Research Corporation. Accessed July 29, 2023).

Segmenting by Psychographics

What if your product crosses several market segments? For example, the group of potential consumers for cereal could be "almost" everyone, even though groups of people may have different needs with regard to their cereal. Some consumers might be interested in the fiber, some consumers (especially children) may be interested in the prize that comes in the box, other consumers may be interested in the added vitamins, and still other consumers may be interested in the type of grains. Associating these specific needs with consumers in a particular demographic group could be difficult. Marketing professionals want to know *why* consumers behave the way they do, what is of high priority to them, or how they rank the importance of specific buying criteria. Think about some of your friends who seem a lot like you. Have you ever gone to their homes and been shocked by their lifestyles and how vastly different they are from yours? Why are their families so different from yours?

Psychographic segmentation can help fill in some of the blanks. Psychographic information is frequently gathered via extensive surveys that ask people about their activities, interests, opinions, attitudes, values, and lifestyles. One of the most well-known psychographic surveys is VALS (which originally stood for "Values, Attitudes, and Lifestyles") and was developed by a company called SRI International in the late 1980s. SRI asked thousands of Americans the extent to which they agreed or disagreed with questions similar to the following: "My idea of fun at a national park would be to stay at an expensive lodge and dress up for dinner" and "I could stand to skin a dead animal" (Donnelly Jr. & Peter, 2002).[11] Based on their responses to different questions, consumers were divided up into eight categories, each characterized by certain buying behaviours.

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

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

- Am I looking at the consumers the way they see themselves?

11. Donnelly Jr., J. H., & Peter, J. P. (2002). *Preface to marketing management* (9th ed.). McGraw-Hill Professional.

- Am I looking at life from their point of view?

Best Buy asked store employees to develop insights about local consumer groups in order to create special programs and processes for them. Employees in one locale invited a group of retirees to their store to explain how to make the switch to digital television. The store sold $350,000 worth of equipment and televisions in just two hours' time. How much did it cost? The total cost included ninety-nine dollars in labour costs plus coffee and donuts.

Read about some of the extreme techniques Nokia uses to understand cell phone consumers around the world.

Segmenting by Behaviour

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

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

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

Now it is time to apply what you have learned about segmentation to some examples!

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://kpu.pressbooks.pub/introductiontomarketing/?p=117#h5p-20

Key Takeaways

Segmentation bases are criteria used to classify buyers. The main types of buyer characteristics used to segment consumer markets are behavioural, demographic, geographic, and psychographic. Behavioural segmentation divides people and organization into groups according to how they behave with or toward products. Segmenting buyers by personal characteristics such as their age, income, ethnicity, family size, and so forth is called demographic segmentation. Geographic segmentation involves segmenting buyers based on where they live. Psychographic segmentation seeks to differentiate buyers based on their activities, interests, opinions, attitudes, values, and lifestyles. Oftentimes, a firm uses multiple bases to get a fuller picture of its customers and create value for them. Marketing professionals develop consumer insight when they gather both quantitative and qualitative information about their customers.

Review and Reflect

1. What buyer characteristics do companies look at when they segment markets?
2. Why do firms often use more than one segmentation base?
3. What two types of information do market researchers gather to develop consumer insight?

Media Attributions

- untitled © tanitta is licensed under a CC BY-NC-ND (Attribution NonCommercial NoDerivatives) license
- US Navy 070926-N-6278K-073 Cmdr. Arne Anderson, a pediatrician attached to Military Sealift Command hospital ship USNS Comfort (T-AH 20), examines a patient's teeth at the Project Dawn at Liliendaal care site © Joan E. Kretschmer is licensed under a Public Domain license

5.3 SELECTING TARGET MARKETS

Learning Objectives

1. Describe the factors that make some markets more attractive targets than others.

Selecting a Target Market(s)

After you segment buyers and develop a measure of consumer insight about them, you can begin to see those that have more potential. Now you must select an attractive market using the following characteristics:

- **It is sizeable (large) enough to be profitable given your operating cost.** Only a tiny fraction of the consumers in China can afford to buy cars. However, because the country's population is so large (nearly 1.5 billion people), more cars are sold in China than in Europe (and in the United States, depending on the month). Three billion people in the world own cell phones, but that still leaves three billion who don't.
- **It is growing.** The middle class of India is growing rapidly, making it a very attractive market for consumer products companies. People under thirty make up the majority of the Indian population, fuelling the demand for "Bollywood" (Indian-made) films (Corbett, 2008).[1]
- **It is not already swamped by competitors, or you have found a way to stand out in a crowd.** IBM used to make PCs; however, after the marketplace became crowded with competitors, IBM sold the product line to a Chinese company called Lenovo.
- **It is accessible or you can find a way to reach it.** Accessibility, or the lack of it, could include geographic accessibility, political and legal barriers, technological barriers, or social barriers. For example, to overcome geographic barriers, the consumer products company Unilever hires women in third-world

1. Corbett, S. (2008, April 13). Can the cellphone help end global poverty? *New York Times Magazine.* Accessed December 2, 2009.

countries to distribute the company's products to rural consumers who lack access to stores.

- **The company has the resources to compete in it.** You might have a great idea to compete in the wind-power market; however, it is a business that is capital intensive. What this means is that you will either need a lot of money or must be able to raise it. You might also have to compete with the likes of T. Boone Pickens, an oil tycoon who is attempting to develop and profit from the wind-power market. Does your organization have the resources to do this?
- **It "fits in" with your firm's mission and objectives.** Consider TerraCycle, which has made its mark by selling organic products in recycled packages. Fertilizer made from worm excrement and sold in discarded plastic beverage bottles is just one of its products. It wouldn't be a good idea for TerraCycle to open up a polluting, coal-fired power plant, no matter how profitable the market for the service might be.

Are women an attractive target market for yogurt sellers? The maker of this humourous YouTube video (video 5.1) thinks so (she seems to imply they are the only market).

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://kpu.pressbooks.pub/introductiontomarketing/?p=120#oembed-1

Video 5.1. Target Women: Yogurt by Giuseppe Balsamo.

Key Takeaways

A market worth targeting has the following characteristics:

1. It's sizeable enough to be profitable, given your operating costs;
2. it's growing;
3. it's not already swamped by competitors, or you have found a way to stand out in the crowd;
4. it's accessible, or you can find a way to reach it;

5. you have the resources to compete in it; and
6. it "fits in" with your firm's mission and objectives.

Most firms tailor their offerings in one way or another to meet the needs of different customer segments.

Review and Reflect

1. What factors does a firm need to examine before deciding to target a market?
2. What are the criteria for a viable market segment?

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://kpu.pressbooks.pub/introductiontomarketing/?p=120#h5p-18

5.4 POSITIONING AND REPOSITIONING OFFERINGS

Learning Objectives

1. Explain why positioning is an important element when it comes to targeting consumers.
2. Describe how a product can be positioned and mapped.
3. Explain what repositioning is designed to do.

Why should buyers purchase your offering versus another? If your product faces competition, you will need to think about how to "position" it in the marketplace relative to competing products. **Positioning** is how consumers perceive a product relative to the competition. Companies want to have a distinctive image and offering that stands out from the competition in the minds of consumers.

One way to position your product is to plot customer survey data on a perceptual map. A **perceptual map** is a two-dimensional graph that visually shows where your product stands, or should stand, relative to your competitors, based on criteria important to buyers. The criteria can involve any number of characteristics—price, quality, level of customer service associated with the product, and so on. An example of a perceptual map is shown in figure 5.5. To avoid head-to-head competition with your competitors, you want to position your product somewhere on the map where your competitors aren't clustered.

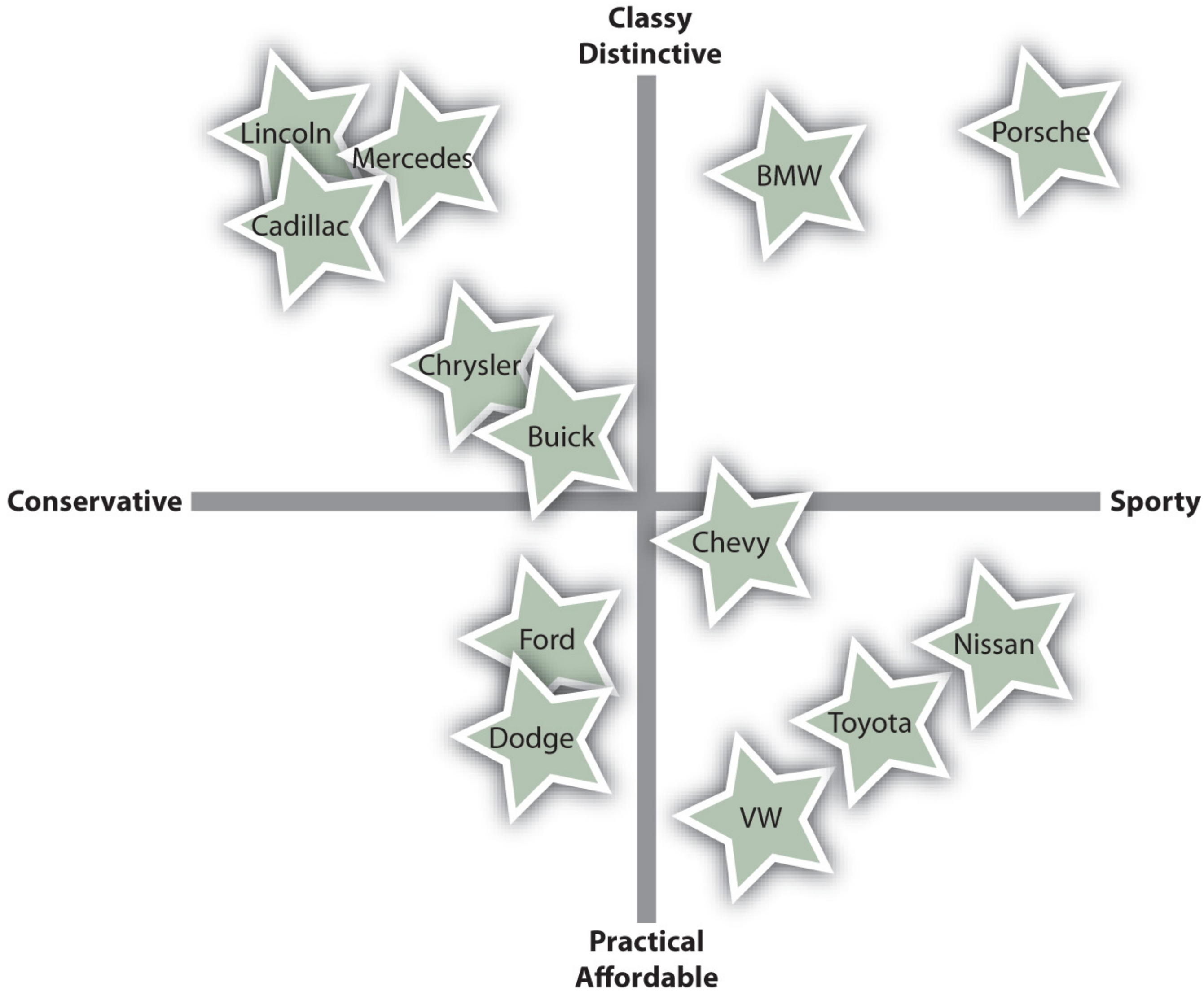


Figure 5.5. An Example of a Perceptual Map.

Many companies use taglines in their advertising to try to position their products in the minds of the buyer—where they want them, of course. A **tagline** is a catchphrase designed to sum up the essence of a product. You perhaps have heard Subway's tagline "Eat Fresh." The tagline is designed to set Subway apart from restaurants like McDonald's and Burger King—to plant the idea in consumers' heads that Subway's offerings are less "fast foodish," given the negative connotation fast food has these days.

Sometimes firms find it advantageous to reposition their products—especially if they want the product to begin appealing to different market segments. **Repositioning** is an effort to 'move' a product to a different place in the minds of consumers. The company below (figure 5.6) is expanding the market to include other buyers that previously wouldn't have considered their housing product ("Clayton i-house," 2009).[1]

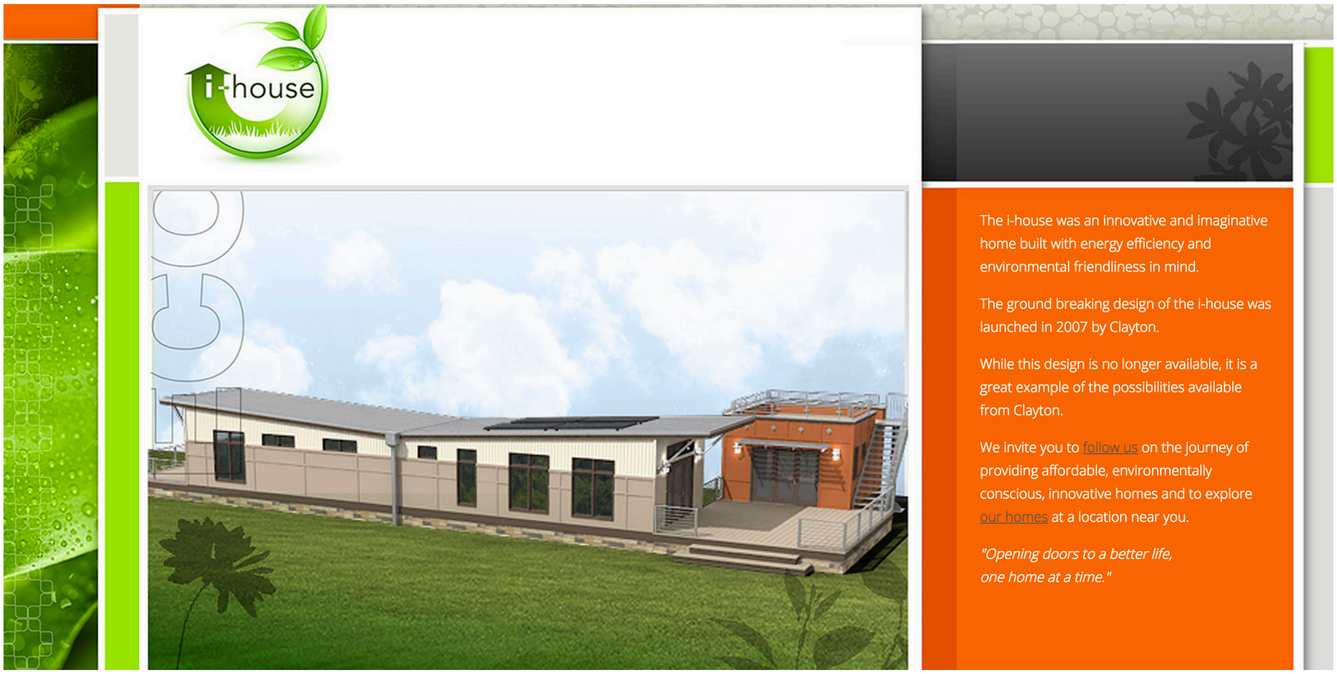


Figure 5.6. The Clayton i-house: "A Giant Leap from the Trailer Park."

Recently, Porsche unveiled its new line of Panamera vehicles at a Shanghai car show. The car is a global model, but, unlike Porsche's other cars, it's longer. Why? Because wealthy car buyers in China prefer to be driven by chauffeurs (Gapper, 2009).[2] How do you think Porsche is trying to reposition itself for the future?

Key Takeaways

1. Clayton i-house giant leap from trailer park. (2009, May 6). *Knoxvillebiz.com.* Accessed July 31, 2023.
2. Gapper, J. (2009, April 23). Why brands now rise in the East. *Financial Times*, 9.

If a product faces competition, its producer will need to think about how to "position" it in the marketplace relative to competing products. Positioning is how consumers view a product relative to the competition. A perceptual map is a two-dimensional graph that visually shows where a product stands, or should stand, relative to its competitors, based on criteria important to buyers. Sometimes firms find it advantageous to reposition their products. Repositioning is an effort to "move" a product to a different place in the minds of consumers.

Review and Reflect

1. Why do companies position products?
2. Explain what a tagline is designed to do.
3. Why might an organization reposition a product?

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://kpu.pressbooks.pub/introductiontomarketing/?p=124#h5p-19

Media Attributions

- Perceptual Map: Cars © Mydogategodshat adapted by University of Minnesota Libraries Publishing is licensed under a CC BY-NC-SA (Attribution NonCommercial ShareAlike) license
- The Clayton i-House © University of Minnesota Libraries Publishing is licensed under a CC BY-NC-

5.5 DISCUSSION QUESTIONS AND ACTIVITIES

Review and Reflect

1. Think about some of your friends and what you have discovered by visiting their homes. Do they buy different things than you do? If so, why? How might a company distinguish you from them in terms of its targeting?
2. Is it always harder to find new customers than it is to retain old ones, or does it depend on the business you're in? Explain with an example(s).
3. Does one-to-one marketing have to be expensive? How can small organizations interact with their customers in a cost-effective way?
4. Are large companies better off using multisegment strategies and are small companies better off using niche strategies? Why or why not?
5. Can you think of any companies that have tried to change their position (reposition their stores)?

Activities

1. Form groups of three students. Think of a product or service that one of you purchased recently on campus. How might you go about developing a customer profile for the product? List the sources you would use.

2. Describe a product you like that you believe more people should use. As a marketer, how would you reposition the product to increase its use? Outline your strategy.
3. Look at the latest census data and identify at least two areas of the country that are growing. What type of businesses would you recommend enter the growing markets?
4. Think of an idea for a new product or service. Who would be the target market(s) and how would you position your offering?

CHAPTER 6: MARKETING RESEARCH

6.1 STEPS IN THE MARKETING RESEARCH PROCESS

Learning Objectives

1. Describe the basic steps in the marketing research process and the purpose of each step.

The basic steps used to conduct marketing research are shown in figure 6.1. Next, we discuss each step.

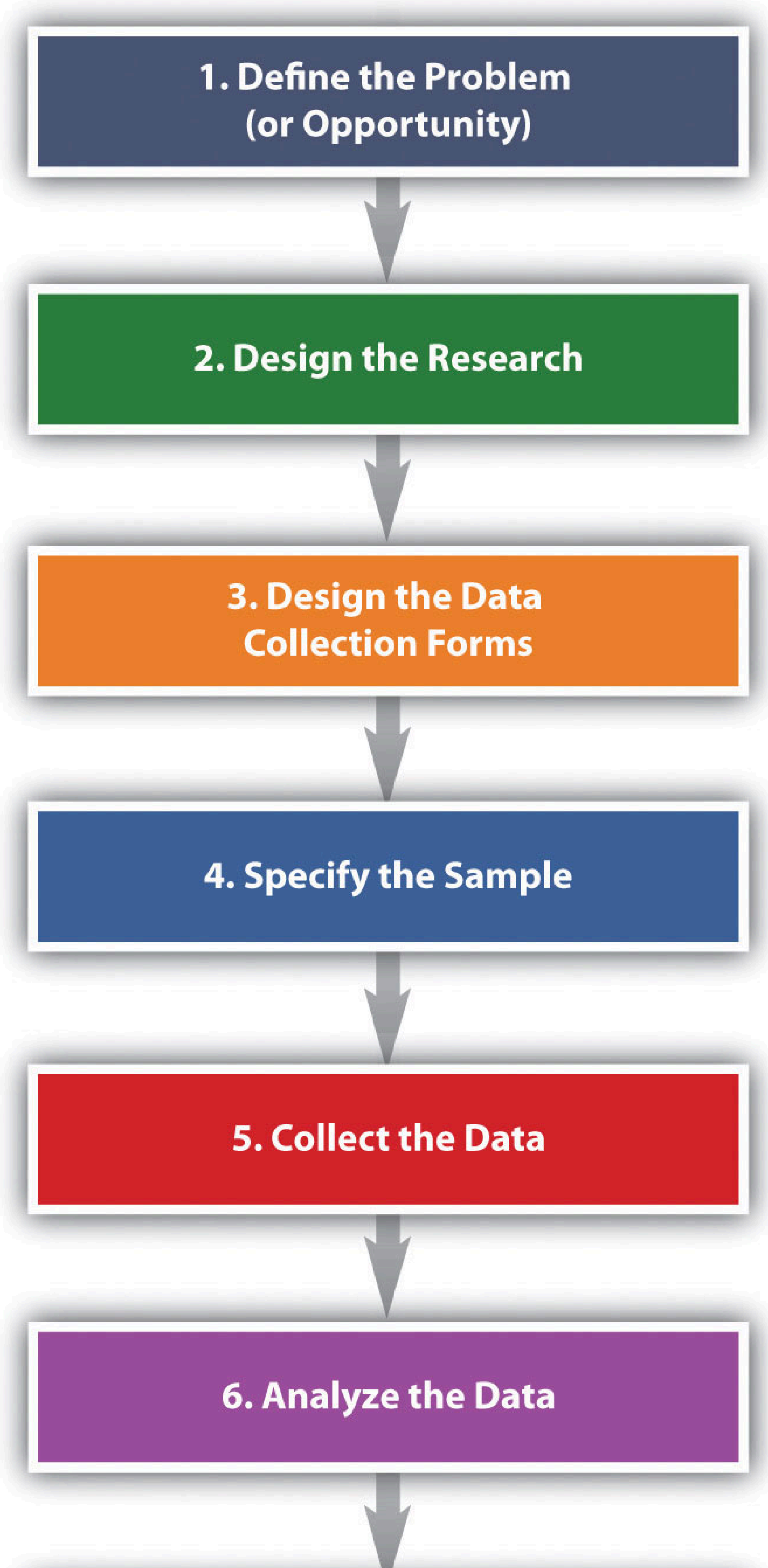

1. Define the Problem (or Opportunity)
2. Design the Research
3. Design the Data Collection Forms
4. Specify the Sample
5. Collect the Data
6. Analyze the Data

Figure 6.1. Steps in the Marketing Research Process. *[Read full image description.]*

Step 1: Define the Problem (or Opportunity)

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

Both of these scenarios would be a problem for you, wouldn't they? They are problems insofar as they cause you headaches. But are they really *the* problem? Or are they the symptoms of something bigger? For example, maybe your business has dropped off because your school is experiencing decreased enrollment so there are fewer total students on campus who need your services. Conversely, if you're swamped with people who want you to tutor them, perhaps your school has increased enrollment so there are a greater number of students who need your services. Alternately, perhaps you posted your services on social media and that led to the influx of students wanting you to tutor them.

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

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

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

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

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

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

> "To gather information from a sample representative of the U.S. population among those who are 'very likely' to purchase an automobile within the next 6 months, which assesses preferences (measured on a 1–5 scale ranging from 'very likely to buy' to 'not likely at all to buy') for the model diesel at three different price levels. Such data would serve as input into a forecasting model that would forecast unit sales, by geographic regions of the country, for each combination of the model's different prices and fuel configurations." (Burns & Bush, 2010)[1]

Now do you understand why defining the problem is complicated and half the battle? Many a marketing research effort has been doomed from the start because the problem was improperly defined. Coke's ill-fated decision to change the formula of Coca-Cola in 1985 is a case in point: Pepsi had been creeping up on Coke in terms of market share over the years as well as running a successful promotional campaign called the "Pepsi Challenge," in which consumers were encouraged to do a blind taste test to see if they agreed that Pepsi was better. Coke spent four years researching "the problem." Indeed, people seemed to like the taste of Pepsi better in blind taste tests. Thus, the formula for Coke was changed. But the outcry among the public was so great that the new formula didn't last long—a matter of months—before the old formula was reinstated. Some marketing experts believe Coke incorrectly defined the problem as "How can we beat Pepsi in taste tests?" instead of "How can we gain market share against Pepsi?" (Burns & Bush, 2010)[2]

Video 6.1 documents the Coca-Cola Company's ill-fated launch of New Coke in 1985.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://kpu.pressbooks.pub/introductiontomarketing/?p=244#oembed-1

Video 6.1. New Coke Is It! 1985. Source: The 1985 launch of New Coke on Christian Budtz.

1. Burns, A., & Bush, R. (2010). *Marketing research* (6th ed.). Prentice Hall.
2. Burns, A., & Bush, R. (2010). *Marketing research* (6th ed.). Prentice Hall.

Video 6.2 shows how Pepsi tried to capitalize on the mistake.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://kpu.pressbooks.pub/introductiontomarketing/?p=244#oembed-2

Video 6.2. 1985 Pepsi Commercial "They Changed My Coke". Source: 1985 Pepsi commercial: They changed my Coke on eyeh8cbs.

Step 2: Design the Research

The next step in the marketing research process is to do a research design. The **research design** outlines what data you are going to gather and from whom, how and when you will collect the data, and how you will analyze them once they've been obtained. Let's look at the data you're going to gather first.

There are two basic types of data you can gather. The first is primary data. **Primary data** is information you collect yourself, using hands-on tools such as interviews or surveys, specifically for the research project you're conducting. **Secondary data** are data that have already been collected by someone else, or data you have already collected for another purpose. Collecting primary data is more time-consuming, work-intensive, and expensive than collecting secondary data. Consequently, you should always try to collect secondary data first to solve your research problem, if you can. A great deal of research on a wide variety of topics already exists. If this research contains the answer to your question, there is no need for you to replicate it. Why reinvent the wheel?

Sources of Secondary Data

Your company's internal records are a source of secondary data. So are any data you collect as part of your regular marketing intelligence-gathering efforts. You can also purchase syndicated research. **Syndicated research** is primary data that marketing research firms collect on a regular basis and sell to other companies. J.D. Power & Associates is a provider of syndicated research. The company conducts independent, unbiased surveys of customer satisfaction, product quality, and buyer behaviour for various industries. The company is best known for its research in the automobile sector. One of the best-known sellers of syndicated research is the Nielsen Company, which produces the Nielsen ratings. The Nielsen ratings measure the size of television, radio, and newspaper audiences in various markets. You have probably read or heard about TV shows that get the highest (Nielsen) ratings (Arbitron does the same thing for radio ratings). Nielsen, along with its main competitor, Information Resources, Inc. (IRI), also sells businesses **scanner-based research**. Scanner-based research is information collected by scanners at checkout stands in stores. Each week, Nielsen and IRI collect information on the millions of purchases made at stores. The companies then compile the information and sell it to firms in various industries that subscribe to their services. The Nielsen Company has also recently teamed up with Facebook to collect marketing research information. Via Facebook, users will see surveys in some of the spaces in which they used to see online ads (Rappeport & Gelles, 2009).[3]

By contrast, MarketResearch.com is an example of a marketing research aggregator. A **marketing research aggregator** is a marketing research company that doesn't conduct its own research and sell it; instead, it buys research reports from other marketing research companies and then sells the reports in their entirety or in pieces to other firms. Check out MarketResearch.com's website (figure 6.2). As you will see, there are a huge number of studies in every category imaginable that you can buy for relatively small amounts of money.

3. Rappeport, A., & Gelles, D. (2009, September 23). Facebook to form alliance with Nielsen. *Financial Times, 16*.

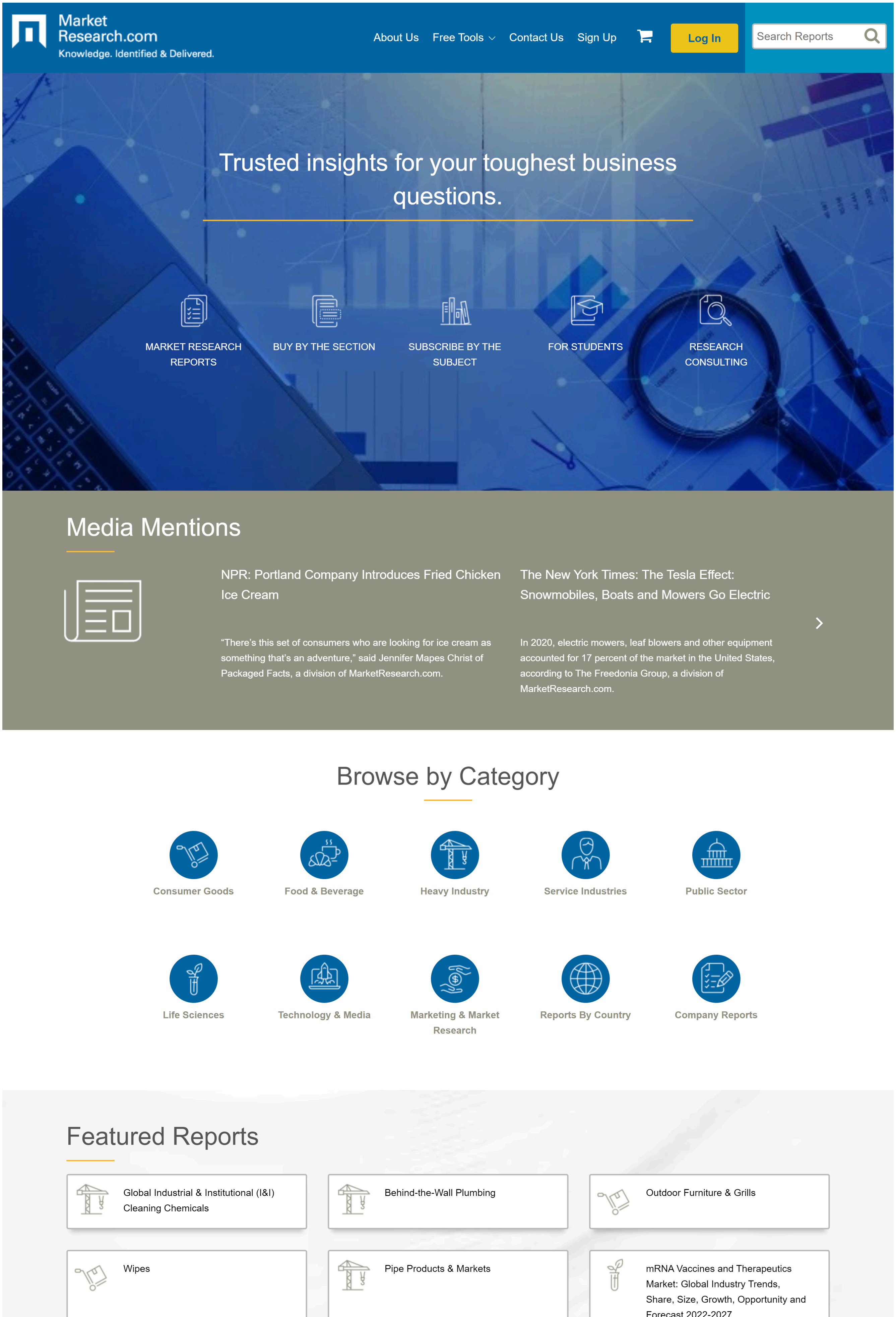

Market Research.com
Knowledge. Identified & Delivered.
About Us
Free Tools
Contact Us
Sign Up
Log In
Search Reports
Trusted insights for your toughest business questions.
MARKET RESEARCH REPORTS
BUY BY THE SECTION
SUBSCRIBE BY THE SUBJECT
FOR STUDENTS
RESEARCH CONSULTING
Media Mentions
NPR: Portland Company Introduces Fried Chicken Ice Cream
"There's this set of consumers who are looking for ice cream as something that's an adventure," said Jennifer Mapes Christ of Packaged Facts, a division of MarketResearch.com.
The New York Times: The Tesla Effect: Snowmobiles, Boats and Mowers Go Electric
In 2020, electric mowers, leaf blowers and other equipment accounted for 17 percent of the market in the United States, according to The Freedonia Group, a division of MarketResearch.com.
Browse by Category
Consumer Goods
Food & Beverage
Heavy Industry
Service Industries
Public Sector
Life Sciences
Technology & Media
Marketing & Market Research
Reports By Country
Company Reports
Featured Reports
Global Industrial & Institutional (I&I) Cleaning Chemicals
Behind-the-Wall Plumbing
Outdoor Furniture & Grills
Wipes
Pipe Products & Markets
mRNA Vaccines and Therapeutics Market: Global Industry Trends, Share, Size, Growth, Opportunity and Forecast 2022-2027

Figure 6.2. Screenshot of the MarketResearch.com website.

Your school library is a good place to gather free secondary data. It has searchable databases as well as handbooks, dictionaries, and books, some of which you can access online. Government agencies also collect and report information on demographics, economic and employment data, health information, and balance-of-trade statistics, among a lot of other information. Statistics Canada collects census data every ten years to gather information about who lives where. Basic demographic information about sex, age, race, and types of housing in which people live in each province, metropolitan area, and rural area is gathered so that population shifts can be tracked for various purposes.

The World Bank and the United Nations are two international organizations that collect a great deal of information. Their websites contain many free research studies and data related to global markets. Table 6.1 shows some examples of primary versus secondary data sources.

Table 6.1. Examples of Primary Data Sources versus Secondary Data Sources

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

Gauging the Quality of Secondary Data

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

Gauging the Credibility of Secondary Data: Questions to Ask

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

Types of Research Designs

Now let's look at the most common type of research design: exploratory.

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

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

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

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

The Basic Steps of Conducting a Focus Group

1. Establish the objectives of the focus group. What is its purpose?
2. Identify the people who will participate in the focus group. What makes them qualified to participate? How many of them will you need and what they will be paid?
3. Obtain contact information for the participants and send out invitations (e-mails are usually most efficient).
4. Develop a list of questions.
5. Choose a facilitator.
6. Choose a location in which to hold the focus group and the method by which it will be recorded.
7. Conduct the focus group. If the focus group is not conducted electronically, include name tags for the participants, pens and notepads, any materials the participants need to see, and refreshments. Record participants' responses.
8. Summarize the notes from the focus group and write a report for management.

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

Two other types of qualitative data used for exploratory research are ethnographies and projective techniques. In **ethnography**, researchers interview, observe, and often videotape people while they work, live, shop, and play. The Walt Disney Company has recently begun using ethnographers to uncover the likes and dislikes of boys aged six to fourteen, a financially attractive market segment for Disney, but one in which the company has been losing market share. The ethnographers visit the homes of boys, observe the things they have in their rooms to get a sense of their hobbies, and accompany them and their mothers when they shop to see where they go, what the boys are interested in, and what they ultimately buy (Barnes, 2009).[4]

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

People who buy Gucci handbags __________. (Will he or she reply with "are cool," "are affluent," or "are pretentious," for example?)

KFC's grilled chicken is ______.

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

In some cases, your research might end with exploratory research. Perhaps you have discovered your

4. Barnes, B. (2009, April 15). Disney expert uses science to draw boy viewers. *New York Times*. Accessed December 14, 2009.

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

Watch video 6.3 to see a funny spoof on the usefulness—or lack of usefulness—of focus groups.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://kpu.pressbooks.pub/introductiontomarketing/?p=244#oembed-3

Video 6.3. The Stone Wheel: What One Focus Group Said. Source: stone and stone wheel on smack1313.

Step 3: Design the Data-Collection Forms

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

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

Questionnaire Design

Most questionnaires follow a similar format: They begin with an introduction describing what the study is for, followed by instructions for completing the questionnaire and, if necessary, returning it to the market researcher. The first few questions that appear on the questionnaire are usually basic, warm-up questions their respondent can readily answer, such as the respondent's age, level of education, place of residence, and so forth.

The warm-up questions are then followed by a logical progression of more detailed, in-depth questions that get to the heart of the question being researched. Lastly, the questionnaire wraps up with a statement that thanks the respondent for participating in the survey and providing information and explains when and how they will be paid for participating.

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

Do you agree that teachers should be paid more?

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

Which brand of toothpaste do you use?

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

Which brand of toothpaste have you used at home in the past six months? If you have used more than one brand, please list each of them ("Questionnaire Design," n.d.).[5]

Sensitive questions have to be asked carefully. For example, asking a respondent, "Do you consider yourself a

5. *Questionnaire design*. (n.d.). QuickMBA. Accessed December 14, 2009.

light, moderate, or heavy drinker?" can be tricky. Few people want to admit to being heavy drinkers. You can "soften" the question by including a range of answers, as the following example shows:

How many alcoholic beverages do you consume in a week?

- __0–5 alcoholic beverages
- __5–10 alcoholic beverages
- __10–15 alcoholic beverages

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

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

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

Testing the Questionnaire

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

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

Step 4: Specify the Sample

Once you have created your questionnaire or other marketing study, how do you figure out who should participate in it? Obviously, you can't survey or observe all potential buyers in the marketplace; instead, you must choose a sample. A **sample** is a subset of potential buyers that are representative of your *entire* target market or **population** being studied. Sometimes market researchers refer to the population as the *universe* to reflect the fact that it includes the entire target market, whether it consists of a million people, a hundred thousand, a few hundred, or a dozen. "All single people over the age of eighteen who purchased an air fryer in Canada during 2020" is an example of a population that has been defined.

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

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

A **nonprobability sample** is any type of sample that's not drawn in a systematic way, so the chances of each would-be participant being selected can't be known. A **convenience sample** is one type of nonprobability sample. It is a sample a researcher draws because it's readily available and convenient to do so. Surveying people on the street as they pass by is an example of a convenience sample. The question is, are these people representative of the target market?

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

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

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

Step 5: Collect the Data

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

Watch the YouTube video 6.4 to get an idea of how mystery shopping works.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://kpu.pressbooks.pub/introductiontomarketing/?p=244#oembed-4

Video 6.4. Make Extra Money as a Mystery Shopper by KSSAyisha.

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

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

A face-to-face survey is, of course, administered by a person. The surveys are conducted in public places such as in shopping malls, on the street, or in people's homes if they have agreed to it. In years past, it was common for researchers to knock on people's doors to gather survey data. However, randomly collected door-to-door interviews are less common today, partly because people are afraid of crime and are reluctant to give information to strangers (McDaniel & Gates, 1998).[6]

Nonetheless, knocking on doors is still a legitimate way questionnaire data are collected. When Statistics Canada collects data on the nation's population, it hand delivers questionnaires to rural households that do not have street-name and house-number addresses. And workers personally survey the homeless to collect information about their numbers. Face-to-face surveys are also commonly used in some countries to collect information from people who cannot read or lack phones and computers.

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

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

By contrast, gathering survey data collected by a computer, either over the telephone or on the Internet, can be cost-effective and in some cases free. SurveyMonkey and Qualtrics are two websites that will allow you to create online questionnaires, e-mail them to up to one hundred people for free, and view the responses in real time as they come in. For larger surveys, you have to pay a subscription price of a few hundred dollars. But that still can be extremely cost-effective. See how easy it is to put together a survey in SurveyMonkey.

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

6. McDaniel, C. D., & Gates, R. H. (1998). *Marketing research essentials* (2nd ed.). South-Western College Publishing.

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

Lastly, before the data collection process begins, the surveyors and observers need to be trained to look for the same things, ask questions the same way, and so forth. If they are using rankings or rating scales, they need to agree as to what constitutes a high ranking or a low ranking. The goal of training is to avoid a wide disparity between how different observers and interviewers record the data.

For example, if an observation form asks the observers to describe whether a shopper's behaviour is hurried, moderately hurried, or unhurried, they should be given an idea of what defines each rating. Does it depend on how much time the person spends in the store or in the individual aisles? Is how fast they walk taken into account? In other words, the criteria and ratings need to be spelled out.

Step 6: Analyze the Data

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

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

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

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

Step 7: Write the Research Report and Present Its Findings

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

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

1. **Title Page**. The title page explains what the report is about, when it was conducted and by whom, and who requested it.
2. **Table of Contents**. The table of contents outlines the major parts of the report as well as any graphs and charts and their page numbers.
3. **Executive Summary**. The executive summary summarizes all the details in the report in a quick way. Many people who receive the report—both executives and nonexecutives—won't have time to read the entire report. Instead, they will rely on the executive summary to quickly get an idea of the study's results and what to do about those results.
4. **Methodology and Limitations**. The methodology section of the report explains the technical details of how the research was designed and conducted. The section explains, for example, how the data were collected and by whom, the size of the sample, how it was chosen, and whom or what it consisted of (e.g., the number of women versus men or children versus adults). It also includes information about the statistical techniques used to analyze the data. Every study has errors—sampling errors, interviewer errors, and so forth. The methodology section should explain these details so decision makers can consider their overall impact. The **margin of error** is the overall tendency of the study to be off kilter—that is, how far it could have gone wrong in either direction. Remember how newscasters present the presidential polls before an election? They always say, "This candidate is ahead 48 to 44 percent, plus or minus 2 percent." That "plus or minus" is the margin of error. The larger the margin of error is, the less likely the results of the study are accurate. The margin of error needs to be included in the methodology section.
5. **Findings**. The findings section is a longer, fleshed-out version of the executive summary that goes into

more detail about the statistics uncovered by the research that bolster the study's findings. If you have related research or secondary data on hand that back up the findings, they can be included to help show the study did what it was designed to do.

6. **Recommendations**. The recommendations section should outline the course of action you think should be taken based on the findings of the research and the purpose of the project. For example, if you conducted a global market research study to identify new locations for stores, make a recommendation for the locations (Mersdorf, 2009).[7]

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

As you write the research report, keep your audience in mind. Don't use technical jargon decision makers and other people reading the report won't understand. If technical terms must be used, explain them. Also, proofread the document to identify any grammatical errors and typos and ask a couple of other people to proofread it to catch any mistakes you might have missed. If your research report is riddled with errors, its credibility will be undermined, even if the findings and recommendations you make are extremely accurate.

Many research reports are presented via PowerPoint. If you're asked to create a slideshow presentation from the report, don't try to include every detail in the report on the slides. The information will be too long and tedious for people attending the presentation to read through. And if they do go to the trouble of reading all the information, they probably won't be listening to the speaker who is making the presentation.

Instead of including all the information from the study in the slides, boil each section of the report down to key points and add some "talking points" only the presenter will see. After or during the presentation, you can give the attendees the longer, paper version of the report so they can read the details at a convenient time.

Key Takeaways

7. Mersdorf, S. (2009, August 24). *How to organize your next survey report*. Cvent. Accessed July 31, 2023).

- Step 1 in the marketing research process is to define the problem. Businesses look at what they believe are symptoms and drill down to the potential causes so as to precisely define the problem. The next task for the researcher is to put into writing the research objective, or goal, the research is supposed to accomplish.
- Step 2 in the process is to design the research. The research design is the "plan of attack." It outlines what data you are going to gather, from whom, how, and when, and how you're going to analyze it once it has been obtained.
- Step 3 is to design the data-collection forms, which need to be standardized so the information gathered on each is comparable. Surveys are a popular way to gather data because they can be quickly and easily administered to large numbers of people. However, to produce the best results, survey questionnaires need to be carefully designed and pretested before they are used.
- Step 4 is drawing the sample, or a subset of potential buyers who are representative of your *entire* target market. If the sample is not correctly selected, the research will be flawed.
- Step 5 is to actually collect the data, whether they're collected by a person face to face, over the phone, or with the help of computers or the Internet. The data-collection process is often different in foreign countries.
- Step 6 is to analyze the data collected for any obvious errors, tabulate the data, and then draw conclusions from them based on the results. The last step in the process,
- Step 7 is writing the research report and presenting the findings to decision makers.

Review and Reflect

1. Explain why it's important to carefully define the problem or opportunity a marketing research study is designed to investigate.
2. Describe the different types of problems that can occur when marketing research professionals develop questions for surveys.
3. What sections should be included in a marketing research report? What is each section

designed to do?

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://kpu.pressbooks.pub/introductiontomarketing/?p=244#h5p-22

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://kpu.pressbooks.pub/introductiontomarketing/?p=244#h5p-21

Media Attributions

-

6.2 MARKETING RESEARCH, INTELLIGENCE AND ETHICS

Learning Objectives

1. Learn how marketing intelligence differs from marketing.
2. Describe the limitations of market intelligence and its ethical boundaries.
3. Explain when marketing research should and should not be used.

A certain amount of marketing information is being gathered all the time by companies as they engage in their daily operations. When a sale is made and recorded, this is marketing information that's being gathered. When a sales representative records the shipping preferences of a customer in a firm's **customer relationship management** system, this is also marketing information that's being collected. When a firm gets a customer complaint and records it, this too is information that should be put to use. All these data can be used to generate consumer insight. However, truly understanding customers involves not just collecting quantitative data (numbers) related to them but qualitative data, such as comments about what they think.

Internally Generated Data and Reports

As we explained, an organization generates and records a lot of information as part of its daily business operations, including sales and accounting data and data on inventory levels, back orders, customer returns, and complaints. Firms are also constantly gathering information related to their websites, such as data generated about the number of people who visit a website and its various pages, how much time they spend there, and what they buy or don't buy. Companies use these data in all kinds of ways. They use them to monitor the overall visitor traffic a site gets, to see which areas of the site people aren't visiting and why, and to automatically offer visitors products and promotions by virtue of their browsing patterns.

Watch a fascinating documentary about how Walmart, the world's most powerful retailer, operates.

Analytics Software

Increasingly, companies are purchasing analytics software to help them collect and make sense of internally generated information. **Analytics software** allows managers who are not computer experts to gather all kinds of different information from a company's databases—information not produced in reports regularly generated by the company. The software incorporates regression models, linear programming, and other statistical methods to help managers answer "what if" types of questions. For example, "If we spend 10 percent more of our advertising on TV ads instead of magazine ads, what effect will it have on sales?"

The camping, hunting, fishing, and hiking retailer Cabela's has managed to refine its marketing efforts considerably using analytics software developed by the software maker SAS. "Our statisticians in the past spent 75 percent of their time just trying to manage data. Now they have more time for analyzing the data with SAS, and we have become more flexible in the marketplace," says Corey Bergstrom, director of marketing research and analysis for Cabela's. "That is just priceless" (Zarello, 2009).[1]

1. Zarello, C. (2009, May 5). Hunting for gold in the great outdoors. *Retail Information Systems News*. Accessed September 13, 2021.

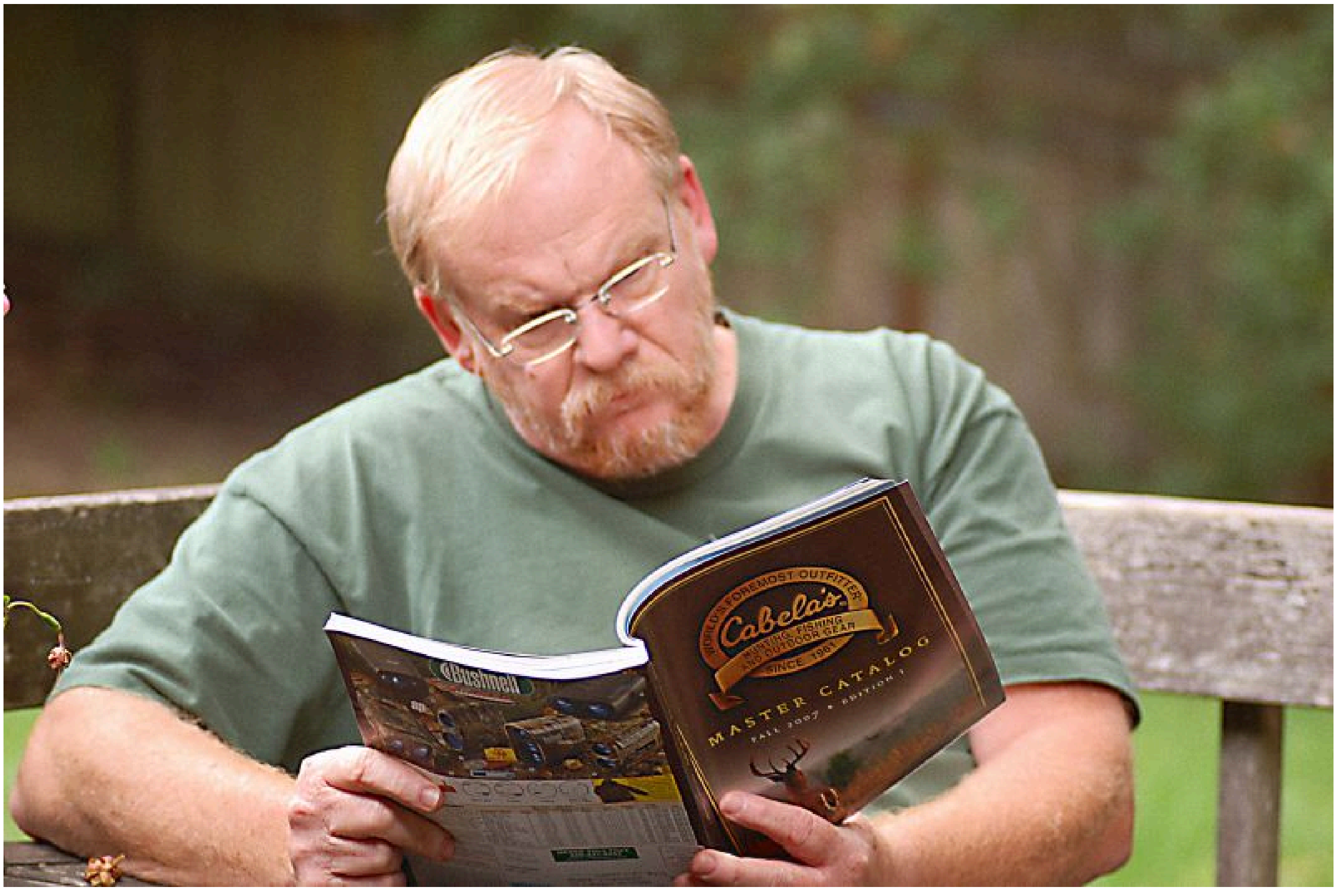


Figure 6.3. Cabela's analytics software has helped the outdoor sporting retailer reach the right customers with the right catalogs.

The company uses the software to analyze sales transactions, market research, and demographic data associated with its large database of customers. It combines the information with web browsing data to gain a better understanding of individual customers' marketing channel preferences as well as other marketing decisions. For example, does the customer prefer Cabela's one-hundred-page catalogues or the seventeen-hundred-page catalogues? The software has helped Cabela's employees understand these relationships and make high-impact data-driven marketing decisions (Zarello, 2009).[2]

Market Intelligence

A good internal reporting system can tell a manager what happened inside his firm. But what about what's

2. Zarello, C. (2009, May 5). Hunting for gold in the great outdoors. *Retail Information Systems News*. Accessed September 13, 2021.

going on *outside* the firm? What is the business environment like? Are credit-lending terms loose or tight, and how will they affect what you and your customers are able to buy or not buy? How will rising fuel prices and alternate energy sources affect your firm and your products? Do changes such as these present business obstacles or opportunities? Moreover, what are your competitors up to?

Not gathering market intelligence leaves a company vulnerable. Remember Encyclopedia Britannica, the market leader in print encyclopedia business for literally centuries? Encyclopedia Britannica didn't see the digital age coming and nearly went out of business as a result (suffice it to say, you can now access Encyclopedia Britannica online). By contrast, when fuel prices hit an all-time high in 2008, unlike other passenger airline companies, Southwest Airlines was prepared. Southwest had anticipated the problem and early on locked in contracts to buy fuel for its planes at much lower prices. Other airlines weren't as prepared and lost money because their fuel expenses skyrocketed. Meanwhile, Southwest Airlines managed to eke out a profit. Collecting market intelligence can also help a company generate ideas or product concepts that can then be tested by conducting market research.

Gathering market intelligence involves a number of activities, including scanning newspapers, trade magazines, and economic data produced by the government to find out about trends and what the competition is doing. In big companies, personnel in a firm's marketing department are primarily responsible for their firm's market intelligence and making sure it gets conveyed to decision makers. Some companies subscribe to news service companies that regularly provide them with this information. LexisNexis is one such company. It provides companies with news about business and legal developments that could affect their operations. Other companies subscribe to mystery shopping services, companies that shop with a client and/or competitors and report on service practices and service performance. Let's now examine some of the sources of information you can look at to gather market intelligence.

Search Engines and Corporate Websites

An obvious way to gain market intelligence is by examining your competitors' websites as well as doing basic searches with search engines like Google. If you want to find out what the press is writing about your company, your competitors, or any other topic you're interested in, you can sign up to receive free alerts via e-mail by going to Google Alerts. Suppose you want to monitor what people are saying about you or your company on blogs, the comment areas of websites, and social networks such as Facebook and Twitter. You can do so by going to a site like WhosTalkin.com, typing a topic or company name into the search bar, and voilà! All the good (and bad) things people have remarked about the company or topic turn up. What a great way to seek out the shortcomings of your competitors. It's also a good way to spot talent. For example, designers are using search engines like WhosTalkin.com to search the blogs of children and teens who are "fashion forward" and then involving them in designing new products.

WhosTalkin.com and Radian6 (a similar company) also provide companies with sentiment analysis. Sentiment analysis is a method of examining content in blogs, tweets, and other online media (other than news media) such as Facebook posts to determine what people are thinking at any given time. Some companies use sentiment analysis to determine how the market is reacting to a new product. The Centers for Disease Control (CDC) uses sentiment analysis to track the progress of flus; as people post or tweet on how sick they are, the CDC can determine where a flu is increasing or decreasing.

Figure 6.4. Type a company's name (or anything else you want) into the search bar and see what comes up. (Note: It takes a little while for all of the results to show up.)

Publications

The *Economist*, the *Wall Street Journal*, *Forbes*, *Fortune*, *BusinessWeek*, the *McKinsey Report*, *Sales and Marketing Management*, and the *Financial Times* are good publications to read to learn about general business trends. All of them discuss current trends, regulations, and consumer issues that are relevant for organizations doing business in the domestic and global marketplace. All these publications are online as well, though you might have to pay a subscription fee to look at some of their content. If your firm is operating in a global market, you might be interested to know that some of these publications have Asian, European, and Middle Eastern editions.

Other publications provide information about marketplace trends and activities in specific industries. *Consumer Goods and Technology* provides information that consumer packaged-goods firms want to know. Likewise, *Progressive Grocer* provides information on issues important to grocery stores. *Information Week* provides information relevant to people and businesses working in the area of technology. *World Trade* provides information about issues relevant to organizations shipping and receiving goods from other countries. *Innovation: America's Journal of Technology Commercialization* provides information about innovative products that are about to hit the marketplace.

Trade Shows and Associations

Trade shows are another way companies learn about what their competitors are doing (if you are a marketing professional working a trade show for your company, you will want to visit all your competitors' booths and see what they have to offer relative to what you have to offer). And, of course, every field has a trade association that collects and disseminates information about trends, breakthroughs, new technology, new processes, and challenges in that particular industry. The American Marketing Association, Food Marketing Institute, Outdoor Industry Association, Semiconductor Industry Association, Trade Promotion Management Association, and Travel Industry Association provide their member companies with a wealth of information and often deliver them daily updates on industry happenings via e-mail.

Salespeople

A company's salespeople provide a vital source of market intelligence. Suppose one of your products is selling poorly. Will you initially look to newspapers and magazines to figure out why? Will you consult a trade association? Probably not. You will first want to talk to your firm's salespeople to get their "take" on the problem.

Salespeople are the eyes and ears of their organizations. Perhaps more than anyone else, they know how products are faring in the marketplace, what the competition is doing, and what customers are looking for.

A system for recording this information is crucial, which explains why so many companies have invested in customer relationship management systems. Some companies circulate lists so their employees have a better idea of the market intelligence they might be looking for. Textbook publishers are an example. They let their sales representatives know the types of books they want to publish and encourage their representatives to look for good potential textbook authors among the professors they sell to.

Suppliers and Industry Experts

Your suppliers can provide you with a wealth of information. Good suppliers know which companies are moving a lot of inventory, and oftentimes they have an idea why. In many instances, they will tell you if the information you're looking for is general enough so they don't have to divulge any information that's confidential or that would be unethical to reveal—an issue we'll talk more about later in the book. Befriending an expert in your industry, along with business journalists and writers, can be helpful, too. These people are often "in the know" because they get invited to review products (Gardner, 2009).[3]

Customers

Lastly, when it comes to market intelligence don't neglect observing how customers are behaving. They can provide many clues, some of which you will be challenged to respond to. For example, during the latest economic downturn, many wholesalers and retailers noticed consumers began buying smaller amounts of goods—just what they needed to get by during the week. Seeing this trend, and realizing that they couldn't pass along higher costs to customers (because of, say, higher fuel prices), a number of consumer-goods manufacturers slightly "shrank" their products rather than raising prices. You have perhaps noticed that some of the products you buy got smaller—but not cheaper.

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://kpu.pressbooks.pub/introductiontomarketing/?p=236#h5p-23

Can Market Intelligence Be Taken Too Far?

Can market intelligence be taken too far? The answer is yes. In 2001, Procter & Gamble admitted it had engaged in "dumpster diving" by sifting through a competitor's garbage to find out about its hair care products. Although the practice isn't necessarily illegal, it cast P&G in a negative light. Likewise, British Airways received a lot of negative press in the 1990s after it came to light that the company had hacked into Virgin Atlantic Airways' computer system (Miller, 2001).[4]

---

3. Gardner, J. (2001, September 24). *Competitive intelligence on a shoestring*. Inc. Accessed December 14, 2009.
4. Miller, L. (2001, August 31). P&G admits to dumpster diving. *PR Watch*. Accessed December 14, 2009.

Gathering corporate information illegally or unethically is referred to as **industrial espionage**. Industrial espionage is not uncommon. Sometimes companies hire professional spies to gather information about their competitors and their trade secrets or even bug their phones. Former and current employees can also reveal a company's trade secret either deliberately or unwittingly. Microsoft recently sued a former employee it believed had divulged trade secrets to its competitors ("Microsoft Suit," 2009).[5] It's been reported that for years professional spies bugged Air France's first-class seats to listen in on executives' conversations (Anderson, 1995).[6]

To learn more about the hazards of industrial espionage and how it's done, check out video 6.5.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://kpu.pressbooks.pub/introductiontomarketing/?p=236#oembed-1

Video 6.5. Spying at Work: espionage, who, how, why, how to stop it. Ideas theft. Business Security Speaker by Futurist Keynote Speaker Patrick Dixon.

Marketing Research

Marketing research is what a company has to resort to if it can't answer a question by using any of the types of information we have discussed so far—market intelligence, internal company data, or analytics software applied to data. As we have explained, marketing research is generally used to answer specific questions. The name you should give your new product is an example. Unless your company has previously done some specific research on product names—what consumers think of them, good or bad—you're probably not going to find the answer to that question in your internal company data. Also, unlike internal data, which are generated on a regular basis, marketing research is not ongoing. Marketing research is done on an as-needed or project basis. If an organization decides that it needs to conduct marketing research, it can either conduct marketing research itself or hire a marketing research firm to do it.

5. Microsoft suit alleges ex-worker stole trade secrets. (2009, January 30). *CNET*. Accessed August 1, 2023.
6. Anderson, J. (1995, March 25). Bugging Air France first class. *Ellensburg Daily News, 3*. Accessed December 12, 2009.

So when exactly is marketing research needed? Keep in mind that marketing research can be expensive. You therefore have to weigh the costs of the research against the benefits. What questions will the research answer, and will knowing the answer result in the firm earning or saving more money than the research costs?

Marketing research can also take time. If a quick decision is needed for a pressing problem, it might not be possible to do the research. Lastly, sometimes the answer is obvious, so there is no point in conducting the research. If one of your competitors comes up with a new offering and consumers are clamouring to get it, you certainly don't need to conduct a research study to see if such a product would survive in the marketplace.

Is Marketing Research Always Correct?

To be sure, marketing research can help companies avoid making mistakes. Take the example of Tim Hortons, a popular coffee chain in Canada, which has been expanding in the United States and internationally. When Tim Hortons first opened drive-thru kiosks in Europe, the service was a flop. Why? Because many cars in Europe don't have cup holders. Would marketing research have helped? Probably. So would a little bit of market intelligence. It would have been easy for an observer to see that trying to drive a car while holding a cup of hot coffee at the same time is difficult.

That said, we don't want to leave you with the idea that marketing research is infallible. As we indicated at the beginning of the chapter, the process isn't foolproof. In fact, marketing research studies have rejected a lot of good ideas. The idea for telephone answering machines was initially rejected following marketing research. So was the hit sitcom *Seinfeld*, a show that in 2002 *TV Guide* named the number-one television program of all time. Even the best companies, like Coca-Cola, have made mistakes in marketing research that have led to huge flops. In the next section of this chapter, we'll discuss the steps related to conducting marketing research. As you will learn, many things can go wrong along the way that can affect the results of research and the conclusions drawn from it.

Key Takeaways

Many marketing problems and opportunities can be solved by gathering information from a company's daily operations and analyzing it. Market intelligence involves gathering information on a regular, ongoing basis to stay in touch with what's happening in the marketplace. Marketing research is what a company has to resort to if it can't answer a question by using market intelligence, internal company data, or analytical software. Marketing research is not infallible, however.

Review and Reflect

1. Why do companies gather market intelligence and conduct marketing research?
2. What activities are part of market intelligence gathering?
3. How do marketing professionals know if they have crossed a line in terms of gathering marketing intelligence?
4. How does the time frame for conducting marketing intelligence differ from the time frame in which marketing research data are gathered?

Media Attributions

- Cabela's © Echo9er is licensed under a CC BY-NC-SA (Attribution NonCommercial ShareAlike) license

6.3 DISCUSSION QUESTIONS AND ACTIVITIES

Review and Reflect

1. Are small business owners at a disadvantage if they lack the marketing research resources large companies have? Why or why not?
2. Online marketing research seems to be the wave of the future. What drawbacks do you see associated with conducting surveys online? Are privacy issues greater with online surveys than with other forms of administering surveys, such as phone, face to face, or mail?
3. You need to conduct research on consumer acceptance for a new product. Describe the process you would use. How would your project change if the product solved an embarrassing problem? What would your challenges be in that situation?
4. Given the way people tweet about customer service, why do companies still use mystery shoppers? Why not simply follow tweet volume and content to see if service is good?
5. Your CEO is personally involved in developing a new product that is really cool, but you have your doubts about whether it really delivers any additional benefits compared to what is already available. When you pitch the idea of marketing research study to test consumer response, she says, “Are you kidding? Why waste the money and time as well as let our competitors know what we’ve got? Let’s get this to market!” But the market launch will cost $3 million and your company’s profits last year were only $5 million. How would you respond? How would your answer differ if the launch only cost $300,000?
6. Describe how you would use projective techniques to help your university understand how prospective students make schooling decisions. Be specific when describing how you would use the technique and provide examples of questions.
7. You sell manufacturing equipment for an Indian company that imports the equipment into your country. You want to do a research project on potential brand names for a new product line and have to choose among the following sampling ideas or projects. For each one, identify what type of study and sample you have, discuss the pros and cons, and then, at the

end, make a decision.

1. Stopping 200 people at a trade show and showing potential brand names to them to see their reaction.
2. Hosting a breakfast or lunch at a trade show to get 3 groups of 10 to provide feedback to the names and logos.
3. Send an email to your customers with a link to a URL that has the various names and let them vote.

Activities

1. In this activity, you will conduct a survey using either Zoomerang.com or SurveyMonkey.com. Divide into groups of four people. Each group should do the following:
    1. Choose a food-service establishment on or near your campus. Then, create a ten-question survey designed to gauge how satisfied customers are with the establishment's food and service.
    2. Decide how you will deliver the questionnaire you've created. Choose a sampling frame, or list of people from which you will draw your sample.
    3. Administer the survey. After you have collected the results, analyze them and write a research report with the sections outlined in the chapter.
    4. Contact the owner or manager of the establishment and present him or her with the findings. If your research is helpful to the manager, who knows? It might earn you a free meal or at least some money-off coupons.
2. Would you like to own an all-electric car? Do you think there is a viable market for such a product? Team up into small groups of three or four people. As a team, use secondary data to research the viability of selling electric cars profitably. Utilize some of the sources mentioned in the chapter. Try to determine the population of electric-car buyers. Lastly, write a research report based on your findings. Each group should present its findings to the

class. Do the findings differ from group to group? If so, why?

CHAPTER 7: PRODUCT

7.1 WHAT IS A PRODUCT OR SERVICE?

Learning Objectives

1. Explain, from both a product-dominant and a service-dominant approach, the mix of components that compose different types of offerings.
2. Distinguish between product mix and product lines.

People buy things to solve needs. In the case of the Apple Watch, the need is to have better access to your phone, track your health, or both. Products and services are designed to deliver value to customers—either to fulfill their needs, satisfy their "wants," or both.

Products (Goods) and Services

A **product** is a tangible good people can buy, sell, and own. Purchasing an Apple Watch, for example, will allow you to monitor your notifications, make calls, send texts, run apps, and help keep you healthy. Apple Pay on the watch is an example of a **feature**, and this feature delivers a benefit to you—the benefit of making purchases easily. When a feature satisfies a need or want, then there is a **benefit**. Features and benefits, then, matter differently to different consumers based on each individual's needs.

A **service** is an action that provides a buyer with an intangible benefit. A haircut is a service. When you purchase a haircut, it's not something you can hold, give to another person, or resell. "Pure" services are offerings that don't have any tangible characteristics associated with them. Skydiving is an example of a pure service. You are left with nothing after the jump but the memory of it (unless you buy a photo of the event). Yes, a plane is required, and it is certainly tangible. But it isn't the product—the jump is. At times, people use the term "product" to mean an offering that's either tangible or intangible. Banks, for example, often advertise specific types of loans, or financial "products," they offer consumers. Yet these products are actually financial services. The term "product" is frequently used to describe an offering of either a good or a service.

Characteristics of Services

Intangible

The intangibility of a service means it cannot be touched, tasted or seen. When you take a flight, you can see the airplane, but the actual flight to your destination cannot be seen, tasted, felt, heard, or smelled before you depart.

Variable

The intangibility of a service creates interesting challenges for marketers and buyers when they try to judge the relative merits of one service over another. For example, judging how good a hair stylist is before the haircut is difficult. Thus, services can suffer from high variability in quality due to the fact that they are often created as they are received.

Inseparable

Services usually also require the consumer to be physically present or involved. A haircut, a night in a hotel, a flight all require the consumer to be physically present, and consumption of the service is not separate from the creation of the service. Unlike a physical product, which can be created and purchased off a shelf, a service often (but not always) involves the consumer in its creation.

Perishable

Another challenge for many services providers is that services are perishable; they can't be stored. A night at a hotel or a seat at a concert, for example, can't be saved and sold later. If it isn't sold that day, it is lost forever. Services have difficult management and marketing challenges because of their intangibility.

Figure 7.1. Skydiving is an example of a pure service. You are left with nothing after the jump but the memory of it (unless you buy a DVD of the event).

Many tangible products can also have intangible service components attached to them. For example, when you buy an iPhone or any Apple-branded product, you get a one-year warranty if anything goes wrong with it.

Figure 7.2. A Great Clips store.

What services do you get when you purchase a can of soup? You might think that a can of soup is as close to a “pure” product devoid of services that you can get. But think for a moment about your choices in terms of how to purchase the can of soup. You can buy it at a convenience store, a grocery store like Safeway, or online. Your choice of how to get it is a function of the product’s intangible service benefits, such as the way you are able to shop for it.

Figure 7.3. Even what seems like a "pure" product like a can of soup can have an intangible service component associated with it, such as the way you are able to shop for it—say, at a convenience store, a grocery store, or perhaps online.

The Product-Service Continuum

Marketers may observe the relative goods/services mix of overall products using the goods and services continuum. The location of a product on the continuum, in turn, aids marketers in identifying opportunities. Products without any corresponding services are positioned at one end of the continuum designated as pure products. Services that are completely unrelated to actual products fall under the opposite end of pure services. Products that combine both products and services fall somewhere in the middle. Air conditioners, for instance, fall within the purer category of goods since they need additional services like delivery and installation. Car repair is one example of a product that involves the selling of both commodities and services. Taxis and ride sharing apps would be situated toward pure services.

Figure 7.4. If you eat at a restaurant, you are consuming both a product and a service. Consequently, separating the product from the service is often an artificial exercise.

Properties of the Product

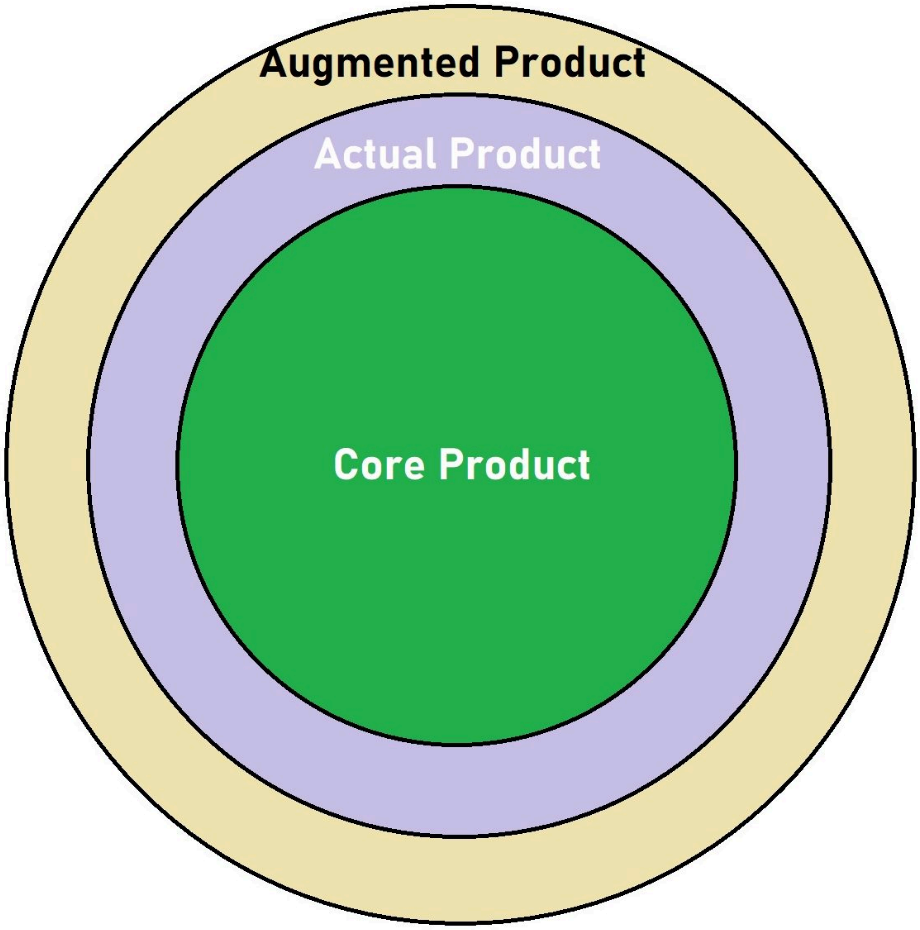


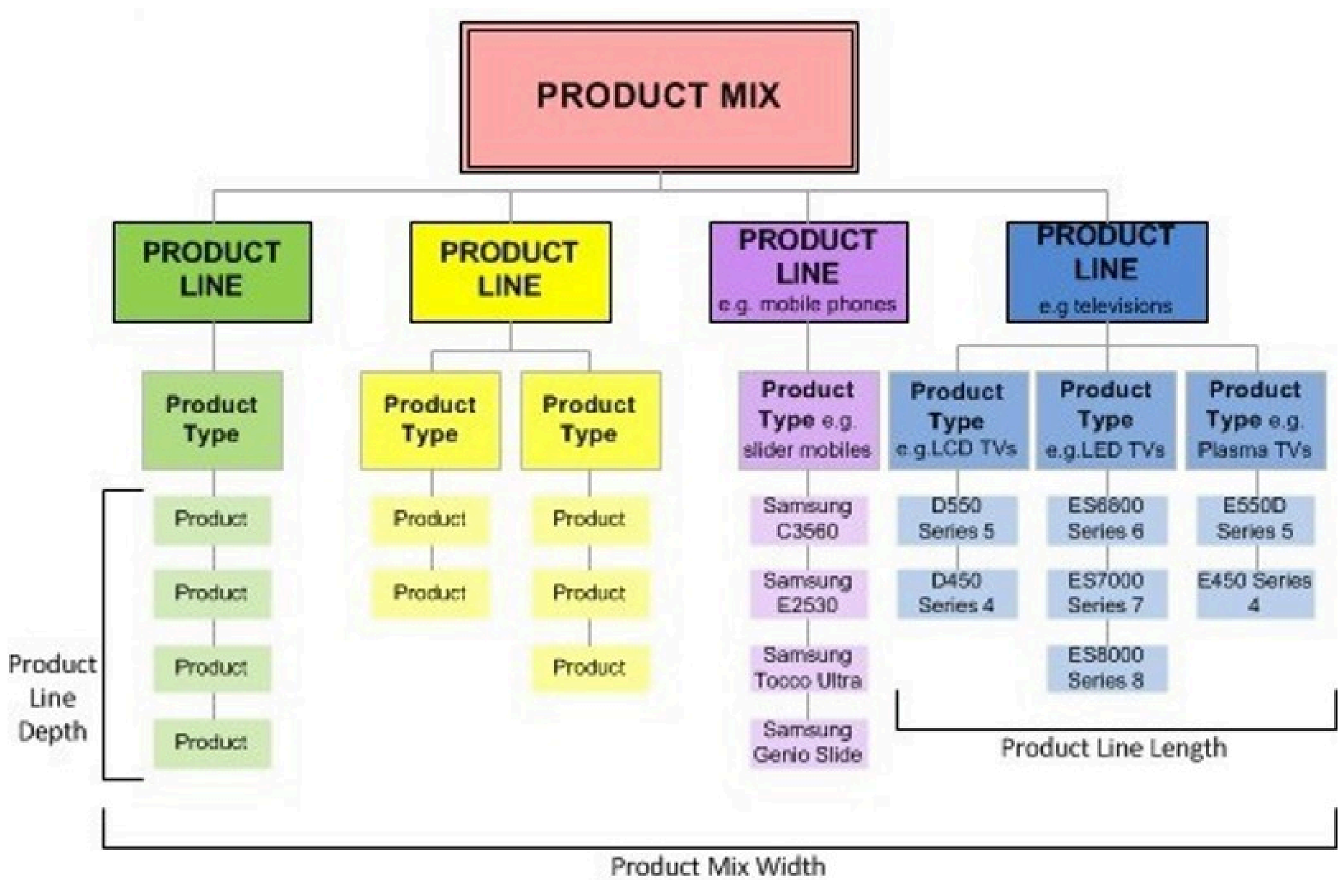
Figure 7.5. A core product is the central functional offering, but it may be augmented by various accessories or services, known as the augmented product.

Using a bicycle as an example, the **core product** is a method of transport. Surrounding it are the colour, the brand and accessories, all of which are called the **actual product**. Surrounding that is the **augmented product**, such as the assembly, warranty, and repair. Together, these make up the complete product.

Product Mix and Product Lines

Few firms survive by selling only one product. Most firms sell several offerings designed to work together to satisfy a broad range of customers' needs and desires. **Product mix** refers to the entire assortment of products a firm offers. A **product line** is a group of related offerings. Product lines are created to make marketing strategies more efficient. Campbell's condensed soups, for example, are basic soups sold in cans with red labels.

But Campbell's Chunky is a ready-to-eat soup sold in cans that are labelled differently. Most consumers expect there to be differences between Campbell's red-label chicken soup and Chunky chicken soup, even though they are both made by the same company.



7.5. Product Mix. *[Read full image description.]*

A product line can be broad, as in the case of Campbell's condensed soup line, which consists of several dozen different flavours. Or, a product line can be narrow, as in the case of Apple's iPad line, which consists of only six models. How many offerings there are in a single product line—that is, whether the product line is broad or narrow—is called **line depth**. When new but similar products are added to the product line, it is called a **line extension**. If Apple introduces a new tablet to the iPad family, that would be a line extension. Companies can also offer many different product lines. **Line breadth** (or width) is a function of how many different, or distinct, product lines a company has. For example, Campbell's has a Chunky soup line, condensed soup line, Lower Sodium soup line, and a number of non-soup lines like Pace Picante sauces, Prego Italian sauces, and crackers.

Key Takeaways

Companies market offerings composed of a combination of tangible and intangible characteristics for certain prices. The service-dominant perspective to marketing integrates three different dimensions of an offering—not only the product but also its price and the services associated with it. This perspective helps marketers think more like their customers, which helps firms add value to their offerings. An offering is based on a technology platform, which can be used to create a product line. A product line is a group of similar offerings. A product line can be deep (many offerings of a similar type) and/or broad (offerings that are very different from one another and cover a wide range of customers' needs). The entire assortment of products that a company offers is called the product mix.

Review and Reflect

1. How do the product-dominant and service-dominant approaches to marketing differ?
2. How are services different from products?
3. What is the difference between product depth and product breadth?

Media Attributions

7.2 TYPES OF CONSUMER OFFERINGS

Learning Objectives

1. Define the various types of offerings marketed to individual consumers.
2. Explain why a single offering might be marketed differently to different types of consumers.

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

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

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

Convenience Offerings

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

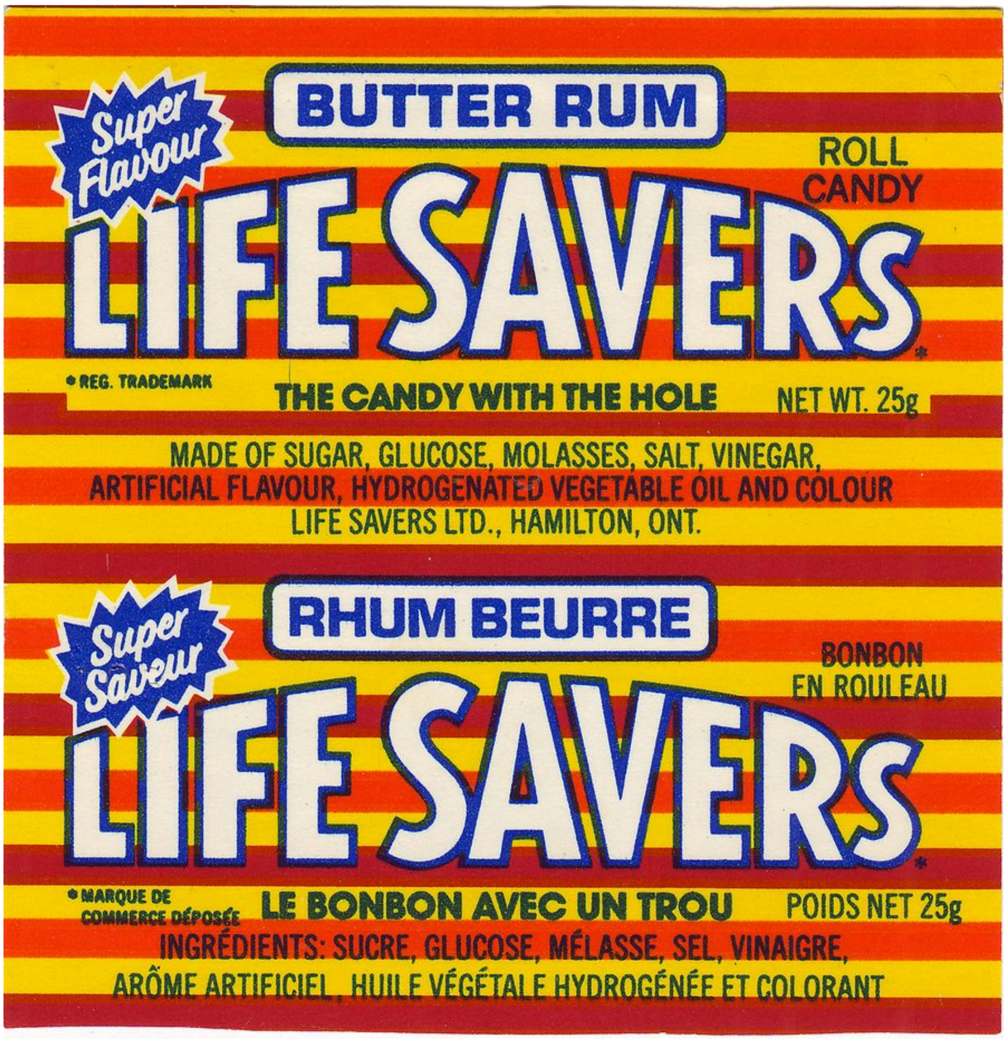


Figure 7.6. The Life Savers Candy Company was formed in 1913. Its primary sales strategy was to create an impulse to buy Life Savers by encouraging retailers and restaurants to place them next to their cash registers and include a nickel—the purchase price of a roll of Life Savers—in the customer's change.

Closely related to convenience offerings are **impulse offerings**, or items purchased without any planning. The classic examples are the candy bars and gum at supermarket checkouts that encourage a purchase while waiting in line.

Shopping Offerings

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

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

Figure 7.7. If your favorite toothpaste is Crest's Whitening Fresh Mint, you might change stores if you don't find it on the shelves of your regular store.

Specialty Offerings

Specialty offerings are highly differentiated offerings, and the brands under which they are marketed are very different across companies, too. For example, a Triumph or Ducati motorcycle is likely to be far different feature-wise than a Kawasaki or Suzuki motorcycle. Typically, specialty items are available only through limited channels. For example, designer handbags available only in exclusive outlets are considered specialty offerings. Specialty offerings are purchased less frequently than convenience offerings; therefore, the profit margin on them tends to be greater.

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

Figure 7.8. Specialty offerings, such as this custom-made motorcycle, are highly differentiated. People will go to greater lengths to shop for these items and are willing to pay more for them.

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

Unsought Offerings

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

Key Takeaways

Convenience offerings, shopping offerings, specialty offerings, and unsought offerings are the major types of consumer offerings. Convenience offerings often include life's necessities (bread, milk, fuel, and so forth), for which there is little difference across brands. Shopping goods do vary, and many consumers develop strong preferences for some brands versus others. Specialty goods are even more exclusive. Unsought goods are a challenge for marketers because customers do not want to have to shop for them until they need them.

Review and Reflect

1. What are the four types of consumer offerings? How do they differ from one another?
2. Is it possible for cemetery plots or caskets to be a shopping good or a specialty good? Or are they always unsought goods?
3. Time to practice the identification of specific offerings:

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://kpu.pressbooks.pub/introductiontomarketing/?p=142#h5p-24

Media Attributions

- LifeSavers – Canadian Butter Rum – 1980 © Jason Liebig is licensed under a CC BY-NC (Attribution NonCommercial) license
- I know this sounds silly, but this Crest vanilla flavored whitening © Ben Lucier is licensed under a CC BY (Attribution) license
- Custom Made Motercycle at Faak am See 2008 © Davin7 is licensed under a Public Domain license

7.3 BRANDING, LABELING, AND PACKAGING

Learning Objectives

1. Understand the branding decisions firms make when they're developing new products.
2. Identify the various levels of packaging for new products.

What comes to mind when someone says Coke, Nike or Apple? According to *BusinessWeek* magazine, the Coca-Cola brand is the *strongest* brand in the world. However, a global study of consumers sponsored by Reuters found that Apple has the *best* brand. What is a "brand" and what do these studies mean when they report that one brand is the strongest or the best?

Branding

We have mentioned brands periodically throughout this chapter. But what is a brand? A **brand** is a name, picture, design, or symbol, or combination of those items used by a seller to identify its offerings and to differentiate them from competitors' offerings. **Branding** is the set of activities designed to create a brand and position it in the minds of consumers.

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

A **brand name**, like Apple, is the spoken part of a brand's identity. A **brand mark** is the symbol, such as Coca Cola's wave or Apple Computer's apple, associated with a brand. Brand names and brand marks are important to companies because consumers use them to make choices.

An important decision companies must make is under which brand a new offering will be marketed. For example, Black & Decker makes power tools for consumers under its Black & Decker brand, while tools for more serious do-it-yourselfers and professionals are under its DeWalt brand. If Black & Decker decided to add to its DeWalt line new products such as coolers, portable radios, CD players, and other accessories construction professionals might find useful at a job site, the company would be creating a brand extension. A **brand extension** involves utilizing an existing brand name or brand mark for a new product category.

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

Packaging Decisions

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

Figure 7.9. Sometimes the package itself is part of a licensed brand. Coke's curvaceous bottle is an example.

Packaging has to fulfill a number of important functions, including:

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

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

Figure 7.10. An Amazon delivery box.

A product's packaging can benefit the customer beyond just protecting the offering while it's being shipped.

No-spill caps, for example, can make it easier for you to use your laundry detergent or prevent spills when you're adding oil to your car's engine.

Key Takeaways

A brand is a name, picture, design, or symbol, or combination of those items used by a seller to identify its offerings and differentiate them from competitors' offerings. Branding is the set of activities designed to create a brand and position it relative to competing brands in the minds of consumers. An important decision companies must make is under which brand a new offering will be marketed. A brand extension involves utilizing an existing brand name or brand mark for a new product or category (line) of products. Packaging protects products from damage, contamination, leakage, and tampering, but it is also used to communicate the brand and its benefits, product warnings, and proper use.

Review and Reflect

1. How do brands help companies market their products?
2. What is the purpose of a brand extension?
3. Name the purpose of packaging used in marketing.

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

here:
https://kpu.pressbooks.pub/introductiontomarketing/?p=151#h5p-25

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://kpu.pressbooks.pub/introductiontomarketing/?p=151#h5p-27

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://kpu.pressbooks.pub/introductiontomarketing/?p=151#h5p-26

Media Attributions

- pexels-alleksana-4113630 © Alleksana is licensed under a All Rights Reserved license
- Amazon Box (Picture 1) © Matthew Paul Argall is licensed under a CC BY-SA (Attribution ShareAlike) license

7.4 THE NEW PRODUCT DEVELOPMENT PROCESS

Learning Objectives

1. Identify an effective process for creating products and bringing them to market.
2. Understand the relative importance of each step in the new product development process and the functions within each step.
3. Distinguish between the various forms of testing and analysis that take place before a new offering is brought to the market.

Most new products go through similar stages in their development process. Although the size of a company will affect how the different stages of their new product development process are conducted and whether products are test marketed before being introduced, the steps are generally the same. figure 7.11 summarizes these steps.

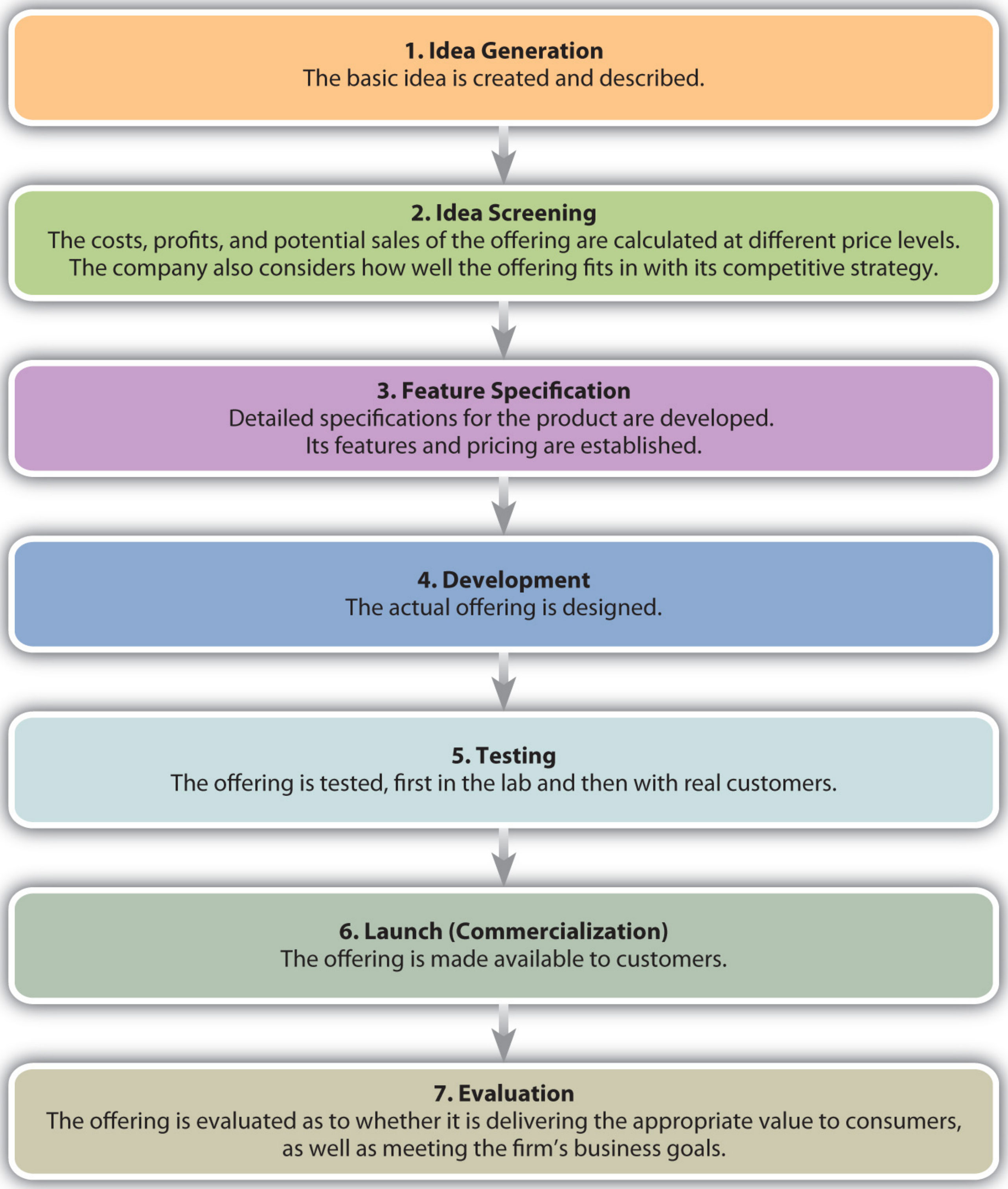


Figure 7.11. The New Offering Development Process. *[Read full image description].*

Idea Generation

Many companies, HP and Apple included, were launched in someone's garage after the founders got an idea for a product and then tried to make and sell it. Apple's Macintosh microcomputer was a low-cost knockoff of the Xerox Star, a software-equipped workstation. Apple's cofounder, Steve Jobs, saw the product demonstrated at a Xerox research centre and Xerox was an early investor in Apple (Fisher, 1989).[1]

Figure 7.12. Ideas can come from anywhere. A Motorola employee came up with an idea for a new cell phone while rollerblading. His idea was to use the wheels of the roller blades to generate electricity to charge a cell phone or MP3 player.

1. Fisher, L. M. (1989, December 15). Xerox sues Apple computer over Macintosh copyright. *New York Times*. Accessed January 20, 2010.

Researchers, entrepreneurs and even employees often come up with new product ideas, too. 3M's Post-it Notes are an example. The adhesive that made it possible for Post-it Notes to stick and restick was created by a 3M scientist who was actually in the process of trying to make something else. Post-it Notes came later.

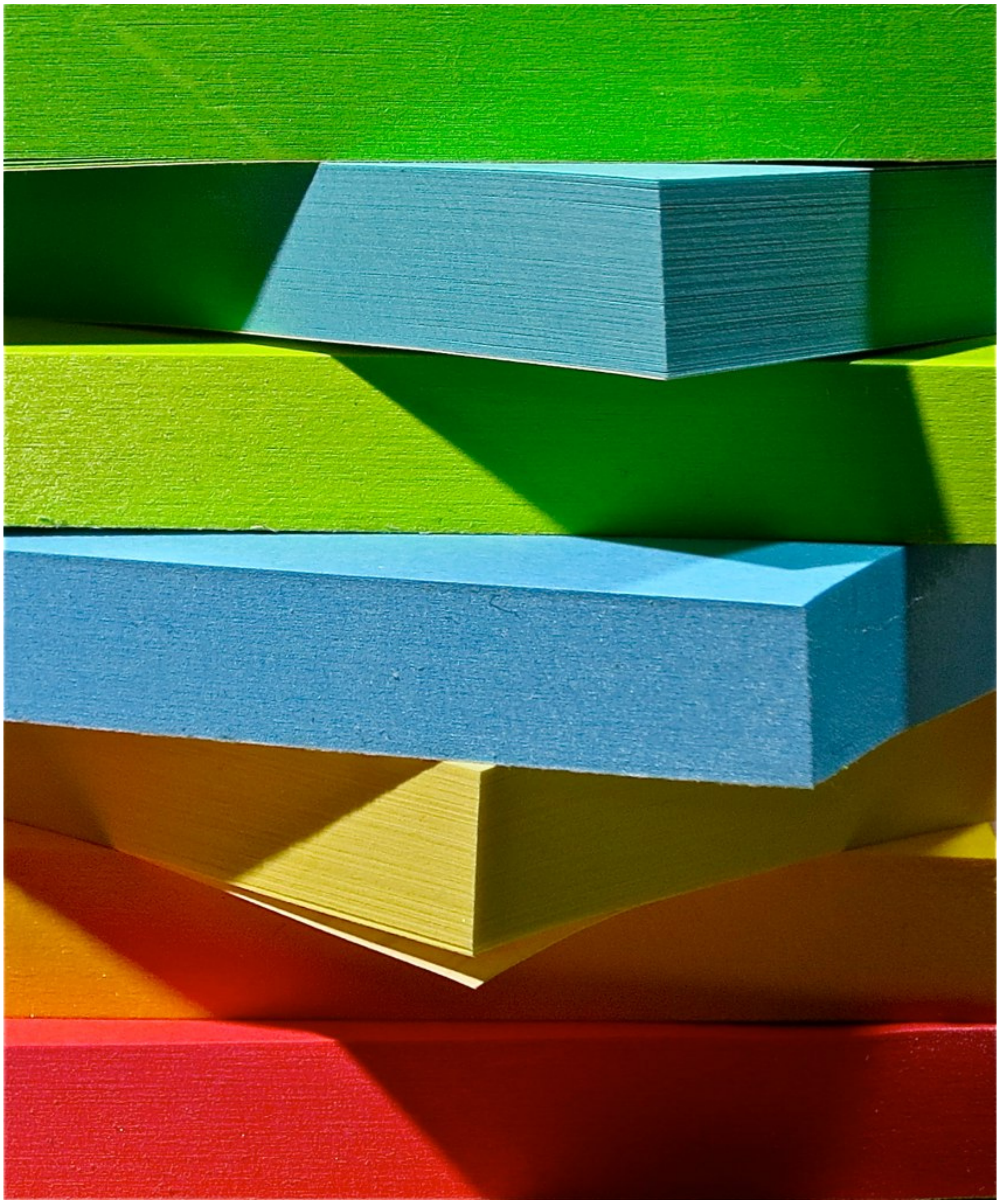


Figure 7.13. Few consumers could have envisioned that a new type of adhesive would lead to the development of a product as successful as Post-it Notes.

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

Suppliers provide another source of ideas for new products. A supplier might develop a new product or technology that can be used to make yet another product and then go to the makers of those products and suggest new versions of them.

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

Innovations like the iPhone are rare. However, many new ideas (and consequently new products) aren't actually new but rather are versions of products and services already available. A **line extension** occurs when a company comes out with another model (related product) based on the same platform and brand as one of its other products. When Apple added the Nano and the Shuffle to its iPod line, these were line extensions.

Keep in mind that idea generation is typically the least expensive step in the process of developing a new product, whether you involve customers or not. As you move through the product development process, each step is usually more expensive than the last. Ideas for new products are relatively cheap and easy to generate; what is difficult and expensive is making them a reality.

Idea Screening

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

Figure 7.14. Better idea screening might have helped Coca-Cola avoid the problems it encountered marketing its "New Coke" formula.

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

- Does the proposed product add value for the customer? Does it satisfy a market need?
- Can the product be made within a stated time period to get it to market when needed?
- How many units of it will sell and at what price?
- Can we manufacture and sell the product within budget and still make money?
- Do we need to provide the customer with after-sales service? If so, do we have the resources to do that?
- Does the product fit our image and corporate strategy?

Development

In the development stage, the actual product is designed, specifications for it are written, and prototypes of it are developed. It is also during this stage that the firm considers the product's manufacturing process. For example, when a restaurant is developing a new dish, it must not only taste good, as it must also be a dish that can be made in a reasonable amount of time once it's ordered and prepared at a cost that earns the restaurant a profit. In terms of a manufacturer's products, using the same technology platform as another product (like Apple has done with iPhones) can be more effective and cheaper. Using the same platform also generally makes it easier for a company to train its technicians to service a new product.

Testing

During the testing stage, the product is tested, first in the lab and then with real customers. Lab testing is also called **alpha testing**. Alpha testing ensures that the product works like it's supposed to in a variety of different environments. For example, Kraft might launch a new food product that has to work in hot climates, cold climates, high humidity, dry climates, and high altitudes—all conditions that can change how well the product works.

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

Launch or Commercialization

Once a product has been designed and tested, it is made available to customers. Sometimes a company launches the product to all its markets at once. Other companies may use a **rolling launch** in which the product is made available to certain markets first and then other markets later. A rolling launch might make sense if the company's service technicians need training. The company makes the product available to one market after the first batch of its employees are prepared to service the product; then, as new batches of employees are prepared to service the product, the company enters more markets.

Some companies test the complete launch of a product's marketing plan to ensure that it reaches buyers, gets positive feedback, and generates sales of the product or service. This is called a **market test**. Companies may conduct market tests in limited markets or nationwide. For example, when one beverage maker tested the marketing plan for a new wine cooler, the firm first launched the product on the east coast, where the beverage was promoted as a "Polynesian" drink; on the west coast, the beverage was promoted as an "Australian" drink. The Polynesian version proved more popular, so in other new markets, that's how the beverage was advertised and packaged.

Evaluation

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

Key Takeaways

Most companies put new product ideas through a seven-step process, beginning with the idea generation stage. Ideas for new offerings can come from anywhere, including one's customers, employees, suppliers, and competitors. The next step in the process is the idea screening stage, followed by the feature specifications, development, testing, and launching stages. After a product is launched, it is evaluated. A company must balance a product's investment risk (the risk associated with losing the time and money put into developing the product) against the product's opportunity risk (the risk associated with missing the opportunity to market the product and profit from it).

Review and Reflect

1. What are the seven steps in the product development process? What are the key activities in each step?
2. How should a company evaluate new ideas? What are the criteria?
3. Understanding the process of creating offerings is useful and valuable for a lot of different business settings. Let's see if you can remember the order of steps and the details of each step.

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://kpu.pressbooks.pub/introductiontomarketing/?p=163#h5p-28

Media Attributions

- The New Offering Development © University of Minnesota Libraries is licensed under a CC BY-NC-SA (Attribution NonCommercial ShareAlike) license
- Fila inline skates © Santeri Viinamäki is licensed under a CC BY-SA (Attribution ShareAlike) license
- post-it notes © Dean Hochman is licensed under a CC BY (Attribution) license
- New Coke can © Jetijonez is licensed under a CC BY (Attribution) license

7.5 MANAGING NEW PRODUCTS: THE PRODUCT LIFE CYCLE & DIFFUSION OF INNOVATION

Learning Objectives

1. Explain how organizations manage offerings after being introduced to the marketplace.
2. Explain how managing an offering may be different in international markets.
3. Explain the product life cycle and the objectives and strategies for each stage.
4. Diffusion of Innovation/Rate of Adoption cycle

Over 30,000 new offerings, including convenience foods, personal care products, electronics, automobiles, pharmaceutical products, hotels, restaurants, and so on, enter the marketplace each year ("Bursting New," 2019).[1] Other recent new product introductions include many technological products such as video game consoles, mobile phones, and smart watches.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://kpu.pressbooks.pub/introductiontomarketing/?p=175#oembed-1

1. *Bursting with new products, there's never been a better time for breakthrough innovation*. (2019, December 5). NIQ.

Video 7.1. The 100 Calorie Packs offered by Nabisco proved to be extremely popular. Source: Oreo 100 Calorie Pack on CommercialJudge.

Once a product is created and introduced in the marketplace, the offering must be managed effectively for the customer to receive value from it. Only if this is done will the product's producer achieve its profit objectives and be able to sustain the offering in the marketplace. The process involves making many complex decisions, especially if the product is being introduced in global markets. Before introducing products in global markets, an organization must evaluate and understand factors in the external environment, including laws and regulations, the economy and stage of economic development, the competitors and substitutes, cultural values, and market needs. Companies also need expertise to successfully launch products in foreign markets. Given many possible constraints in international markets, companies might initially introduce a product in limited areas abroad. Other organizations, such as Coca-Cola, decide to compete in markets worldwide ("Best Global," 2009).[2]

The **product life cycle (PLC)** includes the stages the product goes through after development, from introduction to the end of the product. Just as children go through different phases in life (baby, toddler, teenager, adult, and so on), products and services also age and go through different stages. The PLC is a beneficial tool that helps marketers manage the stages of a product's acceptance and success in the marketplace, beginning with the product's introduction, its growth in market share, maturity, and possible decline in market share.

The PLC can vary for different products and different product categories. Figure 7.15 illustrates an example of the PLC and shows how a product can move through four stages. However, not all products go through all stages, and the length of a stage can vary. For example, some products never experience market share growth and are withdrawn from the market.

2. *Best global brands: 2009 rankings.* (2009). Interbrand. Accessed August 7, 2023.

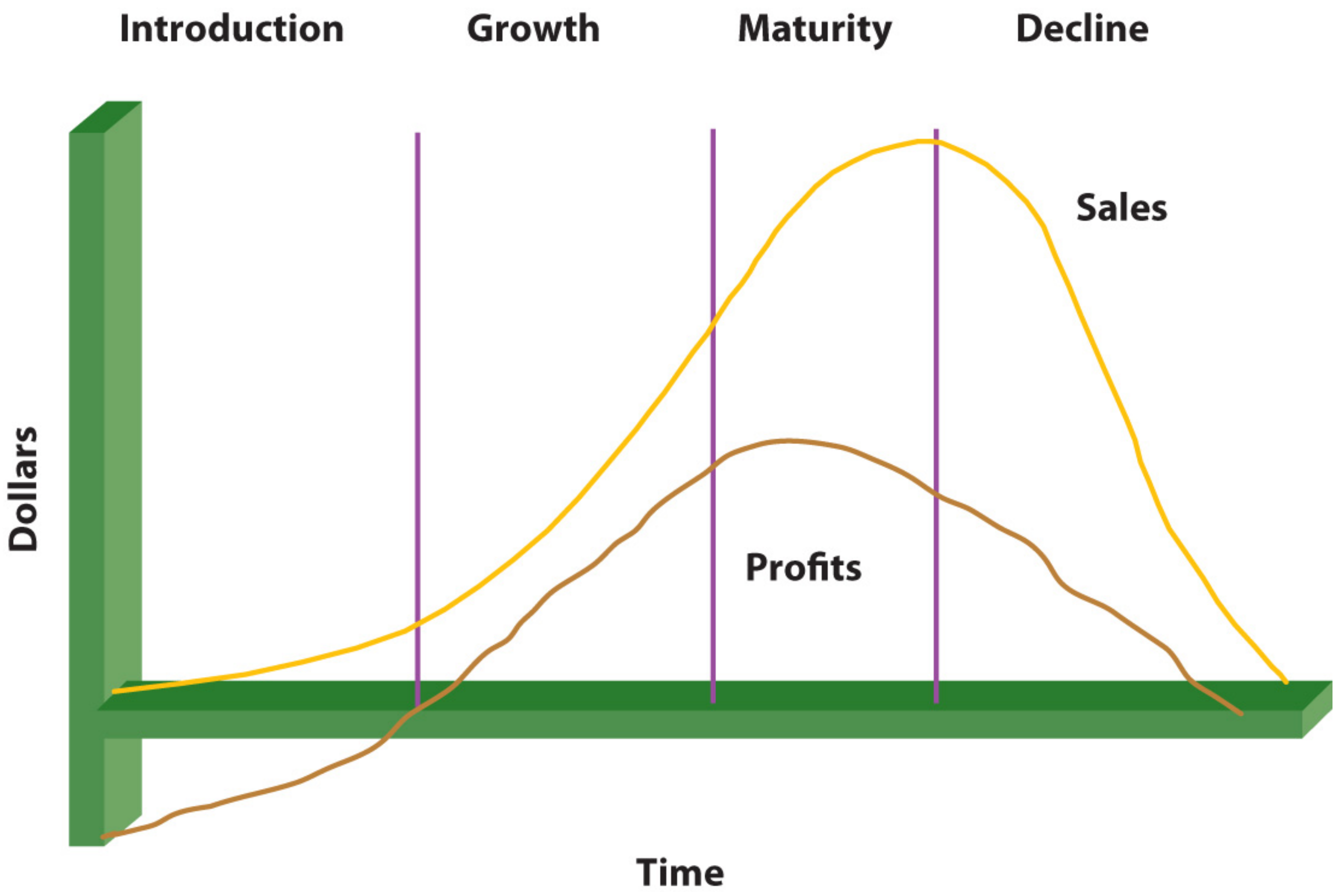


Figure 7.15. Product Life Cycle Stages. *[Read full image description.]*

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

Figure 7.16. Diet Coke changed its can to keep from getting outdated.

The Introduction Stage

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

The length of the introductory stage varies for different products. An organization's objectives during the introductory stage often involve educating potential customers about its value and benefits, creating awareness, and getting potential customers to try the product or service. Getting products and services, particularly multinational brands, accepted in foreign markets can take even longer. Consequently, companies introducing products and services abroad generally must have the financial resources to make a long-term (longer than one year) commitment to their success.

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


Doritos
QUEIJO NACHO
Lay's
Clássica
Ruffles

Figure 7.17. Snack Foods should be available in as many distribution outlets as possible.

During introduction, an organization must have enough distribution outlets (places where the product is sold or the service is available) to get the product or service to the customers. The product quantities must also be available to meet demand. For example, when Nintendo's Wii was first introduced in 2006, the demand for it was so great that stores could not keep them on the shelves. Nintendo eventually increased monthly production to 1.8 million and then 2.4 million (Bernazzani, 2021).[3]

Product pricing strategies in the introductory stage can vary depending on the type of product, competing products, the extra value the product provides consumers versus existing offerings, and the costs of developing and producing the product. Organizations want consumers to perceive that a new offering is better or more desirable than existing products. Two strategies that are widely used in the introductory stage are penetration pricing and skimming. A **penetration pricing strategy** involves using a low initial price to encourage many customers to try a product. The organization hopes to sell a high volume to generate substantial revenues. New varieties of cereals, shampoo fragrances, detergent scents, and snack foods are often introduced at low initial prices. Seldom does a company utilize a high price strategy with a product such as this. The low initial price of the product is often combined with advertising, coupons, samples, or other special incentives to increase awareness of the product and get consumers to try it.

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

The Growth Stage

If a product is accepted by the marketplace, it enters the growth stage of the PLC. The **growth stage**

3. Bernazzani, S. (2021, July 1). *The scarcity principle: How 7 brands created high demand*. HubSpot.

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

Figure 7.18. Demand for the Nintendo Wii increased sharply after the product's introduction.

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

Companies typically begin to make a profit during the growth stage because more units are being sold and more revenue is generated.

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

The Maturity Stage

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

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

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

Extending the Maturity Stage

Figure 7.19. McDonald's in China.

Modifying the target market helps a company attract different customers by seeking new users, going after different market segments, or finding new uses for a product in order to attract additional customers. With the growth in the number of online shoppers, more organizations sell their products and services through the Internet. Entering new markets provides companies an opportunity to extend the PLCs of their different offerings.

Figure 7.20. Older consumers in international markets are being targeted with different products.

Modifying the product, such as changing its packaging, size, flavors, colours, or quality, can also extend the product's maturity stage. The 100 Calorie Packs created by Nabisco provide an example of how a company changed the packaging and size to provide convenience and one-hundred-calorie portions for consumers. While the sales of many packaged foods fell, the sales of the 100 Calorie Packs increased to over $200 million, prompting Nabisco to repackage more products (Hunter, 2008).[4] Kraft Foods extended the mature stage of different crackers such as Wheat Thins and Triscuits by creating different flavors. Although not popular with consumers, many companies **downsize** (or decrease) the package sizes of their products or the amount of the product in the packages to save money and keep prices from rising too much.

Car manufacturers modify their vehicles slightly each year to offer new styles and new safety features. Every three to five years, automobile manufacturers make more extensive modifications. Changing the package or adding variations or features are common ways to extend the mature stage of the life cycle.

4. Hunter, M. (2009, July 15). The true cost of the 100-calorie snack pack. *ABC News*. Accessed January 20, 2010.

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

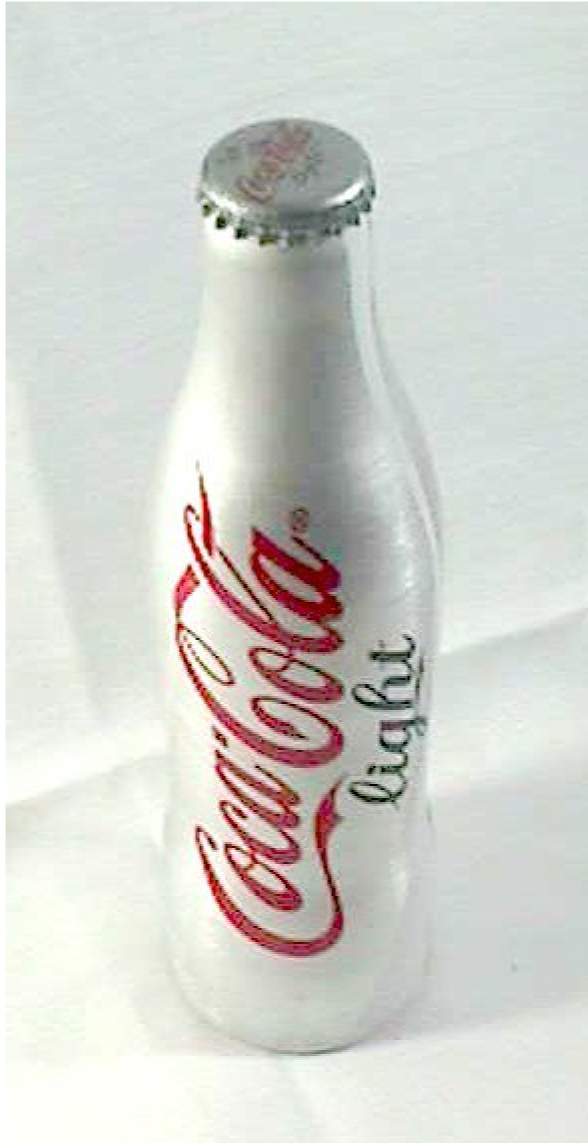


Figure 7.21. In Europe, diet drinks are called "light," not diet. This Coca-Cola product is available in Germany.

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

As a result of falling market share, Starbucks' former CEO and founder Howard Schultz returned to the company. Schultz hired consultants to determine how to modify the firm's offering and extend the maturity stage of their life cycle. Subsequently, Starbucks changed the atmosphere of many of its stores back to that of traditional coffee shops, modified its lunch offerings in many stores, and resumed grinding coffee in stores to provide the aroma customers missed. The company also modified some of its offerings to provide health-conscious consumers lower-calorie alternatives (Horovitz, 2008).[5]

Figure 7.22. The oldest operating McDonald's is in California.

Whereas Starbucks might have overexpanded, McDonald's plans to add fourteen thousand coffee bars to selected stores ("Coffee Wars," 2008).[6] In addition to the coffee bars, many McDonald's stores are remodelling

5. Horovitz, B. (2008, January 8). Starbucks orders an extra shot: Founder takes over as CEO to perk up coffee chain. *USA Today*, 1B.
6. Coffee wars. (2008, January 10). *Economist*. Accessed January 20, 2010.

their interiors to feature flat-screen televisions, recessed lighting, and wireless Internet access. Other McDonald's restaurants kept their original design, which customers still like.

The Decline Stage

When sales decrease and continue to drop to lower levels, the product has entered the **decline stage** of the PLC. In the decline stage, changes in consumer preferences, technological advances, and alternatives that satisfy the same need can lead to a decrease in demand for a product. How many of you have used a typewriter, fax machine, or 35-mm film camera? Computers replaced the typewriter, and email replaced fax machines. Some products decline slowly, while others go through a rapid level of decline. Many fads and fashions for young people tend to have very short life cycles and go "out of style" quickly. Similarly, many students don't have landline phones or DVR players. Some outdated devices, like payphones, disappear almost completely as they become obsolete.

Technical products such as cell phones and video games that appeal to young people often have limited life cycles. Companies must decide what strategies to use when their products enter the decline stage. To save money, some companies try to reduce their promotional expenditures on these products and the number of distribution outlets in which they are sold. They might implement price cuts to get customers to buy the product. Many companies decide the best strategy is to modify the product in the maturity stage to avoid entering the decline stage.

Rate of Adoption/Diffusion of Innovation

Just as the PLC has a typical bell-shaped pattern, there is a predictable—and similar-shaped—pattern of buying, or adoption, when it comes to new products. This customer adoption pattern is important because it can be used to inform marketing decisions.

Common sense suggests that not everyone will buy a new product at the same time. Some will rush out and buy first or try to get an early version of a product before it is widely available. Others will wait until many people have adopted a product before they reluctantly consider the purchase. As early as 1962, Everett Rogers recognized this phenomenon and described it as the "**diffusion of innovation**." He developed a theory to support it that explained how, why, and at what rate an innovation will be adopted by participants in a social system. The theory divides adopters into different groups with shared characteristics, as shown in figure 7.23 below:

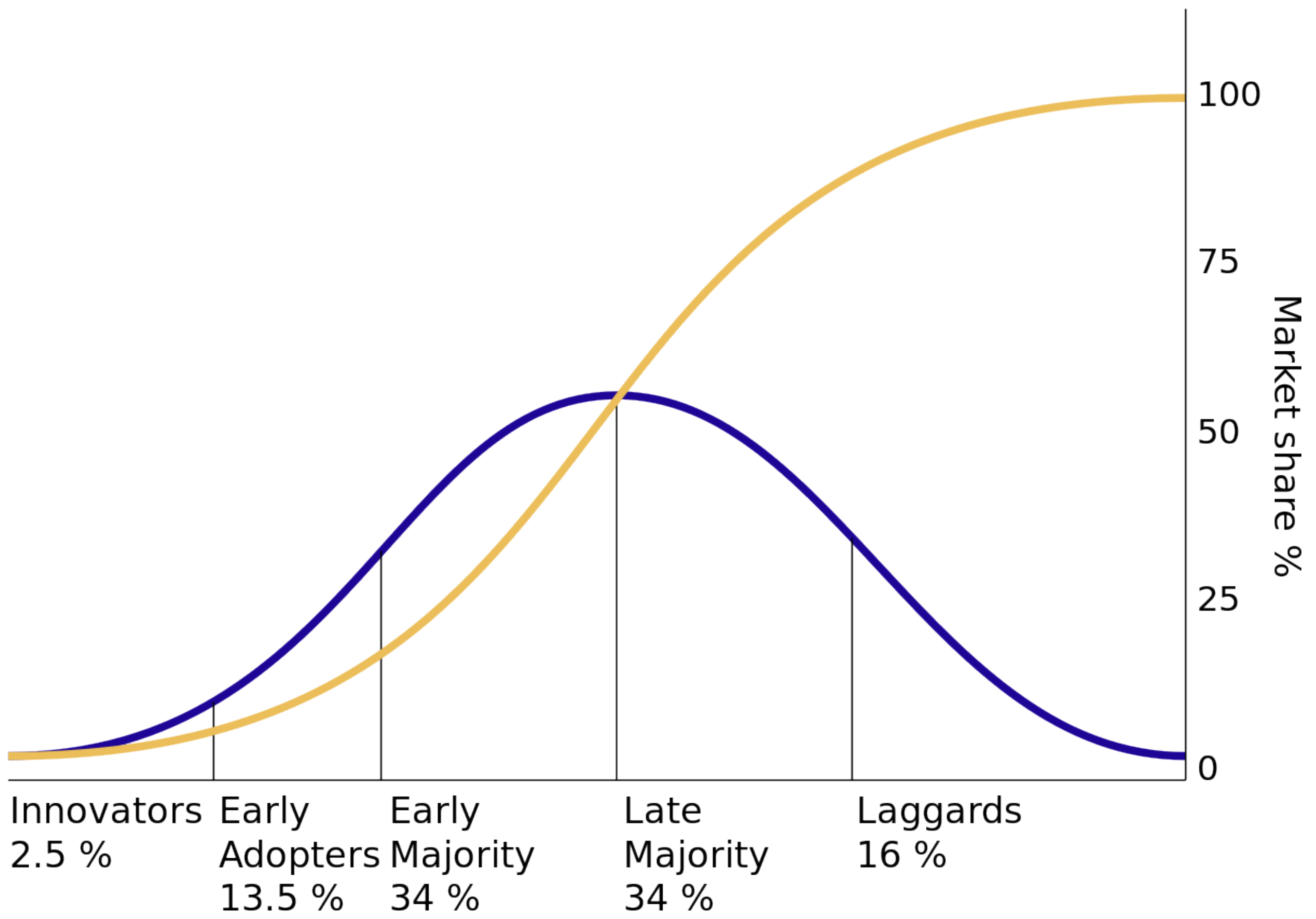


Figure 7.23. The diffusion of innovations according to Rogers (1962). With successive groups of consumers adopting the new technology (shown in purple), its market share (yellow) will eventually reach the saturation level. *[Read full image description.]*

The purple line on the graph indicates the percentage of the market that will buy a new product in *each phase* of product adoption. You can see from the graph that there is a small number of innovators and a large number of early majority and late majority adopters.

Innovators

Innovators are willing to take risks and are viewed by their peers as risk takers. Innovators' risk tolerance enables them to adopt technologies that may ultimately fail, and they often have financial resources to absorb these failures.

Early Adopters

Early adopters have a high degree of opinion leadership among the adopter categories. They are more aggressive than later adopters but are judicious about their adoption choices. Early adopters don't look to be first at any cost, so they actively consider risk as part of the decision-making process.

Early Majority

Early majority adopters span a longer period of time than the innovators and early adopters. Like the early adopters, the early majority's opinions and decisions carry weight across the adopter categories.

Late Majority

Late majority adopters arrive after the "average" participant has embraced an innovation. These individuals approach innovations reluctantly and with more skepticism than their predecessors.

Laggards

Laggards are the last to adopt an innovation. They typically have little or no opinion leadership and are averse to things they perceive as "agents of change." Laggards tend to be focused on traditions and are less socially connected than the other groups.

Marketing an Innovation

The challenge for the marketer is to encourage the adoption of a product by early adopters and the early majority to reach that tipping point. Once these groups are on board, their momentum helps drive the product from the introduction stage of the life cycle into the growth stage.

Marketers are often tempted to focus their marketing efforts on the innovators. Innovators are game to try the product, which makes them an easier target than risk-averse consumers. In all but the most unusual, extreme cases, though, this will be a flawed strategy. The early adopters are actually in a much better position to influence broad opinion of the product and to draw in the early majority. By the same token, aggressive marketing to laggards is unlikely to influence their pattern of adoption.

Key Takeaways

The product life cycle helps a company understand the stages (introduction, growth, maturity, and decline) a product or service may go through once it is launched in the marketplace. The number and length of stages can vary. When a product is launched or commercialized, it enters the introduction stage. Companies must try to generate awareness of the product and encourage consumers to try it. During the growth stage, companies must demonstrate the product's benefits and value to persuade customers to buy it versus competing products. Some products never experience growth. The majority of products are in the mature stage. In the mature stage, sales level off and the market typically has many competitors. Companies modify the target market, the product, or the marketing mix to extend the mature stage and keep from going into decline. Understanding the patterns of adoption and adjusting the marketing strategy to address changes in adoption profiles is a challenge that marketers of new products need to understand and face.

Review and Reflect

1. Explain why the marketing costs related to a product are typically higher during the introduction stage and why companies must generate awareness of the new product or service and encourage consumers to try it.
2. Explain why and when penetration and skimming pricing are used in the introduction stage.
3. What stage of the life cycle is a product in when the company cannot meet the demand for it and competitors begin to enter the market?
4. What different strategies do firms use to extend the life cycles of their products throughout the maturity stage?
5. Which customers should a company direct their marketing efforts to, and why?

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://kpu.pressbooks.pub/introductiontomarketing/?p=175#h5p-29

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://kpu.pressbooks.pub/introductiontomarketing/?p=175#h5p-30

Media Attributions

- Life Cycle © University of Minnesota Libraries is licensed under a CC BY-NC-SA (Attribution NonCommercial ShareAlike) license
- OldNewDietCoke © My100cans is licensed under a Public Domain license
- pexels-matheus-henrin-2121323 © Matheus Henrin is licensed under a All Rights Reserved license
- Nintendo Wii (Original Box Design) © Link576 is licensed under a CC BY-SA (Attribution ShareAlike) license
- McCafe McDonalds Chinese Shopping Mall © IvanWalsh.com is licensed under a CC BY (Attribution) license
- An old woman smiling © aunhtet0 is licensed under a All Rights Reserved license
- Botella de Coca Cola Light © Veronidae is licensed under a CC BY-SA (Attribution ShareAlike) license
- DowneyMcdonalds © Bryan Hong is licensed under a CC BY-SA (Attribution ShareAlike) license
- Diffusion of Ideas © Rogers Everett is licensed under a Public Domain license

7.6 DISCUSSION QUESTIONS AND ACTIVITIES

Review and Reflect

1. What are the marketing implications for your company if buyers stop viewing your primary product as a shopping good and begin considering it a convenience good? How would you respond to the change?
2. Can you market unsought goods? If so, how?
3. How does packaging add value for consumers and retailers?
4. If consumers find the most value in the services of your offering rather than the tangible product, how will perishability, intangibility, variability, and inseparability influence your marketing? Be specific for each characteristic.
5. The text says that branding is much more than labelling or packaging. Provide some examples where you believe the product did not live up to the brand. Using examples to illustrate how consistency works, discuss how the offering and the desired brand image have to be consistent.
6. Who owns an idea? If a customer comes up with an innovation involving your product, and your company thinks that innovation can be commercialized, who owns the new product?
7. Assume you come up with an idea for a new electronic product you think your fellow students would really like. How would you go through the product development process? How would you accomplish each step within that process?
8. Select a product you are familiar with and explain the stages of the product's life cycle and different ways in which a company can extend its mature stage.
9. Why, given the availability of good research practices, do so many new products fail?
10. What has been Apple's pricing strategy throughout their products' life cycles? If you made iPhone copycat products, what would your price have to be to compete successfully?
11. What are the risks associated with beta testing? What criteria would you use to select customers when needing a beta test?

12. This textbook is an open-source text, meaning your professor can modify its contents. Further, using multiple delivery modes (online, print black and white, print colour) is a relatively new concept for textbooks. What type of screening process would you expect to have been used in developing the concept of open-source, multimode texts? How would that screening process differ from the screening process used to assess this specific book's potential? Describe what you think those two processes would look like. If you don't think the screening process would differ, why?
13. You've got a really great idea for a new online business. But you need capital to get the business going, and when you ask investors for money they want to know if you've done a market test and what the results were. Why are they asking for market test results? What are the risks associated with a market test? Are there other ways you can answer their real concerns without doing a market test?

Activities

1. Identify three television commercials designed to persuade buyers to view the products being advertised as shopping items rather than convenience items. What is similar about the strategies employed in the commercials? Do you think the commercials are successful? Why or why not?
2. Identify a product for which packaging adds value and describe how that value is added for the consumer. Identify a second brand for which the organization uses primary packaging to distinguish the brand at the point of purchase and describe how the package contributes to the branding. Do not use brands used as examples in the chapter. Finally, identify a pure service brand and describe how that service is "packaged."
3. Select two brands that serve the same market but are not discussed in the chapter. Using print advertising, screen shots from websites, and stills from commercials (use screen shots from streaming video), assemble supporting material that helps you describe what each brand stands for and how consumers view each brand. Is one brand better than the other?

Why or why not?

4. Identify two new consumer products sold in a grocery store or by a mass merchandiser such as Walmart. Explain the strategies used to introduce each of the products and which strategy you feel will be most successful.
5. Identify three products that are sold in international markets and explain any differences in how the products have been changed to meet the needs of consumers in the international markets.

CHAPTER 8: PRICE

8.1 THE PRICING FRAMEWORK AND A FIRM'S PRICING OBJECTIVES

Learning Objectives

1. Understand the factors in the pricing framework.
2. Explain the different pricing objectives organizations have to choose from.

Price is the only revenue generator of the 4 P's. Price can be easily changed and easily matched by your competitors. Consequently, your product's price alone might not provide your company with a sustainable competitive advantage. Nonetheless, prices can attract consumers to different retailers and businesses to different suppliers.

Organizations must remember that the prices they charge should be consistent with their offerings, promotions, and distribution strategies. In other words, it wouldn't make sense for an organization to promote a high-end, prestige product, make it available in only a limited number of stores, and then sell it for an extremely low price. The price, product, promotion (communication), and placement (distribution) of a good or service should convey a consistent image. If you've ever watched the television show *The Price Is Right*, you may wonder how people guess the exact price of the products. Watch video 8.1 below to see some of the price guessing on *The Price Is Right*.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://kpu.pressbooks.pub/introductiontomarketing/?p=339#oembed-1

Video 8.1. The Price is Right, Showcase PERFECT BID! on apocalypse33601.

The Pricing Framework

Before pricing a product, an organization must determine its **pricing objectives**. In other words, what does the company want to accomplish with its pricing? Companies must also estimate demand for the product or service, determine the costs, and analyze all factors (e.g., competition, regulations, and economy) affecting price decisions. Then, to convey a consistent image, the organization should choose the most appropriate pricing strategy and determine policies and conditions regarding price adjustments.

The Firm's Pricing Objectives

Different firms want to accomplish different things with their pricing strategies. For example, one firm may want to capture market share, another may be solely focused on maximizing its profits, and another may want to be perceived as having products with prestige. Some examples of different pricing objectives companies may set include profit-oriented objectives, sales-oriented objectives, and market share objectives.

Earning a Targeted Return on Investment (ROI)

ROI, or return on investment, is the amount of profit an organization hopes to make given the amount of assets, or money, it has tied up in a product. ROI is a common pricing objective for many firms. Companies typically set a certain percentage, such as 10 percent, for ROI in a product's first year following its launch. So, for example, if a company has $100,000 invested in a product and is expecting a 10 percent ROI, it would want the product's profit to be $10,000.

Maximizing Profits

Many companies set their prices to increase their revenues as much as possible relative to their costs. However, large revenues do not necessarily translate into higher profits. To maximize its profits, a company must also focus on cutting costs or implementing programs to encourage customer loyalty.

In weak economic markets, many companies manage to cut costs and increase their profits, even though their sales are lower. How do they do this? The Gap cut costs by doing a better job of controlling its inventory.

The retailer also reduced its real estate holdings to increase its profits when its sales were down during the latest economic recession. Other firms such as Dell, Inc. cut jobs to increase their profits. Meanwhile, Walmart tried to lower its prices so as to undercut its competitors' prices to attract more customers. After it discovered that wealthier consumers who didn't usually shop at Walmart before the recession were frequenting its stores, Walmart decided to upgrade some of its offerings, improve the checkout process, and improve the appearance of some of its stores to keep these high-end customers happy and enlarge its customer base. Other firms increased their prices or cut back on their marketing and advertising expenses. A firm has to remember, however, that prices signal value. If consumers do not perceive that a product has a high degree of value, they probably will not pay a high price for it. Furthermore, cutting costs cannot be a long-term strategy if a company wants to maintain its image and position in the marketplace.

Maximizing Sales

Maximizing sales involves pricing products to generate as much revenue as possible, regardless of what it does to a firm's profits. When companies are struggling financially, they sometimes try to generate cash quickly to pay their debts. They do so by selling off inventory or cutting prices temporarily. Such cash may be necessary to pay short-term bills, such as payroll. Maximizing sales is typically a short-term objective since profitability is not considered.

Maximizing Market Share

Some organizations try to set their prices in a way that allows them to capture a larger share of the sales in their industries. Capturing more market share doesn't necessarily mean a firm will earn higher profits, though. Nonetheless, many companies believe capturing a maximum amount of market share is downright necessary for their survival. In other words, they believe if they remain a small competitor they will fail.

Key Takeaways

Price is the only marketing variable that generates money for a company. All the other variables (product, communication, distribution) cost organizations money. A product's price is the easiest marketing variable to change and also the easiest to copy. Before pricing a product, an organization must determine its pricing objective(s). A company can choose from pricing objectives such as maximizing profits, maximizing sales, capturing market share, and achieving a target return on investment (ROI) from a product,

Review and Reflect

1. In addition to profit-oriented objectives, what other types of pricing objectives do firms utilize?

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://kpu.pressbooks.pub/introductiontomarketing/?p=339#h5p-31

8.2 FACTORS THAT AFFECT PRICING DECISIONS

Learning Objectives

1. Understand the factors that affect a firm's pricing decisions.
2. Understand why companies must conduct research before setting prices in international markets.
3. Learn how to calculate the breakeven point.

Having a pricing objective isn't enough. A firm also has to look at a myriad of other factors before setting its prices. Those factors include the offering's costs, the demand, the customers whose needs it is designed to meet, the external environment—such as the competition, the economy, and government regulations—and other aspects of the marketing mix, such as the nature of the offering, the current stage of its PLC, and its promotion and distribution. If a company plans to sell its products or services in international markets, research on the factors for each market must be analyzed before setting prices. Organizations must understand buyers, competitors, the economic conditions, and political regulations in other markets before they can compete successfully. Next, we look at each of the factors and what they entail.

Customers

How will buyers respond? Three important factors are whether the buyers perceive the product as offering value, how many buyers there are, and how sensitive they are to price changes. In addition to gathering data on the size of markets, companies must try to determine how price sensitive customers are. Will customers buy the product, given its price? Or will they believe the value is not equal to the cost and choose an alternative or decide they can do without the product or service? Equally important is how much buyers are willing to pay for the offering. Figuring out how consumers will respond to prices involves judgment as well as research.

Price elasticity, or people's sensitivity to price changes, affects the demand for products. Think about a pair of sweatpants with an elastic waist. You can stretch an elastic waistband like the one in sweatpants, but it's much more difficult to stretch the waistband of a pair of dress slacks. Elasticity refers to the amount of stretch or change. For example, an elastic band stretches if you pull on it. Similarly, the demand for a product may change if the price changes. Imagine the price of a six-pack of soft drinks changing from $4.50 to $1.50 a pack. People would be likely to buy a lot more drinks at the lower price. Conversely, if something is inelastic, it won't stretch. Likewise, demand for some products won't change even if the price changes. The formula for calculating the price elasticity of demand is as follows.

Price elasticity = percentage change in quantity demanded ÷ percentage change in price

When consumers are very sensitive to the price change of a product—that is, they buy more of it at low prices and less of it at high prices—the demand for it is **price elastic**. Goods such as TVs, video games, and chocolate are more price elastic than necessities. People are more likely to buy them when their prices drop and less likely to buy them when their prices rise. By contrast, when the demand for a product stays relatively the same and buyers are not sensitive to changes in its price, the demand is **price inelastic**. Demand for essential products such as many basic food and first-aid products is not as affected by price changes as demand for many nonessential goods.

The number of competing products and substitutes available affects the elasticity of demand. Whether a person considers a product a necessity or a luxury and the percentage of a person's budget allocated to different products and services also affect price elasticity. Some products, such as cigarettes, tend to be relatively price inelastic since most smokers keep purchasing them regardless of price increases, and non-smokers wouldn't purchase them if the price decreases. Service providers, such as utility companies in markets in which they have a monopoly (only one provider), face more inelastic demand since no substitutes are available.

Competitors

How competitors price and sell their products will have a tremendous effect on a firm's pricing decisions. If you wanted to buy a certain pair of shoes, but the price was 30 percent less at one store than another, what would you do? Because companies want to establish and maintain loyal customers, they will often match their competitors' prices. Some retailers, such as Home Depot, will give you an extra discount if you find the same product for less somewhere else. Similarly, if one company offers you free shipping, you might discover other companies will, too. With so many products sold online, consumers can compare the prices of many merchants before making a purchase decision.

The availability of substitute products affects a company's pricing decisions as well. If you can find a similar pair of shoes selling for 50 percent less at a third store, would you buy them? There's a good chance you might.

The Economy and Government Laws and Regulations

The economy also has a tremendous effect on pricing decisions. When the economy is weak and many people are unemployed, companies often lower their prices. In international markets, currency exchange rates also affect pricing decisions.

Pricing decisions are affected by federal and state regulations. Regulations are designed to protect consumers, promote competition, and encourage ethical and fair behaviour by businesses. For example, the Canadian Competition Bureau limits a seller's ability to charge different customers different prices for the same products. The intent of the act is to protect small businesses from larger businesses that try to extract special discounts and deals for themselves in order to eliminate their competitors. However, cost differences, market conditions, and competitive pricing by other suppliers can justify price differences in some situations. In other words, the practice isn't illegal under all circumstances. You have probably noticed that restaurants offer senior citizens and children discounted menus. Movie theatres also charge different people different prices based on their ages and charge different amounts based on the time of day, with matinees usually less expensive than evening shows. These price differences are legal. We will discuss more about price differences later in the chapter.

Price fixing, which occurs when firms get together and agree to charge the same prices, is illegal. Usually, price fixing involves setting high prices so consumers must pay a high price regardless of where they purchase a good or service. When a company is charged with price fixing, it is usually ordered to take some type of action to reach a settlement with buyers.

Price fixing isn't uncommon. Nintendo and its distributors in the European Union were charged with price fixing and increasing the prices of hardware and software. Sharp, LG, and Chungwa collaborated and fixed the prices of the LCDs used in computers, cell phones, and other electronics. Virgin Atlantic Airways and British Airways were also involved in price fixing for their flights. Sotheby's and Christie's, two large auction houses, used price fixing to set their commissions.

In Canada, it was discovered in 2018 that seven bread companies had engaged in price-fixing for at least

14 years. A class-action lawsuit has been initiated and could result in million-dollar fines for the companies involved (Edminston, 2021).[1]

By requiring sellers to keep a minimum price level for similar products, **unfair trade laws** protect smaller businesses. Unfair trade laws are state laws preventing large businesses from selling products below cost (as loss leaders) to attract customers to the store. When companies act in a predatory manner by setting low prices to drive competitors out of business, it is a **predatory pricing** strategy.

Similarly, bait-and-switch pricing is illegal in many states. **Bait and switch**, or bait advertising, occurs when a business tries to "bait," or lure in, customers with an incredibly low-priced product. Once customers take the bait, sales personnel attempt to sell them more expensive products. Sometimes the customers are told the cheaper product is no longer available.

You perhaps have seen bait-and-switch pricing tactics used to sell different electronic products or small household appliances. While bait-and-switch pricing is illegal in many states, stores can add disclaimers to their ads stating that there are no rain checks or that limited quantities are available to justify trying to get you to buy a different product. However, the advertiser must offer at least a limited quantity of the advertised product, even if it sells out quickly.

Product Costs

The costs of the product—its inputs—including the amount spent on product development, testing, and packaging required have to be taken into account when a pricing decision is made. So do the costs related to promotion and distribution. For example, when a new offering is launched, its promotion costs can be very high because people need to be made aware that it exists. Thus, the offering's stage in the PLC can affect its price. Similarly, if a company has to open brick-and-mortar storefronts to distribute and sell the offering, this too will have to be built into the price the firm must charge for it.

The point at which total costs equal total revenue is known as the **breakeven point (BEP)**. For a company to be profitable, a company's revenue must be greater than its total costs. If total costs exceed total revenue, the company suffers a loss.

Total costs include both fixed costs and variable costs. **Fixed costs**, or overhead expenses, are costs that a company must pay regardless of its level of production or level of sales. A company's fixed costs include items

---

1. Edminston, J. (2021, October 27). Investigation into infamous bread price-fixing scheme isn't finished, competition watchdog says. *Financial Post*. Accessed December 18, 2022.

such as rent, leasing fees for equipment, contracted advertising costs, and insurance. As a student, you may also incur fixed costs such as the rent you pay for an apartment. You must pay your rent whether you stay there for the weekend or not. **Variable costs** are costs that change with a company's level of production and sales. Raw materials, labour, and commissions on units sold are examples of variable costs. You, too, have variable costs, such as the cost of gasoline for your car or your utility bills, which vary depending on how much you use.

Consider a small company that manufactures sport team coffee mugs and sells them through different retail stores. The manufacturer's selling price (MSP) is $15, which is what the retailers pay for the mugs. The retailers then sell the mugs to consumers for an additional charge. The manufacturer has the following charges:

Table 8.1 Manufacturer's Costs

Description	Cost	Type
Copyright and distribution charges for the mugs	$150,000	Fixed
Package and label designs for the mugs	$10,000	Fixed
Advertising and promotion costs	$40,000	Fixed
Production of mugs	$5 per unit	Variable
Labels and packaging	$1 per unit	Variable
Royalties	$1 per unit	Variable

To determine the BEP, you must first calculate the fixed and variable costs. To make sure all costs are included, you may want to highlight the fixed costs in one colour (e.g., green) and the variable costs in another colour (e.g., blue). Then, using the formulas below, calculate how many units the manufacturer must sell to break even.

The formula for BEP is as follows:

BEP = total fixed costs (FC) ÷ contribution per unit (CU)
contribution per unit = MSP – variable costs (VC)
BEP = $200,000 ÷ ($15 – $7) = $200,000 ÷ $8 = 25,000 units to break even

To determine the BEP in dollars, you simply multiply the number of units to break even by the MSP. In this case, the BEP in dollars would be 25,000 units times $15, or $375,000.

Key Takeaways

In addition to setting a pricing objective, a firm has to look at a number of factors before setting its prices. These factors include the offering's costs, the customers whose needs it is designed to meet, the external environment—such as the competition, the economy, and government regulations—and other aspects of the marketing mix, such as the nature of the offering, the stage of its product life cycle, and its promotion and distribution. In international markets, firms must look at environmental factors and customers' buying behaviour in each market. For a company to be profitable, revenues must exceed total costs.

Review and Reflect

1. What factors do organizations consider when making price decisions?
2. How do a company's competitors affect the pricing decisions the firm will make?
3. What is the difference between fixed costs and variable costs?

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://kpu.pressbooks.pub/introductiontomarketing/?p=341#h5p-32

8.3 PRICING STRATEGIES

Learning Objectives

1. Understand introductory pricing strategies.
2. Understand the different pricing approaches that businesses use.

Once a firm has established its pricing objectives and analyzed the factors that affect how it should price a product, the company must determine the pricing strategy (or strategies) that will help it achieve those objectives. As we have indicated, firms use different pricing strategies for their offerings. And oftentimes, the strategy depends on the stage of life cycle the offerings are in currently. Products may be in different stages of their life cycle in various international markets. Next, we'll examine three strategies businesses often consider when a product is first introduced and then look at several different pricing approaches that companies utilize during the product life cycle.

Introductory Pricing Strategies

Think of products that have been introduced in the last decade and how products were priced when they first entered the market. When each new iPhone model is introduced, its price is high. After a few months, the price drops. The same is true for many high-tech products. As mentioned in chapter 7.5 "Managing new products", a **skimming price strategy** is when a company sets a high initial price for a product. The idea is to go after consumers who are willing to pay a high price (top of the market) and buy products early. This way, a company recoups its investment in the product faster.

The easy way to remember a skimming approach is to think of the gravy served with meat. When the gravy is chilled, the fat rises to the top and is often "skimmed" off before serving. Price skimming is a pricing approach designed to skim that top part of the gravy, or the top of the market. Over time, the price of the product goes down as competitors enter the market and more consumers are willing to purchase the offering.

In contrast to a skimming approach, a **penetration pricing strategy** is one in which a low initial price is set. Often, many competitive products are already in the market. The goal is to get as much of the market as possible to try the product. Penetration pricing is used on many new food products, health and beauty supplies, and paper products sold in grocery stores and mass merchandise stores such as Walmart and Costco.

Another approach companies use when they introduce a new product is **everyday low prices**. That is, the price initially set is the price the seller expects to charge throughout the product's life cycle. Many companies use everyday low pricing. Walmart's signs emphasize their everyday low pricing strategy with "Every Day Low Price".

Figure 8.1. New flavors of snacks, candy, cereal, and shampoo sold in grocery stores and by mass merchandisers similar to the one in this picture are priced using a penetration pricing strategy to get consumers to try the products.

Pricing Approaches

Companies can choose many ways to set their prices. We'll examine some common methods you often see. Many stores use **cost-plus pricing**, in which they take the cost of the product and then add a profit to determine a price. Cost-plus pricing is very common. The strategy helps ensure that a company's products' costs are covered and the firm earns a certain amount of profit. When companies add a **markup**, or an amount added to the cost of a product, they are using a form of cost-plus pricing. When products go on sale, companies mark down the prices, but they usually still make a profit. Potential **markdowns** or price reductions should be considered when deciding on a starting price.

Many pricing approaches have a psychological appeal. **Odd-even pricing** occurs when a company prices a product a few cents or a few dollars below the next dollar amount. For example, instead of being priced $10.00, a product will be priced at $9.99. Likewise, a $20,000 automobile might be priced at $19,998, though the product will cost more once taxes and other fees are added.

Figure 8.2. Odd Even Pricing.

Prestige pricing occurs when a higher price is utilized to give an offering a high-quality image. Some stores have a quality image, and people perceive the products from those stores as being of higher quality. If you're looking to create the impression of a premium product, you would price using round numbers. Many times, two different stores carry the same product, but one store prices it higher because of the store's perceived higher image. Think of luxury brands.

Cell phone plans are often priced using a strategy known as **price lining**, or *price levels*. In other words, there may be only a few price levels ($55, $75, $85 and $95) for a package depending on speed, data, texting, talking.

Leader pricing involves pricing one or more items low to get people into a store. The products with low prices are often on the front page of store ads and "lead" the promotion. For example, prior to Thanksgiving, grocery stores advertise turkeys and cranberry sauce at very low prices. The goal is to get shoppers to buy many more items in addition to the low-priced items. Leader or low prices are legal; however, as you learned earlier, **loss leaders**, or items priced below cost in an effort to get people into stores, are illegal in many states but not in Canada.

Price bundling occurs when different offerings are sold together at a price that's typically lower than the total price a customer would pay by buying each offering separately. Combo meals and value meals sold at restaurants are an example. Companies such as McDonald's have promoted value meals for a long time in many different markets. Other products such as shampoo and conditioner are sometimes bundled together. Automobile companies bundle product options. For example, power locks and windows are often sold together, regardless of whether customers want only one or the other. The idea behind bundling is to increase an organization's revenues.

Captive pricing is a strategy firms use when consumers must buy a given product because they are at a certain event or location or they need a particular product because no substitutes will work. Concessions at a sporting event or a movie are examples of how captive pricing is used. Maybe you didn't pay much to attend the game, but the snacks and drinks were extremely expensive. Similarly, since travellers are no longer allowed to bring water through airport security, they must buy water at the airport at inflated prices.

Promotional pricing is a short-term tactic designed to get people into a store or to purchase more of a product. Examples of promotional pricing include back-to-school sales, rebates, extended warranties, and going-out-of-business sales. Rebates are a great strategy for companies because consumers think they're getting a great deal. But many consumers forget to request the rebate. Extended warranties have become popular for all types of products, including automobiles, appliances, electronics, and even athletic shoes. If you buy a vacuum for $35, and it has a one-year warranty from the manufacturer, does it really make sense to spend an additional $15 to get another year's warranty? However, when it comes to automobiles, repairs can be expensive, so an extended warranty often pays for itself following one repair. Buyers must look at the costs and benefits and determine if the extended warranty provides value.

We discussed **price discrimination**, or charging different customers different prices for the same product, earlier in the chapter. In some situations, price discrimination is legal. As we explained, you have probably noticed that certain customer groups (students, children, and senior citizens, for example) are sometimes offered discounts at restaurants and events. However, the discounts must be offered to all senior citizens or all children within a certain age range, not just a few. Price discrimination is used to get more people to use a product or service. Similarly, a company might lower its prices in order to get more customers to buy an offering when business is slow. Weekday shows may be cheaper than shows on the weekend; skiing is often less expensive at night and so forth.

Key Takeaways

Both external and internal factors affect pricing decisions. Companies use many different pricing strategies and price adjustments. However, the price must generate enough revenues to cover costs in order for the product to be profitable. Cost-plus pricing, odd-even pricing, prestige pricing, price bundling, and captive pricing are just a few of the strategies used. Organizations must also decide what their policies are when it comes to making price adjustments, or changing the listed prices of their products. Some companies use price adjustments as a short-term tactic to increase sales.

Review and Reflect

1. Explain the difference between a penetration and a skimming pricing strategy.

2. Identify an example of each of the following: odd-even pricing, prestige pricing, price bundling, and captive pricing.
3. Lots of information about pricing strategies here … let's apply it to some products!

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://kpu.pressbooks.pub/introductiontomarketing/?p=346#h5p-34

Media Attributions

- Cereal Aisle © Rex Roof is licensed under a CC BY (Attribution) license
- Assorted Variety of Fruits © Mark Stebnicki is licensed under a All Rights Reserved license

8.4 DISCUSSION QUESTIONS AND ACTIVITIES

Review and Reflect

1. What is the difference between leader pricing and a loss leader?
2. Which pricing approaches do you feel work best long term?
3. When is price discrimination legal?
4. Which pricing strategies have you noticed when you shop?
5. What new products have you purchased in the last two years that were priced using either a penetration or a skimming approach?

Activities

1. In order to understand revenues and costs, get a two-liter bottle of soda, ten to twenty cups, and a bucket of ice. Fill each cup with ice and then fill it with soda. Assume each cup of soda sells for at least $1 and you paid $1 for the soda and $1 for the cups. How much profit can you make?
2. Go to a fast-food restaurant for lunch. Figure out how much the price of a bundled meal is versus buying the items separately. Then decide if you think many consumers add a soda or fries because they feel like they're getting a deal.

CHAPTER 9: PLACE (DISTRIBUTION)

9.1 WHAT ARE MARKETING CHANNELS

Learning Objectives

1. Explain why marketing channel decisions can result in the success or failure of products.
2. Understand how supply chains differ from marketing channels.
3. Describe the different types of organizations that work together as channel partners and what each does.

Today, marketing channel decisions are as important as the decisions companies make about the features and prices of products (Littleson, 2007).[1] Consumers have become more demanding. They are used to getting what they want, when they want. If you can't get your product to them when, where, and how they want it, they will simply buy a competing product. In other words, *how* companies sell has become as important as *what* they sell ("Developing Channel," 2007).[2].

The firms a company partners with to actively promote and sell a product as it travels through its marketing channel to users are referred to by the firm as its **channel partners**. Companies strive to choose not only the best marketing channels but also the best channel partners. A strong channel partner like Walmart can promote and sell a product that might not otherwise turn a profit for its producer. In turn, Walmart wants to work with strong channel partners it can depend on to continuously provide it with great products that fly off the shelves. By contrast, a weak channel partner can be a liability.

The simplest marketing channel consists of just two parties: a producer and a consumer. Your haircut is a good example. When you get a haircut, it travels straight from your hairdresser to you. No one else owns, handles,

1. Littleson, R. (2007, February 6). *Supply chain trends: What's in, what's out*. Manufacturing.net. Accessed April 13, 2012.
2. Developing a channel strategy. (2007). *CBS News.* Accessed April 13, 2012.

or remarkets the haircut to you before you get it. However, many other products and services pass through multiple organizations before they get to you. These organizations are called **intermediaries**.

Companies partner with intermediaries not because they necessarily want to (ideally, they could sell their products straight to users) but because the intermediaries can help them sell the products better than they could working alone. In other words, they have some sort of capabilities the producer needs: contact with many customers or the right customers, marketing expertise, shipping and handling capabilities, and the ability to lend the producer credit are among the types of help a firm can get by utilizing a channel partner.

Intermediaries also create efficiencies by streamlining the number of transactions an organization must make, each of which takes time and costs money to conduct. As figure 9.1 shows, by selling the tractors it makes through local farm machinery dealers, the farm machinery manufacturer John Deere can streamline the number of transactions it makes from eight to just two.

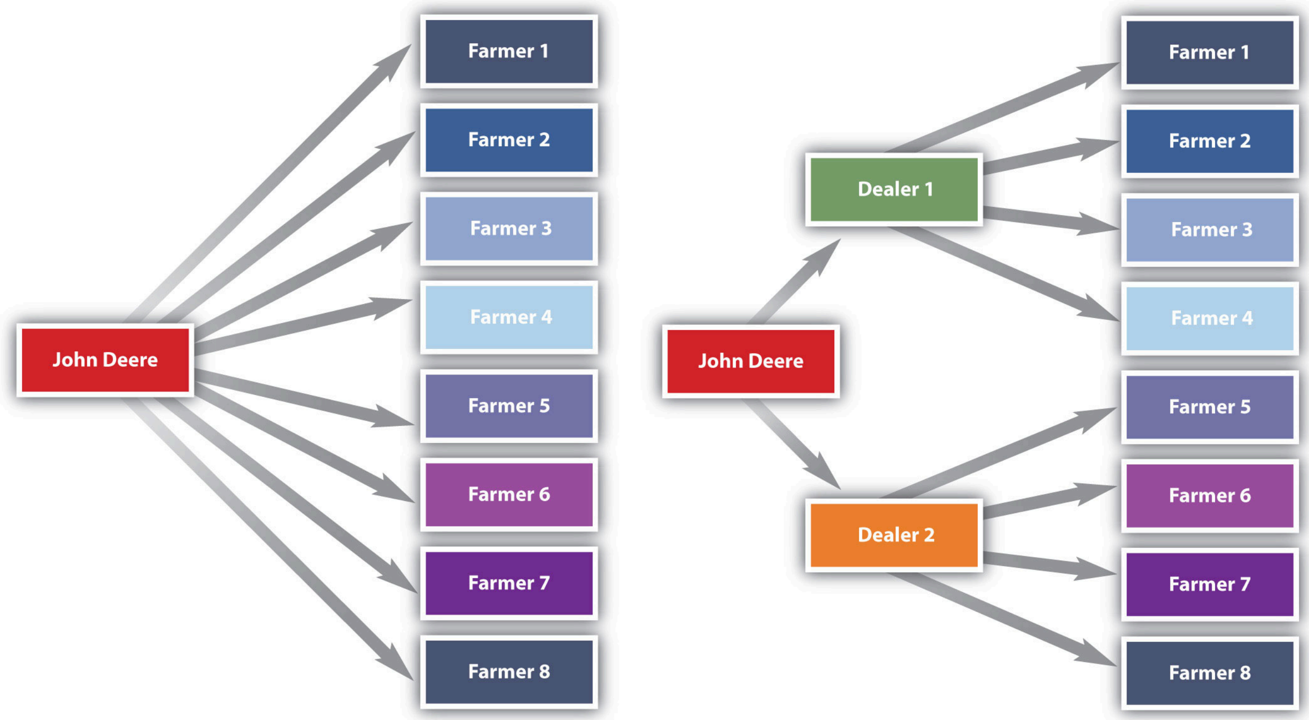


Figure 9.1. Using Intermediaries to Streamline the Number of Transactions.

The marketing environment is always changing, so what was a great channel or channel partner yesterday might not be a great channel partner today. Changes in technology, production techniques, and your customers' needs mean you have to continually reevaluate your marketing channels and the channel partners you ally yourself with. Moreover, when you create a new product, you can't assume the channels that were used in the past are the best ones (Lancaster & Withey, 2007).[3] A different channel or channel partner might be better.

Marketing Channels versus Supply Chains

In the past few decades, organizations have begun taking a more holistic look at their marketing channels. Instead of looking at only the firms that sell and promote their products, they have begun looking at *all* the organizations that figure into any part of the process of producing, promoting, and delivering an offering to its user. All these organizations are considered part of the offering's **supply chain**.

For instance, the supply chain includes producers of the raw materials that go into a product. If it's a food product, the supply chain extends back through the distributors all the way to the farmers who grew the ingredients and the companies from which the farmers purchased the seeds, fertilizer, or animals. A product's supply chain also includes transportation companies such as railroads that help physically move the product and companies that build websites for other companies. If a software maker hires a company in India to help it write a computer program, the Indian company is part of the partner's supply chain. These types of firms aren't considered channel partners because it's not their job to actively sell the products being produced. Nonetheless, they all contribute to a product's success or failure.

Firms are constantly monitoring their supply chains and tinkering with them so they're as efficient as possible. This process is called **supply chain management**. Supply chain management is challenging and was especially difficult during the recent pandemic when many supply chains were disrupted due to shuttered factories and labour shortages at ports and terminals.

Types of Channel Partners

Let's now look at the basic types of channel partners. To help you understand the various types of channel partners, we will go over the most common types of intermediaries. The two types you hear about most frequently are wholesalers and retailers. Keep in mind, however, that the categories we discuss in this section are just that—categories. In recent years, the lines between wholesalers, retailers, and producers have begun to blur. Microsoft is a producer of goods, but recently it began opening up its own retail stores to sell products to

3. Lancaster, G., & Withey, F. (2007). *Marketing fundamentals*. Butterworth-Heinemann.

consumers, much as Apple has done (Lyons, 2009).[4] As you will learn later in the chapter, Walmart and other large retailers now produce their own store brands and sell them to other retailers. Similarly, many producers have outsourced their manufacturing, and although they still call themselves manufacturers, they act more like wholesalers. Wherever organizations see an opportunity, they are beginning to take it, regardless of their positions in marketing channels.

Wholesalers

Wholesalers obtain large quantities of products from producers, store them, and break them down into cases and other smaller units more convenient for retailers to buy, a process called "breaking bulk." Wholesalers get their name from the fact that they resell goods "whole" to other companies without transforming the goods. If you are trying to stock a small electronics store, you probably don't want to purchase a truckload of iPads. Instead, you probably want to buy a smaller assortment of iPads as well as other merchandise. Via wholesalers, you can get the assortment of products you want in the quantities you want. Some wholesalers carry a wide range of different products, while others carry narrow ranges of products.

Most wholesalers "take title" to goods—or own them until purchased by other sellers. Wholesalers such as these assume a great deal of risk on the part of companies further down the marketing channel as a result. For example, if the iPads you plan to purchase are stolen during shipment, damaged, or become outdated because a new model has been released, the wholesaler suffers the loss—not you. Electronic products, in particular, become obsolete very quickly. In 1973, the phone was the latest and greatest of gadgets. Martin Cooper, who championed the development of the device, was a lead engineer at Motorola. To whom do you think Cooper made his first phone call on the device? To his rivals at AT&T, which at the time manufactured only "landline" phones. He wanted to let them know he and Motorola had changed the telephone game.

Retailers

Retailers buy products from wholesalers, agents, or distributors and then sell them to consumers. Retailers vary by the types of products they sell, their sizes, the prices they charge, the level of service they provide consumers, and the convenience or speed they offer. You are familiar with many of these types of retailers because you have purchased products from them. We mentioned Nike and Apple as examples of companies that make and sell products directly to consumers, but, in reality, Nike and Apple contract manufacturing to other companies. They may design the products, but they actually buy the finished goods from others.

---

4. Lyons, D. (2009, November 9). The lost decade. *Newsweek, 27*.

Supermarkets, or grocery stores, are self-service retailers that provide a full range of food products to consumers as well as some household products. Supermarkets can be high, medium, or low range in terms of the prices they charge and the service and variety of products they offer. Whole Foods and Urban Fare are grocers that offer a wide variety of products, generally at higher prices. Midrange supermarkets include stores like Safeway and Superstore. No Frills and Buy-Low Foods are examples of supermarkets with a limited selection of products and service but low prices.

Drugstores specialize in selling over-the-counter medications, prescriptions, and health and beauty products and may offer services such as photo printing.

Convenience stores are miniature supermarkets. Many of them sell gasoline and are open twenty-four hours a day. They are often located on corners, making it easy and fast for consumers to get in and out. Some of these stores contain fast-food franchises like Tim Horton's and Triple O's. Consumers pay for the convenience in the form of higher markups on products.

Specialty stores sell a certain type of product, but they usually carry a deep line of it. Pandora, which sells jewelry, and Williams-Sonoma, which sells an array of kitchen and cooking-related products, are examples of specialty stores. The personnel who work in specialty stores are usually knowledgeable and often provide customers with a high level of service. Specialty stores vary by size. Many are small. However, in recent years, giant specialty stores called "category killers" have emerged. A **category killer** sells a high volume of a particular type of product and, in doing so, dominates the competition, or "category." PetSmart is a category killer in the retail pet-products market. Best Buy is a category killer in the electronics-product market. Many category killers are, themselves, struggling, as shoppers for their products are moving to the web or to discount department stores.

Department stores, by contrast, carry a wide variety of household and personal types of merchandise such as clothing and jewelry. Many are chain stores. The prices department stores charge range widely, as does the level of service shoppers receive. Holt Renfrew and Nordstrom sell expensive products and offer extensive personal service to customers. The Bay and Simons department store prices are midrange, as is the level of service shoppers receive. Walmart, Target and Winners are discount department stores with cheaper goods and a limited amount of service. As mentioned earlier, these discount department stores are a real threat to category killers, especially in the form of a superstore.

Superstores are oversized department stores that carry a broad array of general merchandise as well as groceries. You have probably shopped at a Superstore or a large Walmart and noticed electronics, housewares, and clothing in addition to groceries. Superstores are also referred to as *hypermarkets* and *supercentres*.

Warehouse clubs are supercentres that sell products at a discount. They require people who shop with them to become members by paying an annual fee. Costco and Sam's Club (in the US) are examples.

Figure 9.2: Costco Wholesale is an example of a Warehouse Club

Off-price retailers are stores that sell a variety of discount merchandise that consists of seconds, overruns, and the previous season's stock other stores have liquidated. Marshalls, Winners and dollar stores are off-price retailers.

Outlet stores were a new phenomenon at the end of the last century. These were discount retailers that operated under the brand name of a single manufacturer, selling products that couldn't be sold through normal retail channels due to mistakes made in manufacturing. Often located in suburban areas but along highways, these stores had lower overhead than similar stores in big cities due to lower rent and lower employee salaries. But due to the high popularity of the stores, demand far outstripped the supply of mistakes. Most outlet malls are now selling first-quality products only, perhaps at a discount.

Online retailers can fit into any of the previous categories; indeed, most traditional stores also have an online version. You can buy from Costco.ca, Walmart.ca, and so forth. There are also stores like Amazon and Ali Express that operate only on the Internet.

Used retailers are retailers that sell used products. Online versions, like eBay and Craigslist, sell everything from used airplanes to clothing. Traditional stores with a physical presence that sell used products include Value Village and clothing consignment stores like Turnabout or Mintage in Vancouver. Note that in consignment stores, the stores do not take title to the products but only retail them for the seller.

A new type of retail store that turned up in the last few years is the **pop-up store**. Pop-up stores are small temporary stores. They can be kiosks or temporarily occupy unused retail space. The goal is to create excitement and "buzz" for a retailer that then drives customers to their regular stores. Disney partnered with Nordstrom and brought exclusive Disney merchandise to select Nordstrom stores in North America (Fuhs, 2021).[5] Before Japanese clothing retailer Uniqlo opened its first Vancouver location, it ran a pop-up shop for just one day in Yaletown. Its overwhelming response and popularity propelled its establishment of a permanent location in Vancouver, and now the brand has three locations in Canada. Muji, a Japanese houseware store chain, also opened up a pop-up shop in a hotel in Vancouver to test out the market. Muji was greatly anticipated by consumers, so much so that the store actually took reservations for consumers to visit (Yeung, 2017)![6] Naturally, this excitement resulted in a permanent storefront opening up in several locations around Canada (Braun, 2016).[7] These are prime examples of how stores can use the pop-up shop business model to spark excitement, create an initial media buzz and be successful long term (Apostolou, 2017).[8] Most

5. Fuhs, D. (2021, July 26). Mickey & friends join Nordstrom in pop-in series at 2 Canadian stores. *Retail Insider*.
6. Yeung, L. (2017, January 15). Reservations required: Japanese retailer Muji to open pop-up store in Vancouver. *CBC*.
7. Braun, J. (2016, December 15). Muji pops-up in Vancouver for the first time. *Fashion Network*.
8. Apostolou, K. (2017, October 18). *Pop-up shops on the rise in Canada for seasonal businesses*.

commonly, though, pop-up stores are used for seasonal sales, such as a costume store before Halloween or the Christmas trees and decorations you see at the mall just before Christmas.

Not all retailing goes on in stores, however. **Nonstore retailing**—retailing not conducted in stores—is a growing trend. Online retailing; party selling; selling to consumers via television, catalogues, and vending machines; and telemarketing are examples of nonstore retailing. These are forms of direct marketing. Companies that engage in **direct marketing** communicate with consumers by urging them to contact their firms directly to buy products.

Key Takeaways

How a product moves from raw material to finished good to the consumer is a marketing channel, also called a supply chain. Marketing channel decisions are as important as the decisions companies make about the features and prices of products. Channel partners are firms that actively promote and sell a product as it travels through its channel to its user. Companies try to choose the best channels and channel partners to help them sell products because doing so can give them a competitive advantage.

Review and Reflect

1. Why are marketing channel decisions as important as pricing and product feature decisions?
2. What are the benefits of looking at all the organizations that contribute to the production of a product versus just the organizations that sell them?
3. Why do channel partners rely on each other to sell their products and services?
4. How do companies add value to products via their marketing channels?

Media Attributions

- Intermediaries to Streamline Transactions © University of Minnesota Libraries is licensed under a CC BY-NC-SA (Attribution NonCommercial ShareAlike) license
- pexels-tiger-lily-4481258 © Tiger Lily is licensed under a All Rights Reserved license

9.2 TYPICAL MARKETING CHANNELS

Learning Objectives

1. Describe the basic types of channels in business-to-consumer (B2C) and business-to-business (B2B) markets.
2. Explain the advantages and challenges companies face when using multiple channels and alternate channels.
3. Explain the pros and cons of disintermediation.
4. List the channels firms can use to enter foreign markets.

Figure 9.3 shows the typical channels in business-to-consumer (B2C) markets. As we explained, the shortest marketing channel consists of just two parties: a producer and a consumer. A channel such as this is a **direct channel**. By contrast, a channel that includes one or more intermediaries—a wholesaler, distributor, or broker or agent—is an **indirect channel**. In an indirect channel, the product passes through one or more intermediaries. That doesn't mean the producer will do no marketing directly to consumers. Nike and Kellogg's runs ads on TV designed to appeal directly to consumers. However, the seller also has to focus its selling efforts on these intermediaries because the intermediary can help with the selling effort. Not everyone wants to buy Nike shoes online.

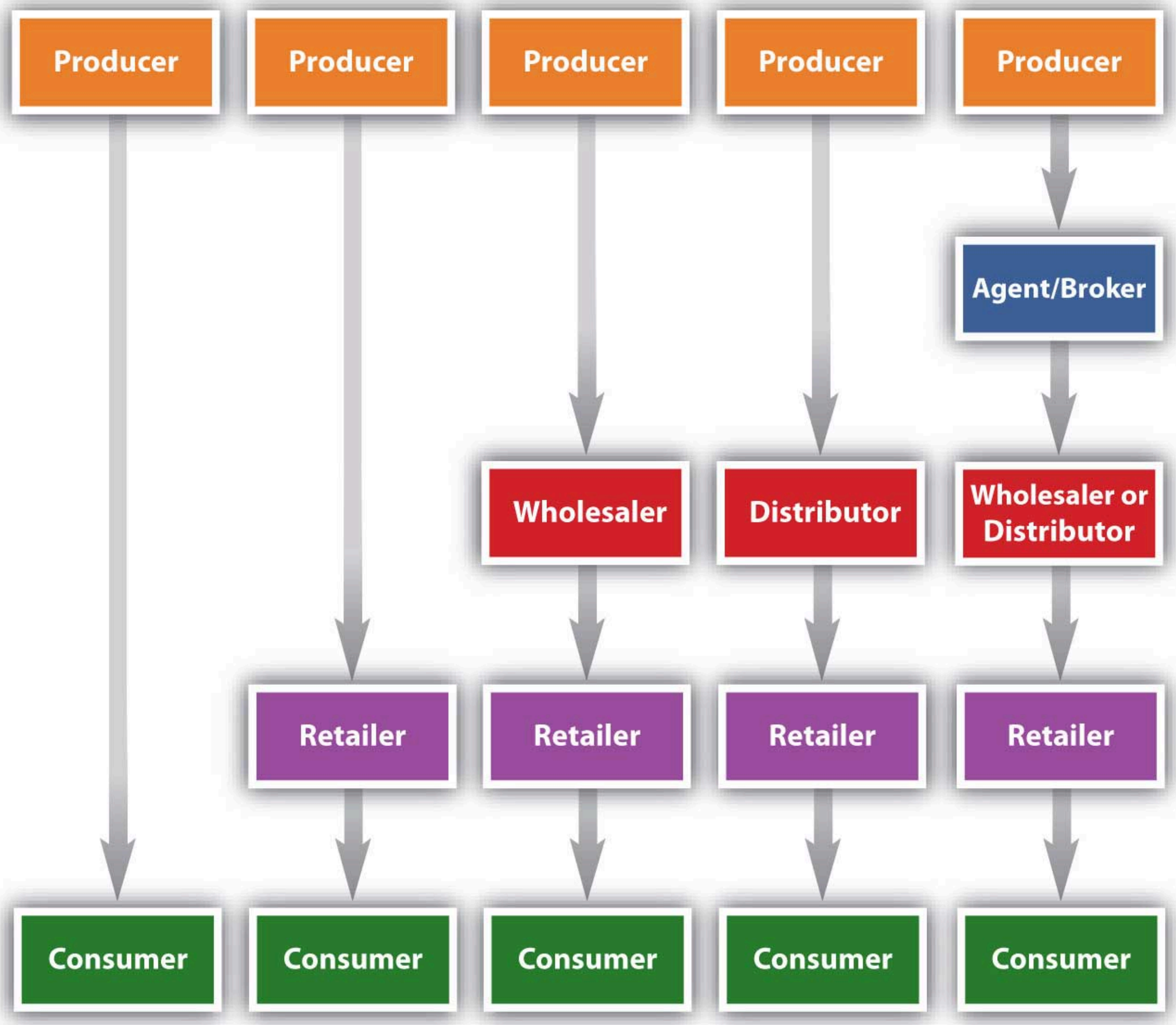


Figure 9.3. Typical Channels in Business-to-Consumer (B2C) Markets. *[Read full image description.]*

Disintermediation

You might be tempted to think middlemen, or intermediaries, are bad. If you can cut them out of the deal—a process marketing professionals call **disintermediation**—products can be sold more cheaply, can't they? Large retailers, including Target and Walmart, sometimes bypass middlemen. Instead, they buy their products directly from manufacturers and then store them and distribute them to their own retail outlets. Walmart is increasingly doing so and even purchasing produce directly from farmers around the world (Birchall, 2010).[1]

1. Birchall, J. (2010, January 4). Walmart aims to cut supply chain cost. *Financial Times, 4*.

However, cutting out the middleman is not always desirable. A wholesaler with buying power and excellent warehousing capabilities might be able to purchase, store, and deliver a product to a seller more cheaply than its producer could acting alone. Walmart doesn't need a wholesaler's buying power, but your local 7/11 convenience store does. Likewise, hiring a distributor will cost a producer money. But if the distributor can help the producer sell greater quantities of a product, it can increase the producer's profits. Moreover, when you cut out the middlemen you work with, you have to perform the functions they once did. This might be storing the product or dealing with hundreds of retailers. More than one producer has ditched its intermediaries only to rehire them later because of the hassles involved.

The trend today is toward disintermediation. The Internet has facilitated a certain amount of disintermediation by making it easier for consumers and businesses to contact one another without going through any middlemen. The Internet has also made it easier for buyers to shop for the lowest prices on products. Today, most people book trips online without going through travel agents. People also shop for homes online rather than using real estate agents. To remain in business, resellers need to find new ways to add value to products.

Figure 9.4. Michael Dell, founder of the worldwide corporation Dell, Inc., initially made and sold computers to buyers by telephone out of his college dorm room.

However, for some products, disintermediation via the Internet doesn't work so well. Insurance is an example.

You can buy it online directly from companies, but many people want to buy through an agent they can talk to for advice.

Sometimes it's simply impossible to cut out middlemen. Would the Coca-Cola Company want to take the time and trouble to personally sell you an individual can of Coke? No. Even Dell, which initially made its mark by selling computers straight to users, now sells its products through retailers such as Best Buy as well. Dell found that to compete effectively, its products needed to be placed in stores alongside Hewlett-Packard, Acer, and other computer brands (Kraemeer & Dedrick, 2008).[2]

Share your knowledge about intermediaries here …

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://kpu.pressbooks.pub/introductiontomarketing/?p=193#h5p-35

Multiple Channels and Alternate Channels

Marketing channels can get a lot more complex than the channels shown in "Typical Channels in Business-to-Consumer (B2C) Markets" (figure 9.3), though. Look at the channels in figure 9.5. Notice how in some situations, a wholesaler will sell to brokers, who then sell to retailers and consumers. In other situations, a wholesaler will sell straight to retailers or straight to consumers. Manufacturers also sell straight to consumers and, as we explained, sell straight to large retailers like Target.

2. Kraemeer, K. L., & Dedrick, J. (2008). *Dell computer: Organization of a global production network*. Center for Research on Information Technology and Organizations. Accessed April 13, 2012.

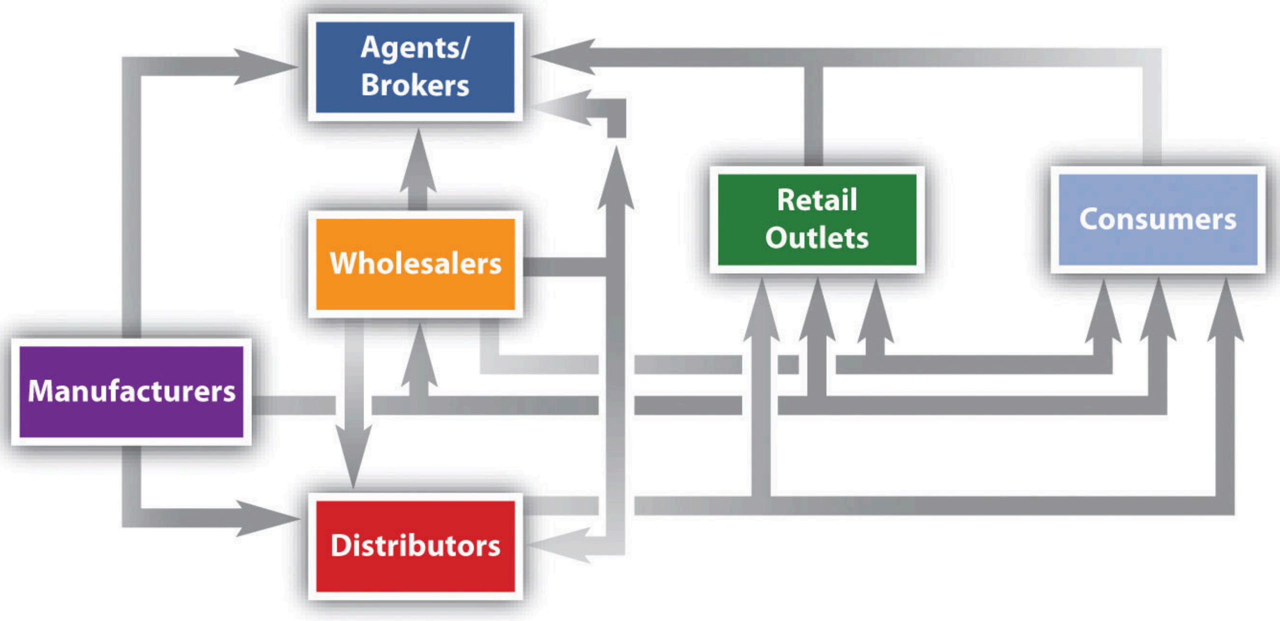


Figure 9.5. Alternate Channel Arrangements. *[Read full image description.]*

The point is that firms can and do utilize multiple channels. Take Levi's, for example. You can buy a pair of Levi's from a retailer such as The Bay, or you can buy a pair directly from Levi's at one of the outlet stores it owns around the country. You can also buy a pair from the Levi's website.

The key is understanding the different target markets for your product and designing the best channel to meet the needs of customers in each. Is there a group of buyers who would purchase your product if they could shop online from the convenience of their homes? Perhaps there is a group of customers interested in your product, but they do not want to pay full price. The ideal way to reach these people might be with an outlet store and low prices. Each group then needs to be marketed to accordingly. Many people regularly interact with companies via numerous channels before making buying decisions.

Using multiple channels can be effective. At least one study has shown that the more marketing channels your customers utilize, the more loyal they are likely to be to your products (Fitzpatrick, 2005).[3] Companies work hard to try to integrate their selling channels so users get a consistent experience.

A company can also use a marketing channel to set itself apart from the crowd. Jones Soda Co. initially placed its own funky-looking soda coolers in skate and surf shops, tattoo and piercing parlors, individual fashion

3. Fitzpatrick, M. (2005, October 1). *The seven myths of channel integration*. Chief Marketer. Accessed August 8, 2023.

stores, and national retail clothing and music stores. The company then began an up-and-down-the-street "attack" by placing its products in convenience and food stores. Finally, the company was able to sell its drinks to bigger companies like Starbucks, Safeway, Target, and 7-Eleven stores ("About Us," n.d.).[4]

Would you like to purchase gold from a vending machine? Soon you will be able to—in Germany. Germans like to purchase gold because it's considered a safe alternative to paper money, which can become devalued during a period of hyperinflation. So, in addition to selling gold the usual way, TG-Gold-Super-Markt company is planning to install "gold to go" machines in five hundred locations in German-speaking countries. The gold is dispensed in metal boxes, and cameras on the machine monitor the transactions to prevent money laundering (Wilson & Blas, 2009).[5]

Check out this YouTube clip (video 9.1) to get a look at how a gold vending machine works.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://kpu.pressbooks.pub/introductiontomarketing/?p=193#oembed-1

Video 9.1. Gold to Go: Germany's version of an ATM machine? Source: GOLD to go: simply the smartest way to purchase gold (US-Version) by GOLDatm.

Some companies find ways to increase their sales by forming **strategic channel alliances** with one another. Harley-Davidson has a strategic channel alliance with Best Western. Click on Harley-Davidson's "Ride Planner" on its website, and you can sign up to receive points and other discounts by staying at Best Western hotels and motels (Gonzalez-Wertz, 2009).[6] Starbucks now dispenses its beverages in some of Safeway's grocery stores. Starbucks wants grocery shoppers at Safeway who are craving a cup of coffee to grab one; meanwhile, Safeway hopes customers dropping in for a Starbucks cup of coffee will buy some grocery products.

4. *About Us*. Jones Soda Co. Accessed September 13, 2021.
5. Wilson, J., & Blas, J. (2009, June 17). Machines with Midas touch swap chocolate for gold bars. *Financial Times*.
6. Gonzalez-Wertz, C. (2009, February 11). *Ten examples of smarter customer focus*. Thoughts. Inspirations. Actions. Accessed December 12, 2009.

International Marketing Channels

Consumer and business markets in North America are well developed and growing slowly. However, the opportunities for growth abound in other countries. Coca-Cola, in fact, earns most of its income abroad—not in the United States. The company's last big push was into China, where the per-person consumption of ready-to-drink beverages is only about a third of the global average (Waldmeir, 2009).[7]

The question is how to enter these markets and via what marketing channels. Some developing countries lack good intermediary systems. In these countries, firms are on their own in terms of selling and distributing products downstream to users. Other countries have elaborate marketing channels that must be navigated. Consider Japan, for example. Japan has an extensive, complicated system of intermediaries, each of which demands a cut of a company's profits. Carrefour, a global chain of hypermarkets, tried to expand there but eventually left the country because its marketing channel system was so complicated.

Walmart managed to develop a presence in Japan, but only after acquiring the Japanese supermarket operator Seiyu (Boyle, 2009).[8] Acquiring part or all of a foreign company is a common strategy for companies referred to as making a **direct investment**. However, as you learned, some nations don't allow foreign companies to do business within their borders or to buy local companies. The Chinese government blocked Coca-Cola from buying Huiyuan Juice, that country's largest beverage maker.

Corruption and unstable governments also make it difficult to do business in some countries. The banana company Chiquita found itself in the bad position of having to pay off rebels in Colombia to prevent them from seizing the banana plantations of one of its subsidiaries.

One of the easier ways of utilizing intermediaries to expand abroad is a joint venture. A **joint venture** is an entity created when two parties agree to share their profits, losses, and control with one another in an economic activity they jointly undertake. The German automaker Volkswagen has struggled to penetrate Asian markets. It recently signed an agreement with Suzuki, the Japanese company, in an effort to challenge Toyota's dominance in Asia. Will it work? Time will tell. Many joint ventures fail, particularly when they involve companies from different countries. Daimler-Chrysler, the union between the German car company and U.S. automaker Chrysler, is one of many joint ventures that fell by the wayside (Shafer, 2009).[9] However, in some countries, such as India, it is the only way companies are allowed to do business within their borders. A strategic alliance is similar to a joint venture, but the firms don't invest in each other.

---

7. Waldmeir, P. (2009, March 7). Coca-Cola in new China push. *Financial Times, 10*.
8. Boyle, M. (2009, October 13). Walmart's painful lessons. *BusinessWeek*. Accessed August 8, 2023.
9. Shafer, D. (2009, December 10). Asia is final frontier for VW empire. *Financial Times, 17*.

An even easier way to enter markets is to simply **export** your products. Companies can sell their products directly to other firms abroad, or they can hire intermediaries such as brokers and agents that specialize in international exporting to help them find potential buyers for their products.

Recall that many companies, particularly those in the United States, have expanded their operations via franchising. **Franchising** grants an independent operator the right to use a company's business model, name, techniques, and trademarks for a fee. McDonald's is the classic example of a franchise. Unlike Walmart, McDonald's has had no trouble making headway in Japan. It has done so by selling thousands of franchises there. In fact, Japan is McDonald's second-largest market next to the United States. The company also has thousands of franchises in Europe and other countries. There is even a McDonald's franchise in the Louvre, the prestigious museum in Paris that houses the *Mona Lisa*. Licensing is similar to franchising. For a fee, a firm can buy the right to use another firm's manufacturing processes, trade secrets, patents, and trademarks for a certain period of time.

Key Takeaways

A direct marketing channel consists of just two parties: a producer and a consumer. By contrast, a channel that includes one or more intermediaries (wholesaler, distributor, broker or agent) is an indirect channel. Firms often utilize multiple channels to reach more customers and increase their effectiveness. Some companies find ways to increase their sales by forming strategic channel alliances with one another. Other companies look for ways to cut out the middlemen from the channel, a process known as disintermediation. Direct foreign investment, joint ventures, exporting, franchising, and licensing are some of the channels firms use to attempt to enter foreign markets.

Review and Reflect

1. Why are direct marketing channels possible for some products and not others?
2. Explain the value middlemen can add to products.
3. Name some companies that have multiple marketing channels for their products. What are those channels?
4. How do marketing channels differ around the world? Why is it sometimes hard for firms to penetrate foreign markets?

Media Attributions

- Typical Channels in Business-to-Consumer (B2C) Markets © University of Minnesota Libraries is licensed under a CC BY-NC-SA (Attribution NonCommercial ShareAlike) license
- Michael Dell © Ed Schipul is licensed under a CC BY-SA (Attribution ShareAlike) license
- Alternate Channel Arrangements © University of Minnesota Libraries is licensed under a CC BY-NC-SA (Attribution NonCommercial ShareAlike) license

9.3 FUNCTIONS PERFORMED BY CHANNEL PARTNERS

Learning Objectives

1. Describe the activities performed in channels.
2. Explain which organizations perform which functions.

Different organizations in a marketing channel are responsible for different value-adding activities. The following are some of the most common functions channel members perform. However, keep in mind that "who does what" can vary depending on what the channel members actually agree to in their contracts with one another.

Disseminate Marketing Communications and Promote Brands

Somehow wholesalers, distributors, retailers, and consumers need to be informed—via marketing communications—that an offering exists and that there's a good reason to buy it. Sometimes, a push strategy is used to help marketing channels accomplish this. A **push strategy** is one in which a manufacturer convinces wholesalers, distributors, or retailers to sell its products. Consumers are informed via advertising and other promotions that the product is available for sale, but the main focus is to sell to intermediaries.

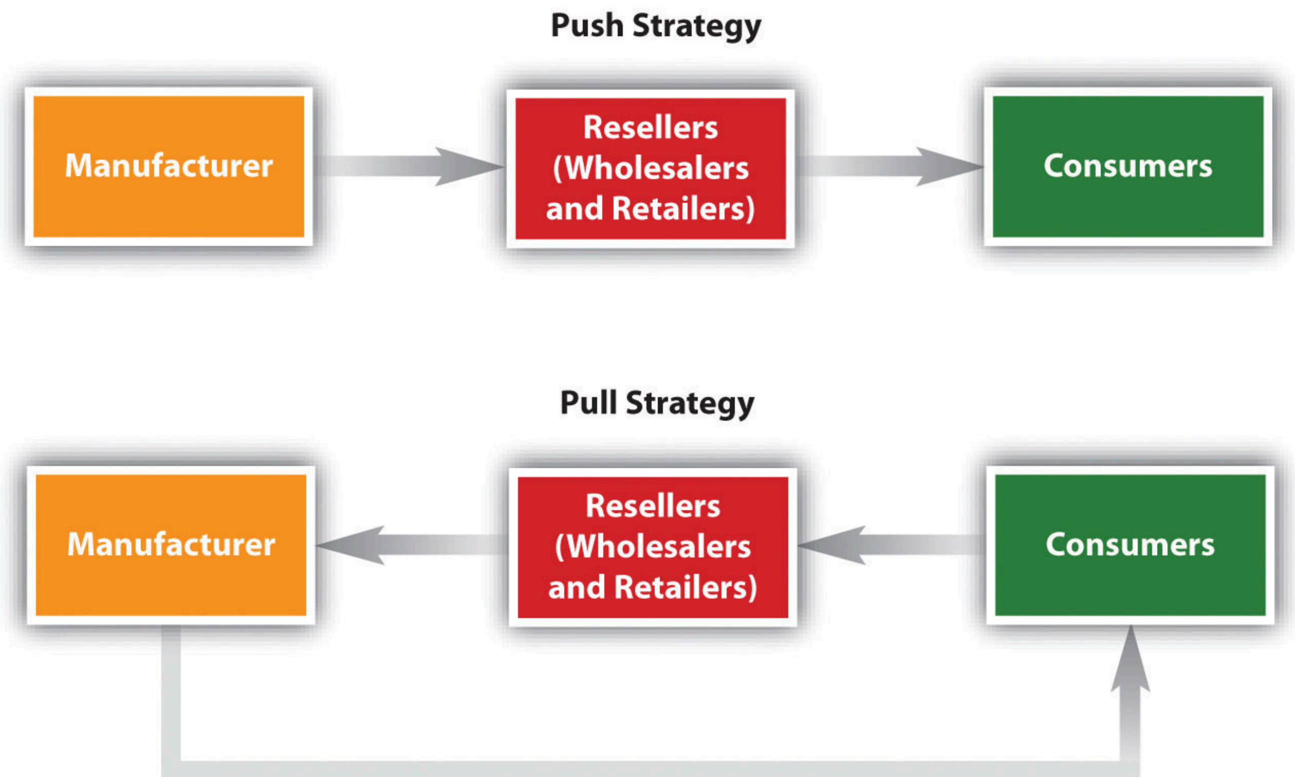


Figure 9.6. A Push versus a Pull Strategy.

The problem with a push strategy is that it doesn't focus on the needs of the actual users of the products. Coca-Cola used a push strategy for years before realizing that instead of focusing on moving beverages through a retailer's back door and into their warehouse, it needed to help them sell to shoppers through the retailer's front door ("Bottling Success," 2006).[1] University textbook publishers are in a similar position today. Traditionally, they have concentrated their selling efforts on professors and bookstore managers (has a textbook company ever asked you what you want out of a textbook?). It's no secret that the price of textbooks is climbing and students are purchasing fewer of them. Like Coca-Cola, textbook publishers are probably going to have to rethink their sales and marketing channel strategies (Blumenstyk, 2009).[2]

By contrast, a **pull strategy** focuses on creating demand for a product among consumers so that businesses agree to sell the product. A good example of an industry that utilizes both pull and push strategies is the pharmaceutical industry. Pharmaceutical companies promote their drugs to pharmacies and doctors, but they

1. *Bottling success*. (2006, September 1). Packaging-Gateway.com. Accessed December 12, 2009.
2. Blumenstyk, G. (2009, June 29). Kaplan U.'s catchy ad provokes a question: Do colleges serve today's students? *Chronicle of Higher Education*. Accessed December 12, 2009.

now also run ads designed to persuade individual consumers to ask their physicians about drugs that might benefit them.

In many cases, two or more organizations in a channel jointly promote a product to retailers, purchasing agents, and consumers and work out which organization is responsible for what type of communication to whom. For example, the ads from Target, Walmart, and other retailers you see online are often a joint effort between manufacturers and the retailer. Coupons are another joint form of promotion even when offered directly by the manufacturer; they are joint in the sense that the retailer still has to accept the coupon and process it. The actual forms and styles of communication are discussed in the promotions section of the book.

Sorting and Regrouping Products

As we explained, many businesses don't want to receive huge quantities of a product. One of the functions of wholesalers and distributors is to break down large quantities of products into smaller units and provide an assortment of different products to businesses.

For example, cranberry farmers have large crops to sell. You don't want to buy large amounts of cranberries, make your own juice or cranberry sauce, or dry them for salads. So the farmers sell their produce to a co-op, which sorts the berries by size; large ones become craisins, while others are destined to become either juice or sauce, depending on their liquid content. Those are then sold to juice and sauce producers.

Storing and Managing Inventory

If a channel member has run out of a product when a customer wants to buy it, the result is often a lost sale. That's why most channel members stock, or "carry," reserve inventory. However, storing products is not free. Warehouses cost money to build or rent and heat and cool; employees have to be paid to stock shelves, pick products, ship them, and so forth. Some companies, including Walmart, put their suppliers in charge of their inventory. The suppliers have access to Walmart's inventory levels and ship products when and where the retailer's stores need them.

Storing and managing inventory is not just a function provided for retailers, though. Storage also involves storing commodities like grain prior to processing. Gigantic grain elevators store corn, wheat, and other grains until processors need them. You can buy fresh bread in your grocery store every day because the wheat was first stored at a grain elevator until it was needed.

Not all warehouses utilize humans to pluck products from shelves. Some of them use robots, as video 9.2 shows. Robots cost money, too, though.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://kpu.pressbooks.pub/introductiontomarketing/?p=198#oembed-1

Video 9.2. Warehouse Robots at Work by IEEE Spectrum.

Distributing Products

Physical goods that travel within a channel need to be moved from one member to another and sometimes back again. Some large wholesalers, distributors, and retailers own their own fleets of trucks for this purpose. In other cases, they hire third-party transportation providers—trucking companies, railroads, and so forth—to move their products.

Figure 9.7. Walmart doesn't just own its own warehouses. It also owns its own fleet of semi-trucks.

Being able to track merchandise is extremely important to channel partners. They want to know where their products are at all times and what shape they are in. Losing inventory or having it damaged or spoiled can wreak havoc on a company's profits; so can not getting products on time or being unable to get them at all when your competitors can.

Assume Ownership Risk and Extend Credit

If products *are* damaged during transit, one of the first questions asked is who owned the product at the time. In other words, who suffers the loss? Generally, no one channel member assumes all the ownership risk in a channel. Instead, it is distributed among channel members depending on the contracts they have with one another and their free on board provisions. A **free on board** provision designates who is responsible for what shipping costs and who owns the title to the goods and when. However, the type of product, the demand for it, marketing conditions, and the clout of the various organizations in its marketing channel can affect the contract terms channel members are willing to agree to. Some companies try to wait as long as possible to take ownership of products so they don't have to store them. During the economic downturn, many channel members tried to hold as little inventory as possible for fear it would go unsold or become obsolete (Jorgensen, 2009).[3]

Share Marketing and Other Information

Each of the channel members has information about the demand for products, trends, inventory levels, and what the competition is doing. The information is valuable and can be doubly valuable if channel partners trust one another and share it. More information can help each firm in the marketing channel perform its functions better and overcome competitive obstacles (Frazier et. al., 2009).[4]

That said, confidentiality is a huge issue among supply chain partners because they share so much information with one another, such as sales and inventory data. For example, a salesperson who sells Tide laundry detergent for Procter & Gamble will have a good idea of how many units of Tide that Walmart and Target are selling. However, it would be unethical for the salesperson to share Walmart's numbers with Target or Target's numbers with Walmart. Many business buyers require their channel partners to sign nondisclosure agreements or make the agreements part of purchasing contracts. A **nondisclosure agreement (NDA)** is a contract that specifies what information is proprietary, or owned by the partner, and how, if at all, the partner can use that information.

Key Takeaways

Different organizations in a marketing channel are responsible for different value-adding activities. These activities include disseminating marketing communications and promoting brands, sorting

3. Jorgensen, B. (2009, April 23). Distributors' services help keep customers afloat. *EDN, 54*(8), 60.
4. Frazier, G. L., Maltz, E., Antia, K. D., & Rindfleisch, A. (2009, July 1). Distributor sharing of strategic information with suppliers. *Journal of Marketing, 73*(4), 31–43. Accessed December 12, 2009.

and regrouping products, storing and managing inventory, distributing products, assuming the risk of products, and sharing information.

Review and Reflect

1. Explain the difference between a pull and a push strategy when it comes to marketing communications.
2. Why is taking ownership of products an important marketing channel function?
3. Which firms manage inventory in marketing channels?
4. Word search:

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://kpu.pressbooks.pub/introductiontomarketing/?p=198#h5p-36

Media Attributions

- A Push versus a Pull Strategy © University of Minnesota Libraries is licensed under a CC BY-NC-SA (Attribution NonCommercial ShareAlike) license
- Walmart's Hybrid Assist Trucks © Walmart is licensed under a CC BY (Attribution) license

9.4 MARKETING CHANNEL STRATEGIES

Learning Objectives

1. Describe the factors that affect a firm's channel decisions.
2. Explain how intensive, exclusive, and selective distribution differ from one another.
3. Explain why some products are better suited to some distribution strategies than others.

Channel Selection Factors

Selecting the best marketing channel is critical because it can mean the success or failure of your product. One of the reasons the Internet has been so successful as a marketing channel is because customers get to make some of the channel decisions themselves. They can shop virtually for any product in the world when and where they want, as long as they can connect to the Internet. They can also choose how the product is shipped.

Type of Customer

The Internet isn't necessarily the best channel for every product, though. For example, do you want to closely examine the fruits and vegetables you buy to make sure they are ripe enough or not overripe? If the answer is yes, then online grocery shopping might not be for you. Clearly, how your customers want to buy products will have an impact on the channel you select. In fact, it should be your prime consideration.

First of all, are you selling to a consumer or a business customer? Generally, these two groups want to be sold to differently. Most consumers are willing to go to a grocery or convenience store to purchase toilet paper. The manager of a hospital trying to replenish its supplies would not. The hospital manager would also be buying a lot more toilet paper than an individual consumer and would expect to be called upon by a distributor but perhaps only semiregularly. Thereafter, the manager might want the toilet paper delivered on a regular basis and billed to the hospital via automatic systems. Likewise, when businesses buy expensive products such as machinery and computers or products that have to be customized, they generally expect to be sold to personally via salespeople. And often they expect special payment terms.

Type of Product

The type of product you're selling will also affect your marketing channel choices. Perishable products often have to be sold through shorter marketing channels than products with longer shelf lives. For example, a yellowfin tuna bound for the sushi market will likely be flown overnight to its destination and handled by few intermediaries. By contrast, canned tuna can be shipped by "slow boat" and handled by more intermediaries. Valuable and fragile products also tend to have shorter marketing channels. Automakers generally sell their cars straight to car dealers (retailers) rather than through wholesalers. The makers of corporate jets often sell them straight to corporations, which require them to be customized to certain specifications.

Channel Partner Capabilities

Your ability versus the ability of other types of organizations that operate in marketing channels can affect your channel choices. If you are a massage therapist, you are quite capable of delivering your product straight to your client. If you produce downloadable products like digital books or podcasts, you can sell your products straight to customers on the Internet.

But suppose you've created a great new personal gadget—something that's tangible, or physical. You've managed to sell it via two channels—in person to friends and family and on the web. Now you want to get the product into retail stores like Shoppers Drug Mart, Walmart, and Best Buy. If you can get the product into these stores, you can increase your sales exponentially. In this case, you might want to contract with an intermediary—perhaps an agent or a distributor who will convince the corporate buyers of those stores to carry your product.

The Business Environment and Technology

The general business environment, such as the economy, can also affect the marketing channels chosen for products. For example, think about what happens when the value of the dollar declines relative to the currencies of other countries. When the dollar falls, products imported from other countries cost more to buy relative to products produced and sold in Canada or the United States. Products "made in China" become less attractive because they have gotten more expensive. As a result, some companies then look closer to home for their products and channel partners.

Technological changes affect marketing channels, too, of course. We explained how the Internet has changed how products are bought and sold. Many companies like selling products on the Internet as much as consumers like buying them. For one, an Internet sales channel gives companies more control over how their products are sold and at what prices than if they leave the job to another channel partner such as a retailer. Plus, a company selling on the Internet has a digital footprint, or record, of what shoppers look at, or click on, at its site. As a result, it can recommend products they appear to be interested in and target them with special offers and even prices ("Pizza Hut," 2008).[1]

Some sites let customers tailor products to their liking. On the Domino's website, you can pick your pizza ingredients and then watch them as they appear on your virtual pizza. The site then lets you know who is baking your pizza, how long it's taking to cook, and who's delivering it. Even though the interaction is digital, it somehow feels a lot more personal than a basic phone order. Developing customer relationships is what today's marketing is about. The Internet is helping companies do this.

Competing Products' Marketing Channels

How your competitors sell their products can also affect your marketing channels. As we explained, Dell now sells computers to firms like Best Buy so the computers can compete with other brands on store shelves.

1. *Pizza Hut's online ordering called 'Virtual Waiter*. (2008, May 22). The Food Channel. Accessed December 12, 2009.

Figure 9.8. Netflix disrupted the video rental business.

You don't always have to choose the channels your competitors rely on, though. Netflix is an example. Netflix (and other streaming services) disrupted the video rental business by coming up with a new marketing channel that better meets the needs of many consumers. Beginning with direct mail and then moving to Internet delivery, Netflix (along with other streaming services) is revolutionizing the way we consume entertainment. With the exception of sports and other live events, shows have moved to an "on-demand" model, where you will watch what you want when you want, not when it is broadcast.

Factors That Affect a Product's Intensity of Distribution

Firms that choose an **intensive distribution** strategy try to sell their products in as many outlets as possible. Intensive distribution strategies are often used for convenience offerings—products customers purchase on the spot without much shopping around. Soft drinks and snacks are an example; you see them sold in all kinds of different places.

Exclusive distribution involves selling products through one or very few outlets. Most students often think exclusive means high priced, but that's not always the case. Exclusive simply means limiting distribution to only one outlet in any area, and this can be a strategic decision based on applying the scarcity principle to creating demand. For instance, celebrity Selena Gomez's beauty products are sold exclusively at Sephora. Designer Joseph Mimran has a line of products sold exclusively at Superstore under Joe Fresh. To purchase those items, you need to go to one of those retailers. In these instances, retailers are teaming up with these brands to create a sense of quality based on scarcity that will not only apply to the brand but to the store.

Between intensive and exclusive is **selective distribution**, which involves having products available in a few specific outlets. For instance, Sony TVs can be purchased at a number of outlets such as London Drugs, Best Buy, or Walmart, but the same models are generally not sold at all the outlets. The lowest-priced Sony TVs are at Walmart, while the better Sony models are more expensive and found in stores like Best Buy or specialty electronics stores. By selling different models with different features and price points at different outlets, a manufacturer can appeal to different target markets.

TV shows are distributed exclusively. In this instance, the choice isn't so much about applying the scarcity principle as it is about controlling risk. A company that produces a TV series will sign an exclusive deal with a network like NBC, CBS, or HBO, and the series will initially appear only on that network. Later, reruns of the shows are often distributed selectively to other networks. That initial exclusive run, however, is intended to protect the network's investment by giving the network sole rights to broadcast the show. This is slowly changing as many streaming services are producing their own content.

To control the image of their products and the prices at which they are sold, the makers of upscale products often prefer to distribute their products more exclusively. Expensive perfumes and designer purses are an example. During the economic downturn, the makers of some of these products were disappointed to see retailers had slashed the products' prices, thereby "cheapening" their prestigious brands. Many luxury brands rely on brick and mortar stores for sales and thus suffered during the pandemic when stores closed.

Distributing a product exclusively to a limited number of organizations under strict terms can help prevent a company's brand from deteriorating or losing value. It can also prevent products from being sold cheaply in grey markets. A **grey market** is a market in which a producer hasn't authorized its products to be sold (Burrows, 2008).[2] Recognize, though, that the choice to distribute intensively, selectively, or exclusively is

2. Burrows, P. (2008, February 12). Inside the iPhone grey market. *Business Week.* Accessed August 8, 2023.

a strategic decision based on many factors such as the nature of the product, the types and number of competitors, and the availability of retail choices.

Key Takeaways

Selecting the best marketing channel is critical because it can mean the success or failure of your product. The type of customer you're selling to will have an impact on the channel you select. In fact, this should be your prime consideration. The type of product, your organization's capabilities versus those of other channel members, the way competing products are marketed, and changes in the business environment and technology can also affect your marketing channel decisions. Various factors affect a company's decisions about the intensity of a product's distribution. An intensive distribution strategy involves selling a product in as many outlets as possible. Selective distribution involves selling a product at select outlets in specific locations. Exclusive distribution involves selling a product through one or very few outlets.

Review and Reflect

1. Why are good channel decisions critical to a product's success?
2. Name the factors that affect channel-selection decisions.
3. Which kinds of products are more likely to be distributed using exclusive marketing strategies? Explain why.
4. Check your knowledge of distribution strategies and channel selection with the following exercises:

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://kpu.pressbooks.pub/introductiontomarketing/?p=201#h5p-37

Media Attributions

9.5 CHANNEL DYNAMICS

Learning Objectives

1. Explain what channel power is and the types of firms that wield it.
2. Describe the types of conflicts that can occur in marketing channels.
3. Describe the ways in which channel members cooperate with one another.

Channel Power

Strong channel partners often wield what's called **channel power** and are referred to as **channel leaders** or *channel captains*. In the past, big manufacturers like Procter & Gamble and Dell were often channel captains. But that is changing. More often today, big retailers like Walmart and Target are commanding more channel power. They have millions of customers and are bombarded with products wholesalers and manufacturers want them to sell. As a result, these retailers increasingly are able to call the shots; in other words, they get what they want.

Category killers are in a similar position. Consumers like you are gaining marketing channel power, too. Regardless of what one manufacturer produces or what a local retailer has available, you can use the Internet to find whatever product you want at the best price available and have it delivered when, where, and how you want.

Channel Conflict

A dispute among channel members is called a **channel conflict**. Channel conflicts are common. Part of the reason for this is that each channel member has its own goals, which are unlike those of any other channel member. The relationship among them is not unlike the relationship between you and your boss. Both of you want to serve your organization's customers well, but your goals are different. Your boss might want you to work on the weekend, but you might not want to because you need to study for a test on Monday.

All channel members want to have low inventory levels but immediate access to more products. Who should bear the cost of holding the inventory? What if consumers don't purchase the products? Can they be returned to other channel members, or is the organization in possession of the products responsible for disposing of them? Channel members try to spell out details such as these in their contracts.

No matter how "airtight" their contracts are, there will still be points of contention among channel members. Channel members are constantly asking their partners, "What have you done (or not done) for me lately?" Wholesalers and retailers frequently lament that the manufacturers they work with aren't doing more to promote their products—for example, distributing coupons for them, running TV ads, and so forth—so they will move off store shelves more quickly. Meanwhile, manufacturers want to know why wholesalers aren't selling their products faster and why retailers are placing them at the bottom of shelves where they are hard to see. Apple opened its own retail stores around the country, in part because it didn't like how its products were being displayed and sold in other companies' stores.

Channel conflicts can also occur when manufacturers sell their products online. When they do, wholesalers and retailers often feel like they are competing for the same customers when they shouldn't have to. Likewise, manufacturers often feel slighted when retailers dedicate more shelf space to their own store brands. **Store brands** are products retailers produce themselves or pay manufacturers to produce for them. PC Cola is Superstore's store-brand equivalent of Coke, for example. Because a retailer doesn't have to promote its store brands to get them on its own shelves like a "regular" manufacturer would, store brands are often priced more cheaply. And some retailers sell their store brands to other retailers, creating competition for manufacturers.

Vertical versus Horizontal Conflict

The conflicts we've described so far are examples of vertical conflict. A **vertical conflict** is a conflict that occurs between two different types of members in a channel—say, a manufacturer, an agent, a wholesaler, or a retailer. By contrast, a **horizontal conflict** is a conflict that occurs between organizations of the same type—say, two manufacturers that each want a powerful wholesaler to carry only its products. Horizontal conflict can be healthy because it's competition driven.

Channel leaders like Walmart usually have a great deal of say when it comes to how channel conflicts are handled, which is to say they usually get what they want. But even the most powerful channel leaders strive for cooperation. A manufacturer with channel power still needs good retailers to sell its products, and a retailer with channel power still needs good suppliers from which to buy products. One member of a channel can't squeeze all the profits out of the other channel members and still hope to function well. Moreover, because each of the channel partners is responsible for promoting a product through its channel, to some extent they are all in the same boat. Each one of them has a vested interest in promoting the product, and the success or failure of any one of them can affect that of the others.

One type of horizontal conflict that is much more difficult to manage is **dumping**, or the practice of selling a large quantity of goods at a price too low to be economically justifiable in another country. Typically, dumping can be made possible by government subsidies that allow the company to compete on the basis of price against other international competitors who have to operate without government support, but dumping can also occur due to other factors. One goal of dumping is to drive competitors out of a market, then raise the price. Chinese garlic producers were accused of this practice in the early 2000s, and when garlic prices soared due to problems in China, other countries' producers were unable to ramp back up to cover the demand. U.S. catfish farmers have recently accused China of the same strategy in that market. While there are global economic agreements that prohibit dumping and specify penalties are assigned when it occurs, the process can take so long to right the situation that producers have already left the business.

Achieving Channel Cooperation Ethically

What if you're not Walmart or a channel member with a great deal of power? How do you build relationships with channel partners and get them to cooperate with you? One way is by emphasizing the benefits of working with your firm. For example, if you are a seller whose product and brand name are in demand, you want to point out how being one of its "authorized sellers" can boost a retailer's store traffic and revenues.

Oftentimes, companies produce informational materials and case studies showing their partners how they can help boost their sales volumes and profits. Channel partners also want to feel assured that the products coming through the pipeline are genuine and not knockoffs and that there will be a steady supply of them. Your goal is to show your channel partners that you understand issues such as these and help them generate business.

Sometimes the shoe is on the other foot—retailers have to convince the makers of products to do business with them instead of the other way around. Beauty.com, an online retailer, is an example. Selling perfumes and cosmetics online can be difficult because people want to be able to smell and feel the products like they can at a department store. But Beauty.com has been able to convince the makers of more than two hundred upscale cosmetic brands that selling their products on its website is a great deal and can increase their revenues. To reassure sellers that shoppers can get personalized service, Beauty.com offers the site's visitors free samples of products and the ability to chat live online with skin and hair care consultants (Evans, 2007).[1]

1. Evans, M. W. (2007, September 26). Beauty.com undergoes a revamp. *Women's Wear Daily, 194*(66), 17.

Producing marketing and promotional materials their channel partners can use for sales purposes can also facilitate cooperation among companies. In-store displays, brochures, banners, photos for websites, and advertisements the partners can customize with their own logos and company information are examples.

Educating your channel members' sales representatives is an extremely important part of facilitating cooperation, especially when you're launching a new product. The reps need to be provided with training and marketing materials in advance of the launch so their activities are coordinated with yours. Microsoft is a company that does a good job of training its partners. Before launching operating systems such as Windows 10, Microsoft provides thousands of its partners with sales and technical training ("Ten Mistakes," 2009).[2]

In addition, companies run sales contests to encourage their channel partners' sales forces to sell what they have to offer. Offering your channel partners certain monetary incentives, such as discounts for selling your product, can help, too.

What shouldn't you do when it comes to your channel partners? Take them for granted, says John Addison, the author of the book *Revenue Rocket: New Strategies for Selling with Partners*. Addison suggests creating a dialogue with them via one-on-one discussions and surveys and developing "partner advisory councils" to better understand their needs.

You also don't want to "stuff the channel," says Addison. Stuffing the channel occurs when, in order to meet its sales numbers, a company offers its channel partners deep discounts and unlimited returns to buy a lot of a product. The problem is that such a strategy can lead to a buildup of inventory that gets steeply discounted and dumped on the market and sometimes on gray markets. This can affect people's perceptions of the product and its brand name. And what happens to any unsold inventory? It gets reinserted back into the channel in the next accounting period, which takes a toll on the "stuffers'" sales numbers.[3]

Key Takeaways

2. *Ten mistakes to avoid with channel partners*. Irie Auctions. Accessed December 12, 2009.
3. Addison, J. (2003). *Revenue rocket: New strategies for selling with partners*. ProStar.

Channel partners that wield channel power are referred to as channel leaders. A dispute among channel members is called a channel conflict. A vertical conflict is one that occurs between two different types of members in a channel. By contrast, a horizontal conflict is one that occurs between organizations of the same type. Channel leaders are often in the best position to resolve channel conflicts. Vertical and horizontal marketing systems can help foster channel cooperation, as can creating marketing programs to help a channel's members all generate greater revenues and profits.

Review and Reflect

1. What gives some organizations more channel power than others?
2. Why do channel conflicts occur?
3. Which organization(s) has the most power to resolve channel conflicts?
4. How can setting up vertical and horizontal marketing systems prevent channel conflicts?
5. What are the different types of channel conflict?

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://kpu.pressbooks.pub/introductiontomarketing/?p=204#h5p-38

9.6 DISCUSSION QUESTIONS AND ACTIVITIES

Review and Reflect

1. What's the ideal number of marketing channels a firm should have?
2. Is a pull strategy superior in all markets?
3. The chapter listed a number of scenarios that can cause channel conflicts. What other factors can you think of that might cause channel conflicts?
4. Amazon.com has carved out a unique niche for itself as an intermediary. Amazon sells products on behalf of manufacturers such as Dell, Sony, and Calvin Klein as well as retailers such as Macy's and Toys"R"Us. How should Amazon be categorized? As a retailer, wholesaler, or broker?
5. Direct to consumer advertising for pharmaceuticals is a pull strategy designed to get consumers to ask their doctors to prescribe certain medications. What are the pros and cons of this practice? What might the pros and cons be for push strategies involving pharmaceuticals?
6. What are some brands that you think use selective or exclusive channels? How does channel choice, in those instances, influence consumer perceptions of value? In what situations might selective or exclusive channels add real value?
7. Of the channel functions described in the chapter, which is the most important and why? The least important? Why?
8. How does disintermediation benefit the consumer? How might it harm the consumer? Can you think of any revolutionary businesses created in the past few years due to disintermediation? Be sure to describe one not already mentioned in the chapter.

Activities

1. Think of some products you currently use. Are there any you would like to buy via different marketing channels? Do you think the products could be successfully marketed this way?
2. Describe a time in which you did business with a company and received conflicting information from its different channels (for example, a store's website versus a visit to the store). How did it affect your buying experience? Have you done business with the company since?
3. Break into groups and make a list of four to five different types of products. Decide which channels should be used to distribute each product. Present your findings to your class and see if they agree with you.
4. Make a list of products you believe failed because of poor marketing channel choices.

CHAPTER 10: PROMOTION (INTEGRATED MARKETING COMMUNICATIONS)

10.1 COMMUNICATION PROCESS AND MESSAGE PROBLEMS

Learning Objectives

1. Know the communication process.
2. Understand encoding and decoding.

The Communication Process

Think about which television shows you choose to watch, which magazines you read, and which radio stations you select. The **perceptual process** is how a person decides what to pay attention to and how to interpret and remember different things, including information in advertising. By selecting a magazine, a television show, or even an elective class in school, you're selecting what you're exposed to and deciding what gets your attention. However, your selection does not ensure you'll either pay attention or remember or correctly interpret what you see or hear.

Think about what else you are doing when you watch television, when you are studying, or when you are listening to the radio. It's a hot day in July, and you're enjoying a day at the beach. Your friends brought a speaker, and the volume is turned up so you can clearly hear the music. If you're listening to the music or talking to a friend at the beach while you're listening to the radio, do you hear or pay attention to the commercials? Do you remember which products were advertised? If you're with a friend and hear someone else say your name, do you pay more attention to the person talking about you than to your friend?

The same thing happens when you are watching a show, reading a magazine, or studying for a test. A notification appears on your phone or your friends show up and your attention shifts to them. With so many different types of distractions and technology, imagine how difficult it is for an advertiser to get you to pay attention much less remember the message. Do you remember the terms you memorized for a test a day later?

Do you know your friends' phone numbers and e-mail addresses, or do you just find their names on your contact list? To increase retention, advertisers may repeat the same message multiple times in different places, but they must be careful that consumers don't get so tired of the message that there is a negative effect.

The communication process illustrates how messages are sent and received, as shown in figure 10.1. The source (or sender) **encodes**, or translates, a message so that it's appropriate for the message channel—say, for a print advertisement, TV commercial, or store display—and shows the benefits and value of the offering. The receiver (customer or consumer) then **decodes**, or interprets, the message. For effective communication to occur, the receiver must interpret the message as the sender intended.

Message Problems

You're ready to go home on a Friday afternoon, and you hear someone mention an upcoming event on Saturday. However, you did not listen to all the details and assume the event is the next day, not the following Saturday. Since you already made other plans for the next day, you don't even consider showing up the following Saturday. Has this ever happened to you? You didn't show up at an event because you didn't interpret the message correctly? If you do not hear someone correctly, misread information, or misinterpret a message, you might think a product or service provides different benefits or is easier or harder to use than it really is.

Interference, or **noise**, can distort marketing messages. Factors such as poor reception, poor print quality, problems with a server, or a low battery can interfere with messages getting through. Interference includes any distractions receivers and senders face during the transmission of a message. For example, if you're studying for an exam while talking on the phone, the conversation may interfere with your ability to remember what you're reading. If a friend tells you a story, then you tell another friend, and that person tells someone else, will the message be the same after it is relayed to multiple people? If you miss class and borrow someone else's notes, will you understand what they mean? Not only must advertisers try to present consistent messages, they must also try to ensure that you interpret the message as they intended.

Purchasing a product provides the sender with **feedback**, which often tells the seller that you saw information and wanted to try the product. If you use any coupons or promotions when you buy a product, the advertiser knows which vehicle you used to get the information. Market research and warranty registration also provide feedback.

We tend to purchase products and remember information that has some relevance to our personal situation or beliefs. If you have no need for a product or service, you might not pay attention to or remember the messages used to market it. Advertisers also want you to remember their brands so that you'll think of their products/services when you need to make a purchase.

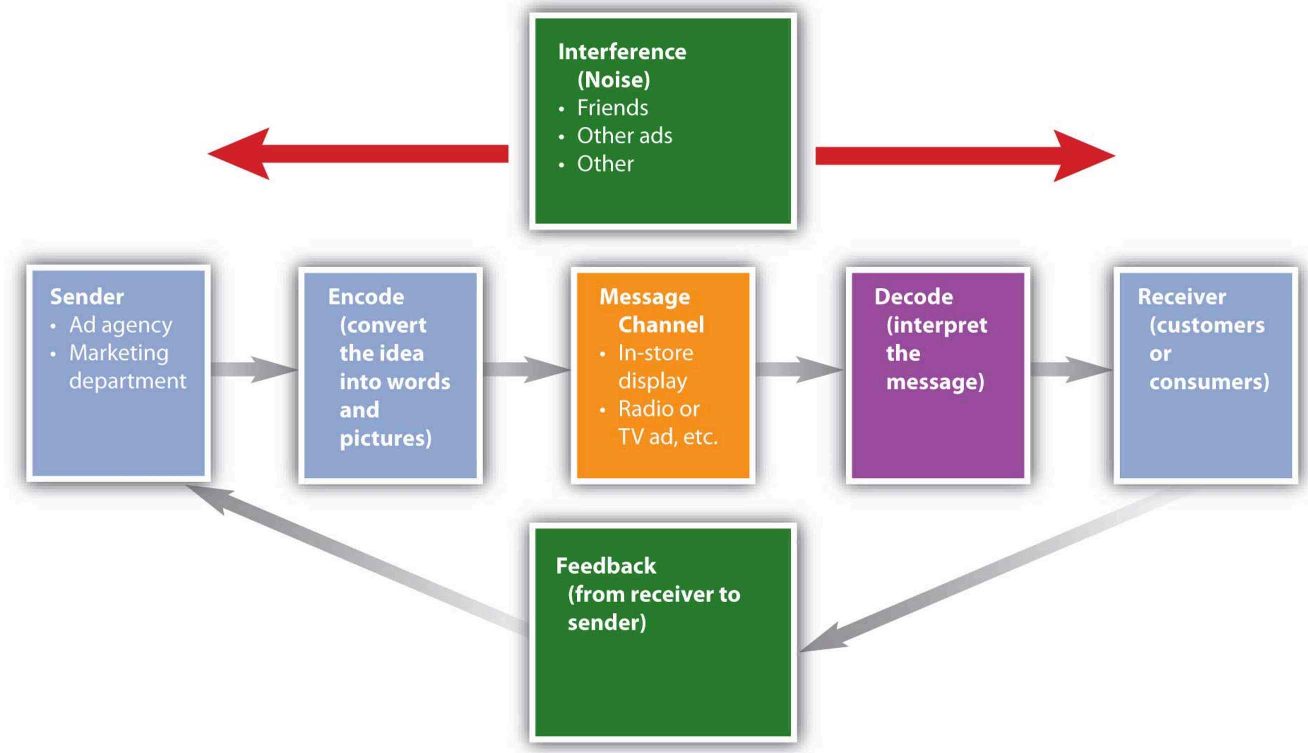


Figure 10.1. The Communication Process. *[Read full image description.]*

Key Takeaways

Many factors, such as a firm's marketing budget, the type of product, regulations, target customers, and competitors, influence what composes the promotion mix. Depending on what medium is used, marketers use the communication process to encode or translate ideas into messages that can be correctly interpreted (decoded) by buyers. However, marketers must determine how to get consumers' attention and avoid as much interference and noise as possible. Perceptual processes include how a person decides what to pay attention to and how to interpret and remember different things.

Review Question

1. Explain the communication process and factors that can interfere with interpretation of messages.
2. What is the perceptual process and how does it relate to promotion?
3. What is the difference between encoding and decoding a message?

10.2 INTEGRATED MARKETING COMMUNICATIONS (IMC)

Learning Objectives

1. Understand what integrated marketing communications (IMC) are.
2. Understand why organizations may change their promotional strategies to reach different audiences.

Once companies have developed products and services, they must communicate the value and benefits of the offerings to current and potential customers in both business-to-business (B2B) and business-to-consumer (B2C) markets. **Integrated marketing communications (IMC)** provide an approach designed to deliver one consistent message to buyers through an organization's promotions that may span all different types of media such as TV, radio, magazines, the Internet, mobile phones, professional selling, and social media. For example, Campbell's Soup Company typically includes the "Mm, mm good" slogan in the print ads it places in newspapers and magazines, in ads on the Internet, and in commercials on television and radio. Delivering consistent information about a brand or an organization helps establish it in the minds of consumers and potential customers across target markets. Although the messages are very similar, Campbell's uses two variations of commercials designed to target different consumers. Watch the following two YouTube videos (video 10.1 and video 10.2). You'll notice that the message Campbell's gets across is consistent. But can you figure out who is in the two target audiences?

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://kpu.pressbooks.pub/introductiontomarketing/?p=252#oembed-1

Video 10.1. Campbell's soup provides a good meal (a meal that's always popular with the group). Source: Tatum McCann – Campbell's Soup on ConchitaFan.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://kpu.pressbooks.pub/introductiontomarketing/?p=252#oembed-2

Video 10.2. So many possibilities for enjoying soup. Source: Campbells Soup Commercial on Brian Anastasio.

Changes in communication technology and instant access to information through tools such as the Internet and **social media** (online communication among interdependent and interconnected networks of organizations, people, and communities) explain one of the reasons why IMC have become so important. Consumers are also changing. With access to many sources of information and often an interest in interactive media, consumers may collect more product information on their own. Marketers must organize and assemble available information to build a consistent brand message and make it relevant. With IMC, organizations can coordinate their messages to build the brand and develop strong customer relationships while also helping customers satisfy their needs.

FedEx's two recent campaigns, the "We Understand" tagline (video 10.3) launched in 2009 and the "Solutions that Matter" tagline (video 10.4) launched in 2011, illustrate examples of IMC campaigns they used to deliver a consistent message across all media channels including television commercials, e-mails, social media, mobile marketing, direct mail, and the FedEx channel on YouTube (Dilworth, 2010).[1] Watch the following videos (video 10.3 and video 10.4) to see examples of commercials in the FedEx campaigns.

1. Dilworth, D. (2010, January 7). FedEx launches fully integrated campaign, featuring e-mail, direct mail. *Direct Marketing News.* Accessed August 15, 2023.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://kpu.pressbooks.pub/introductiontomarketing/?p=252#oembed-3

Video 10.3. The "We Understand" at FedEx shows customers that they understand and can satisfy their needs. Source: FedEx International Shipping Commercial: Kyle by fedexvideos.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://kpu.pressbooks.pub/introductiontomarketing/?p=252#oembed-4

Video 10.4. FedEx often uses a humourous appeal. Source: Fedex – Solutions that Matter on B-Reel Films.

Changing Media

Many consumers and business professionals seek information and connect with other people and businesses from their computers and phones. The work and social environments are changing, with more people having virtual offices and texting on their cell phones or communicating through social media sites. As the media landscape changes, the money that organizations spend on different types of communication will change as well.

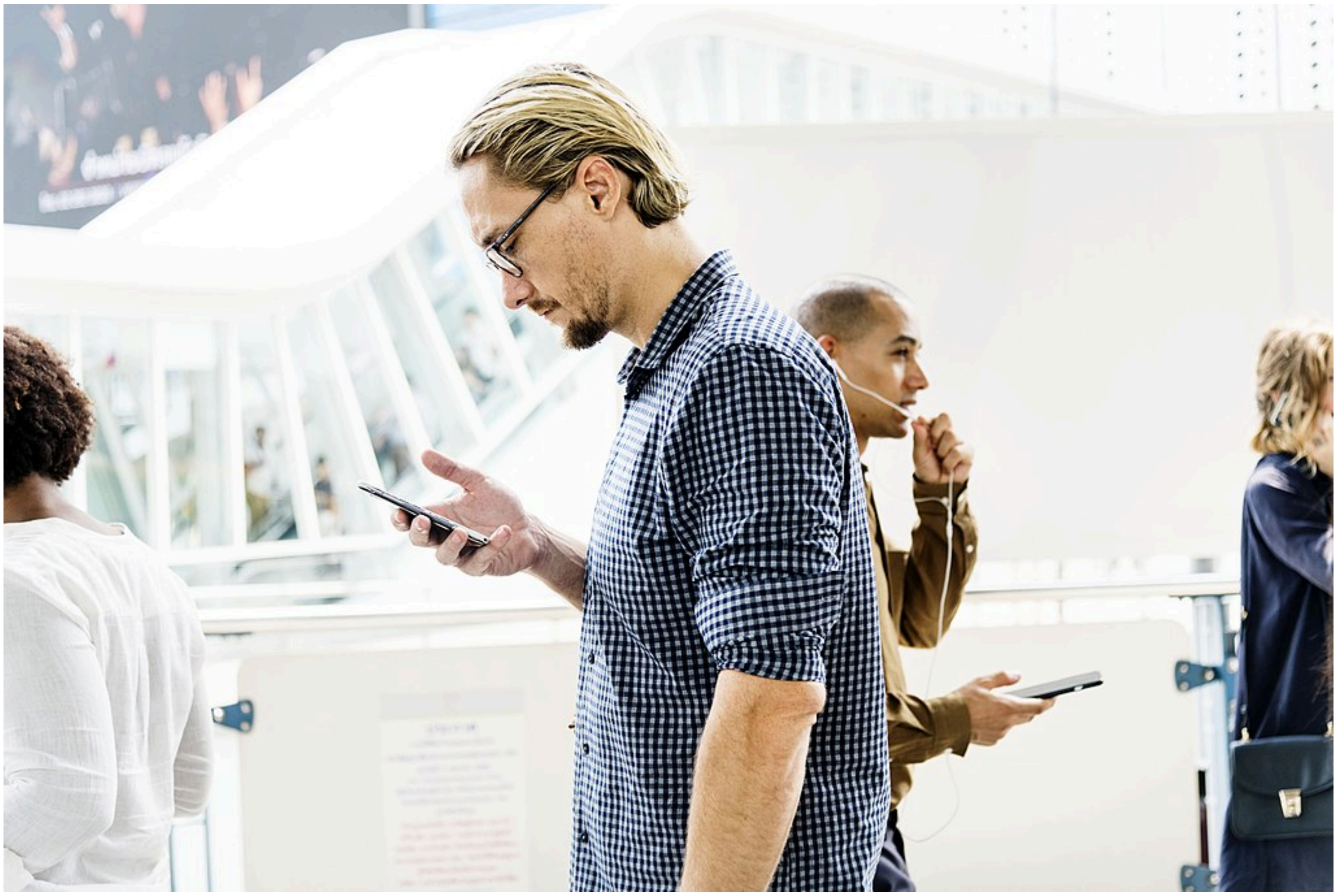


Figure 10.2. Some consumers feel lost without their cell phones. Phones such as the one pictured provide a source of information for consumers and a new medium for advertisers to deliver information.

Many university students are part of "Generation Z", and it is consumers from this generation who are driving the change toward new communication technologies. You might opt to get promotions via **mobile marketing**—say, from stores on your cell phone as you walk by them or via a mobile gaming device that allows you to connect to the web. Likewise, advertisements on Instagram and Facebook are popular as businesses continue to utilize more social media. For example, when Honda let people on Facebook use the Honda logo to give heart-shaped virtual gifts on Valentine's Day, over one and a half million people participated in the event and viewed the Honda Fit online in the process. Imagine the brand awareness this generated for the Honda Fit.

Figure 10.3. Marketing based on the Internet and wireless technology is popular.

Traditional media (magazines, newspapers, television) compete with media such as the Internet, texting, mobile phones, social media, user-generated content such as blogs, and YouTube as well as **out-of-home advertising** such as billboards and movable promotions. You have probably also seen ads on the inside of subway cars, in trains and buses, and even in bathroom stalls. These, too, are examples of out-of-home advertising.

Figure 10.4. The inside walls of many buses provide an opportunity for advertisers to reach commuters with their messages.

Key Takeaways

As the media landscape changes, marketers may change the type of promotions they use to reach their target markets. With changing technology and social media (e.g., Instagram), less money is being budgeted for traditional media such as magazines and more money is budgeted for “nontraditional media." Regardless of the type of media used, marketers use integrated marketing communications (IMC) to deliver one consistent message to buyers.

Review and Reflect

1. Explain the concept of integrated marketing communications.
2. How is the media used by organizations changing? What age group is driving the change?
3. What factors are causing the media landscape to change?
4. What are some different types of online media? Which types are most popular with university students?

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://kpu.pressbooks.pub/introductiontomarketing/?p=252#h5p-39

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://kpu.pressbooks.pub/introductiontomarketing/?p=252#h5p-40

Media Attributions

- Screen Time © Rawpixel is licensed under a CC0 (Creative Commons Zero) license
- Search-Engine-Marketing © Danard Vincente is licensed under a CC BY (Attribution) license
- CMBC Bus 8131 Interior © Hellosanta is licensed under a CC BY-SA (Attribution ShareAlike) license

10.3 THE PROMOTION (COMMUNICATION) MIX

Learning Objectives

1. Understand the different components of the promotion (communication) mix and why organizations may consider all components when designing their IMC program.
2. Understand the difference between types of communication that target many people at one time versus types of communication that target individuals.

Although the money organizations spend promoting their offerings may go to different media channels, a company still wants to send its customers and potential consumers a consistent message (IMC). The different types of marketing communications an organization uses comprise its **promotion or communication mix**, which consists of advertising, sales promotions, direct marketing, public relations and publicity, sponsorships (events and experiences), social media and interactive marketing, and professional selling. The importance of IMC will be demonstrated throughout the discussion of traditional media as well as newer, more targeted, and often interactive online media.

Advertising involves paying to disseminate a message that identifies a brand (product or service) or an organization being promoted to many people at one time. The typical media that organizations utilize for advertising include television, magazines, newspapers, the Internet, direct mail, and radio. Businesses also advertise on mobile devices and social media platforms.

Consumer sales promotions consist of short-term incentives such as coupons, contests, games, rebates, and mail-in offers that supplement the advertising and sales efforts. Sales promotions include promotions that are not part of another component of the communication mix and are often developed to get customers and potential customers to take action quickly, make larger purchases, and/or make repeat purchases.

In B2B marketing, sales promotions are typically called **trade promotions** because they are targeted to channel members who conduct business or trade with consumers. Trade promotions include trade shows and special incentives given to retailers to market particular products and services, such as extra money, in-store displays, and prizes.

Direct marketing involves the delivery of personalized and often interactive promotional materials to individual consumers via channels such as mail, brochures, Internet, e-mail, telephone, and direct-response advertising. By targeting consumers individually, organizations hope to get consumers to take action.

Professional selling is an interactive, paid approach to marketing that involves a buyer and a seller. The interaction between the two parties can occur in person, by telephone, or via another technology. Whatever medium is used, developing a relationship with the buyer is usually something the seller desires.

When you interview for internships, part-time or full-time jobs and try to convince potential employers to hire you, you are engaging in professional selling. The interview is very similar to a buyer-seller situation. Both the buyer and seller have objectives they hope to achieve. B2B marketers generally utilize professional selling more often than most B2C marketers. If you have ever attended an Epicure party or purchased something from an Isagenix or Stella & Dot representative, you've been exposed to professional selling.

Figure 10.5. Professional selling in a store.

Public relations (PR) involves communication designed to help improve and promote an organization's image and products. PR is often perceived as more neutral and objective than other forms of promotion because much of the information is tailored to sound as if it has been created by an organization independent of the seller. PR materials include press releases, publicity, and news conferences. While other techniques such as product placement and sponsorships, especially of events and experiences, tend to generate a lot of PR, the growth of expenditures and importance of sponsorships are so critical for so many companies that it is often considered a separate component in the communication mix. Many companies have internal PR departments or hire PR firms to find and create PR opportunities for them. As such, PR is part of a company's promotion budget and their IMC.

Sponsorships typically refer to financial support for events, venues, or experiences and provide the opportunity to target specific groups. Sponsorships enhance a company's image and usually generate PR. With an increasing amount of money being spent on sponsorships, they have become an important component of the promotion mix.

Key Takeaways

Technology is changing the way businesses and individuals communicate. Organizations use integrated marketing communications (IMC) to deliver a consistent message across all components of the promotion mix. The promotion (communication) mix is comprised of advertising, professional selling, public relations, sponsorships (events and experiences), sales promotion, direct marketing, and online media, including social media.

Review and Reflect

1. Define each component of the promotion (communication) mix.
2. Why is public relations considered a key part of the promotion mix?
3. Promotions can take many forms. Do you remember the ones that provide short-term

incentives to consumers?

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://kpu.pressbooks.pub/introductiontomarketing/?p=255#h5p-41

Media Attributions

- Photograph of a Woman Looking at Crockery © cottonbro studio is licensed under a All Rights Reserved license

10.4 MESSAGE STRATEGIES

Learning Objectives

1. Understand what a unique selling proposition is and how it is used.
2. Understand different types of promotion objectives.
3. Identify different message strategies.

Utilizing a Product's Unique Selling Proposition (USP)

When organizations want to communicate value, they must determine what message strategies work best for them. Smart organizations determine a product's **unique selling proposition (USP)**, or specific benefit consumers will remember. Domino's "Pizza delivered in 30 minutes or it's free" was a good example of a USP. Likewise, Nike's global slogan "Just Do It" helps athletes and other consumers realize their potential, and many consumers may think of all the things they do when they use Nike products. Watch video 10.5 on Nike to get an idea of the many different activities people from different countries do when using Nike products.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://kpu.pressbooks.pub/introductiontomarketing/?p=266#oembed-1

Video 10.5. People around the world use Nike products. Nike products are used for many different sports by all types of athletes. Source: nike just do it tv commercial on aga0205.

Nike and Coca-Cola have been extremely successful in adapting their promotions to different international markets. Both companies have very popular global brands. Sometimes the same promotions work in different cultures (countries), but others must be adapted for different international audiences—similar to the way products may be adapted for international markets. Companies must be careful of how words translate, how actions are interpreted, how actors (or models) look, and what different colours in ads may mean.

When deciding on a message strategy, organizations must consider the audience, the objectives of the promotion, the media, and the budget as well as the USP and the product. Knowing your audience and whom you are trying to reach is critical. The more advertisers know about the consumers (or businesses) exposed to the message, the better. Commercials for golf products shown during golf tournaments focus specifically on golfers. Other commercials, such as several recent ones for Gillette, may appeal to some people but may offend other consumers such as sensitive men. What do you think? Do you think Gillette is trying to reach a younger demographic? Do the ads make you more inclined to purchase Gillette products? See video 10.6 below.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://kpu.pressbooks.pub/introductiontomarketing/?p=266#oembed-2

Video 10.6. Gillette "We Believe: The Best Men Can Be" Commercial on FanReviews.

The Organization's Promotion Objectives

Advertisers must also examine their promotion objectives. What are they trying to accomplish with their promotions? Are they trying to build awareness for a new product, do they want to get people to take action immediately, or are they interested in having people remember their brand in the future? Building **primary demand**, or demand for a product category, such as orange juice, might be one objective, but a company also wants to build **selective demand**, or demand for its specific brand(s), such as Tropicana orange juice.

Other common objectives follow the attention, interest, desire, and action (**AIDA**) model. AIDA objectives typically are achieved in steps. First, companies focus on attention and awareness of a product or service, which is especially important for new offerings. If a consumer or business is not aware of a product or service, they won't buy it. Once consumers or businesses are aware of products or services, organizations try to get consumers interested and persuade them that their brands are the best. Ultimately, companies want consumers to take action or purchase their products or services.

Message Characteristics

Organizations must also determine what type of appeal to use and how to structure their messages. Some of the most common advertising appeals are humour, emotion, fear, rational, and environmentally conscious. If you were asked to name your favourite commercial, would it be one with a humourous appeal? Many people like commercials that use humour because they are typically entertaining and memorable. Humor sells, but firms must be careful that the brand is remembered. Some commercials are very entertaining, but consumers cannot remember the brand or product.

Each year, some of the most talked-about commercials take place during the Super Bowl. Many people watch the game just to see the commercials. Watch the following YouTube videos to see one of the top ten Super Bowl commercials of all time and how newer commercials rely on a similar approach. Notice how many of them use a humourous appeal. But do you think some are more effective than others? In other words, will viewers actually buy the product(s)?

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://kpu.pressbooks.pub/introductiontomarketing/?p=266#oembed-3

Video 10.7. Best Super Bowl commercials of all time on CNN.

Companies must also be careful when using fear appeals so consumers don't get too frightened. A few years ago, Reebok had to discontinue a TV ad because it upset so many people. The ad showed a bungee jumper diving off a bridge, followed by a shot of just his shoes hanging from the bridge by the bungee cord. That ad provoked people because it implied the jumper had fallen to his death.

Some companies use characters or mascots and/or jingles or slogans. Although media are changing, many characters and jingles have stayed the same for decades. When you think of Campbell's soup, do you think "Mm, mm good"? Just as the commercials viewed in the beginning of the chapter focused on "Mm, mm good," Campbell's has used the same slogan since the early 1900s, and the Campbell Soup Kids were created in 1904. Although Campbell's changed its slogan in 1998, the company still uses the "Mm, mm good" slogan in most of its promotions across different media. Apparently, the slogan still resonates with consumers. Other jingles, characters (mascots), or symbols you may be familiar with include the Jolly Green Giant, the Michelin Tire Man and the Pillsbury Doughboy. How successful are advertisers in making sure consumers know their brands? Try a brand quiz and see how many brand icons you know. Figure 10.6 and figure 10.7 also illustrate some of these characters and symbols.

Figure 10.6. The Michelin Man.

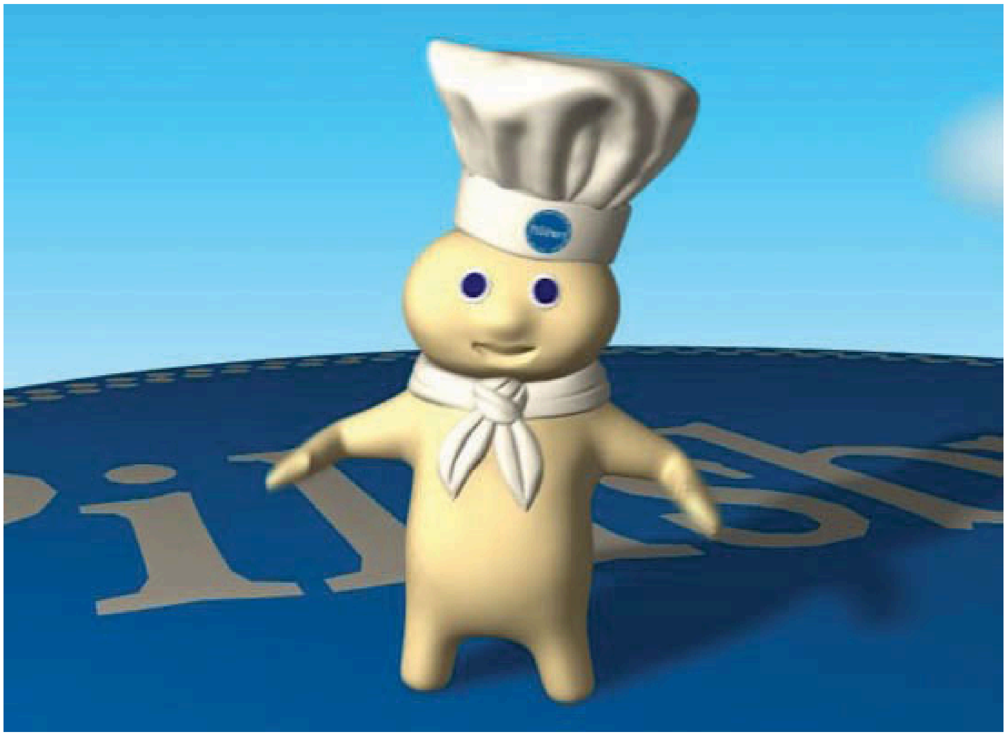


Figure 10.7. The Pillsbury Doughboy, Poppin' Fresh, is popular around the world.

Do you remember the Sleep Country jingle? Watch video 10.8 and see if you find yourself singing along.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://kpu.pressbooks.pub/introductiontomarketing/?p=266#oembed-4

Video 10.8. Sleep country Canada jingle on Benjamin Vickers.

Key Takeaways

Organizations must determine promotion objectives or what they want to accomplish with their promotions. For example, if a company has a new brand they may want to generate awareness or attention. Later, they may focus on persuading customers to buy their brand. Each brand needs to have a unique selling proposition (USP) for customers to remember and want their product. Depending on their objectives and their USP, marketers must develop a message strategy. Some companies prefer humour or rational appeals, while others may use a fear appeal.

Review and Reflect

1. Identify the different promotion objectives companies may use.
2. What are some of the message strategies organizations use?
3. What is the difference between an open-ended and a closed-ended message?

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://kpu.pressbooks.pub/introductiontomarketing/?p=266#h5p-47

Media Attributions

- Michelin Man 2013 North American International Auto Show © GabboT is licensed under a CC BY-SA (Attribution ShareAlike) license
- Pillsbury doughboy © Giora Eshkol is licensed under a CC BY-SA (Attribution ShareAlike) license

10.5 ADVERTISING AND DIRECT MARKETING

Learning Objectives

1. Understand the difference between media and vehicles.
2. Explain the similarities and differences between advertising and direct marketing.
3. Understand the benefits of direct marketing and what types of direct marketing organizations often utilize.

Advertising

Advertising is paid promotion with an identified sponsor that reaches many people at one time and can be repeated many times. One of the biggest issues an organization must address is which **medium** or media provides the biggest bang for the buck, given a product's characteristics and target market. For example, a thirty-second ad aired during Super Bowl XLII cost $2.7 million. Since 97.5 million people watched the game, the cost per ad was less than three cents per viewer. For Super Bowl LVII, the cost for a thirty-second spot increased to $7 million, and approximately 113 million viewers watched. However, do the ads pay off in terms of sales? Many advertising professionals believe many of the ads don't, yet the ads probably do create brand awareness or a PR type of effect since many people tune in and then talk about Super Bowl commercials.

Whether it's a commercial on the Super Bowl or an ad in a magazine, each medium (e.g., television, magazines, social media) has different advantages and disadvantages. Mobile phones provide continuous access to people on the go, though reception may vary in different markets. Radios, magazines, and newspapers are also portable. Radio advertising can be cost effective, but there are so many radio stations in each market that it may be difficult to reach all target customers. People are also typically doing another activity (e.g., driving or studying) while listening to the radio, and without visuals, as radio relies solely on audio. Both television and radio must get a message to consumers quickly. Although many people change channels or leave the room during commercials, television does allow for visual demonstrations. In an effort to get attention, advertisers changed the volume for television commercials for years. However, CRTC passed a regulation effective in 2009 that prohibits advertisers from increasing the volume level of commercials on television, though this doesn't apply to streaming services.

Some people save magazines for a long time, but advertisers must plan in advance to have ads in certain issues. With the Internet, both magazines and newspapers are suffering in terms of readership and advertising dollars. Many major newspapers have gone out of business. Other newspapers, such as *USA Today*, are free online, though printed copies are also available. The fact that local retailers get cheaper rates for advertising in local newspapers may encourage both local businesses and consumers to support newspapers in some markets.

Direct Marketing

Direct marketing allows organizations to target a specific set of customers, measure the return on investment (ROI), and test different strategies before implementing them to all targeted consumers. Direct marketing can be personalized as a call for consumers to take **action**, which is a desired response. However, direct marketing is intrusive, and many consumers may ignore attempts to reach them. Catalogs and **direct mail** provide popular alternatives for many marketers, though the volume of mail sent may drop significantly in a weak economy.

Telemarketing involves direct marketing by phone. You may have just sat down for dinner when the phone rings with a local charity calling to raise money. The calls always seem to come at dinner or at other inconvenient times. Although expensive, telemarketing can be extremely effective for charitable organizations and different service firms and retailers. However, because some consumers have negative perceptions of telemarketers, many organizations do not use this method. The Do Not Call Registry (USA), or **Do Not Call List** (Canada) prevent organizations from calling any numbers registered with the government.

Direct response advertising includes an offer and a call to action. You may be watching television when an interesting product is shown. The announcer says, "Call now and receive a bonus item." They want consumers to call to purchase the product or to get more information. The Internet provides the preferred direct response medium for direct marketing because it is less expensive and easier for the organization to utilize.

Key Takeaways

Advertising is paid for communication that has an identified sponsor and reaches many people at one time. Once companies decide on different media (e.g., magazines or television), they must also select specific vehicles (e.g., *Sports Illustrated* or the Super Bowl). Direct marketing allows organizations to target specific individuals and use direct response advertising. Telemarketing, the Internet, direct mail, and catalogues are popular direct marketing methods.

Review and Reflect

1. Why do you think so many organizations rely on advertising to communicate with customers and potential customers?
2. Why is direct marketing successful even though some consumers may not like it?
3. Let's test your knowledge about the chapter you just read!

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://kpu.pressbooks.pub/introductiontomarketing/?p=261#h5p-42

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://kpu.pressbooks.pub/introductiontomarketing/?p=261#h5p-43

10.6 SALES PROMOTIONS

Learning Objectives

1. Learn about different types of sales promotions companies use to get customers to buy their products.
2. Understand the different types of sales promotions companies use with their business customers.
3. Understand why sales promotions have become such an integral part of an organization's promotion mix.
4. Differentiate between push and pull strategies.

Sales promotions are activities that supplement a company's advertising, PR, and professional selling efforts. They create incentives for customers to buy products more quickly and make larger purchases. Sales promotions are often temporary, but when the economy is weak, sales promotions become even more popular for consumers and are used more frequently by organizations.

Consumer Sales Promotions

Samples, coupons, premiums, contests, and rebates are examples of consumer sales promotions. Do you like free samples? Most people do. A **free sample** allows consumers to try a small amount of a product so that hopefully they will purchase it. The strategy encourages interaction with a product and builds awareness. You have probably purchased a product that included a small free sample with it—for example, a small amount of conditioner packaged with your shampoo. Have you ever gone to a store, like Costco, that provided free samples of different food items? Although sampling is an expensive strategy, it is usually very effective for food products. People try the product, and the person providing the sample tells them about the product and mentions any special prices for it.

In many retail grocery stores, coupons are given to consumers with the samples. **Coupons** provide an immediate price reduction off an item. The amount of the coupon is later reimbursed to the retailer by the manufacturer. The retailer gets a handling fee for accepting coupons. When the economy is weak, more consumers cut out coupons and look for special bargains such as double coupons and buy-one-get-one-free coupons. They may also buy more store brands.

Figure 10.8. Consumers cut out and use more coupons in a weak economy.

While many consumers cut coupons from flyers, other consumers find coupons online or on their cell phones. **Point-of-purchase displays**, including coupon machines placed next to products in stores, encourage consumers to buy a brand or product immediately. When a consumer sees a special display or can get a coupon instantly, manufacturers hope the sales promotion will increase sales. Stores may also provide coupons for customers with loyalty cards to encourage them to select particular brands and products.

Mobile marketing and the Internet provide consumers in international markets access to coupons and other promotions. In India, the majority of coupons used are digital, while paper coupons have the largest share in the United States. Over 80 percent of diapers are purchased with coupons; imagine how much easier and less wasteful digital coupons scanned from a mobile phone are for both organizations and consumers.

Other sales promotions may be conducted online and include incentives such as free items, free shipping, coupons, and sweepstakes. For example, many online merchants offer free shipping and free return shipping to encourage consumers to shop online. Some firms have found that the response they get to their online sales promotions is better than the response they get to traditional sales promotions.

Another popular sales promotion for consumers is a premium. A **premium** is something you get either for free or for a small shipping and handling charge with your proof of purchase (sales receipt or part of package). Remember wanting your favourite cereal because there was a toy in the box? The toy is an example of a premium. Sometimes you might have to mail in a certain number of proofs of purchase to get a premium. The purpose of a premium is to motivate you to buy a product multiple times. What many people don't realize is that when they pay the shipping and handling charges, they may also be paying for the premium.

Contests or sweepstakes also attract a lot of people. **Contests** are sales promotions people enter or participate in to have a chance to win a prize. Roll up the Rim at Tim Horton's and the Monopoly Game at McDonald's are both examples. The organization that conducts the sweepstakes or contest hopes you will not only enter its contest but buy more food when you do.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://kpu.pressbooks.pub/introductiontomarketing/?p=274#oembed-1

Video 10.9. Tim Hortons roll up the rim to win tv ad 2021 on LittleKiwiLovesBauhaus.

As with other sales promotion tools, the idea is to get you to buy a product and more specifically to make repeat purchases.

Loyalty programs are sales promotions designed to get repeat business. Loyalty programs include things such as frequent flier programs, hotel programs, and shopping cards for grocery stores, drugstores, and restaurants. Sometimes, point systems are used in conjunction with loyalty programs. After you accumulate so many miles or points, an organization might provide you with a special incentive such as a free flight, free hotel room, or free sandwich. Many loyalty programs, especially those used by hotels and airlines, have partners to give consumers more ways to accumulate and use miles and points.

Figure 10.9. Loyalty Programs such as President Choice's gives consumers the opportunity to earn points and spend them on items.

Rebates are popular with both consumers and the manufacturers that provide them. When you get a rebate, you are refunded part (or all) of the purchase price of a product after completing a form and sending it to the manufacturer with your proof of purchase. The trick is completing the paperwork on time. Although different types of sales promotions work best for different organizations, rebates are very profitable for companies because many consumers forget or wait too long to send in their rebate forms. Consequently, they do not get any money back. Rebates sound great to consumers until they forget to send them back.

Sales contests, which are often held by manufacturers or vendors, provide incentives for salespeople to increase their sales. Often, the contests focus on selling higher-profit or slow-moving products. The sales representative with the most sales of the product wins a prize such as a free vacation, company recognition, or cash.

Trade allowances give channel partners—for example, a manufacturer's wholesalers, distributors, retailers, and so forth—different incentives to push a product. One type of trade allowance is an **advertising allowance** (money) to advertise a seller's products in local newspapers. An advertising allowance benefits both the manufacturer and the retailer. Typically, the retailer can get a lower rate than manufacturers on advertising in local outlets, which saves the manufacturer money. The retailer benefits by getting an allowance from the manufacturer.

Another sales promotion that manufacturers, such as those in the tool or high-tech industries, offer businesses is **training** to help their salespeople understand how the manufacturers' products work and how consumers can be enticed to buy them. Many manufacturers also provide in-store **product demonstrations** to show a channel partner's customers how products work and answer any questions they might have. Demonstrations of new video game systems and computers are extremely popular and successful in generating sales.

Free merchandise, such as a tool, television, or other product produced by the manufacturer, can also be used to get retailers to sell products to consumers. In other words, a manufacturer of televisions might offer the manager of a retail electronics store a television to push its products. If a certain number of televisions are sold, the manager gets the television. Have you ever been to an electronics store or a furniture store and felt like the salesperson was pushing one particular television or one particular mattress? Perhaps the salesperson was getting **push money**, or a cash incentive from the manufacturer to *push* a particular item. The push to sell the item might be because there is a large amount of inventory of it, it is being replaced by a new model, or the product is not selling well. Table 10.1 recaps the different types of sales promotions.

Table 10.1 Examples of Sales Promotions

Consumer Sales Promotions
Coupons
Sweepstakes or contests
Premiums
Rebates
Samples
Loyalty programs
Point-of-purchase displays

Push versus Pull Strategy

Businesses must also decide whether to use a push strategy, a pull strategy, or both push and pull strategies. A **push strategy** involves promoting a product to businesses (middlemen), such as wholesalers and retailers, who then *push* the product through the channel promoting it to final consumers. Manufacturers may set up displays in retail outlets for new products or provide incentives such as price discounts to the retailer so the retailer can promote or push the product to consumers.

Companies use a **pull strategy** when they target final consumers with promotions. In other words, a company promotes its products and services to final consumers to *pull* consumers into the stores or get the consumers asking for the product. When a company sends coupons to its consumers, it hopes the consumers will take the coupons (sales promotion) to the store and buy the product. A manufacturer promotes its new product on television to consumers and places coupons in newspaper inserts in the hopes that consumers will demand the product. Their pull causes wholesalers and retailers to buy the product to try to meet the demand.

Many manufacturers use both a push strategy and a pull strategy to promote their products and services to both final consumers and their trade partners (e.g., retailers and wholesalers). Figure 10.10 shows how a push strategy differs from a pull strategy.

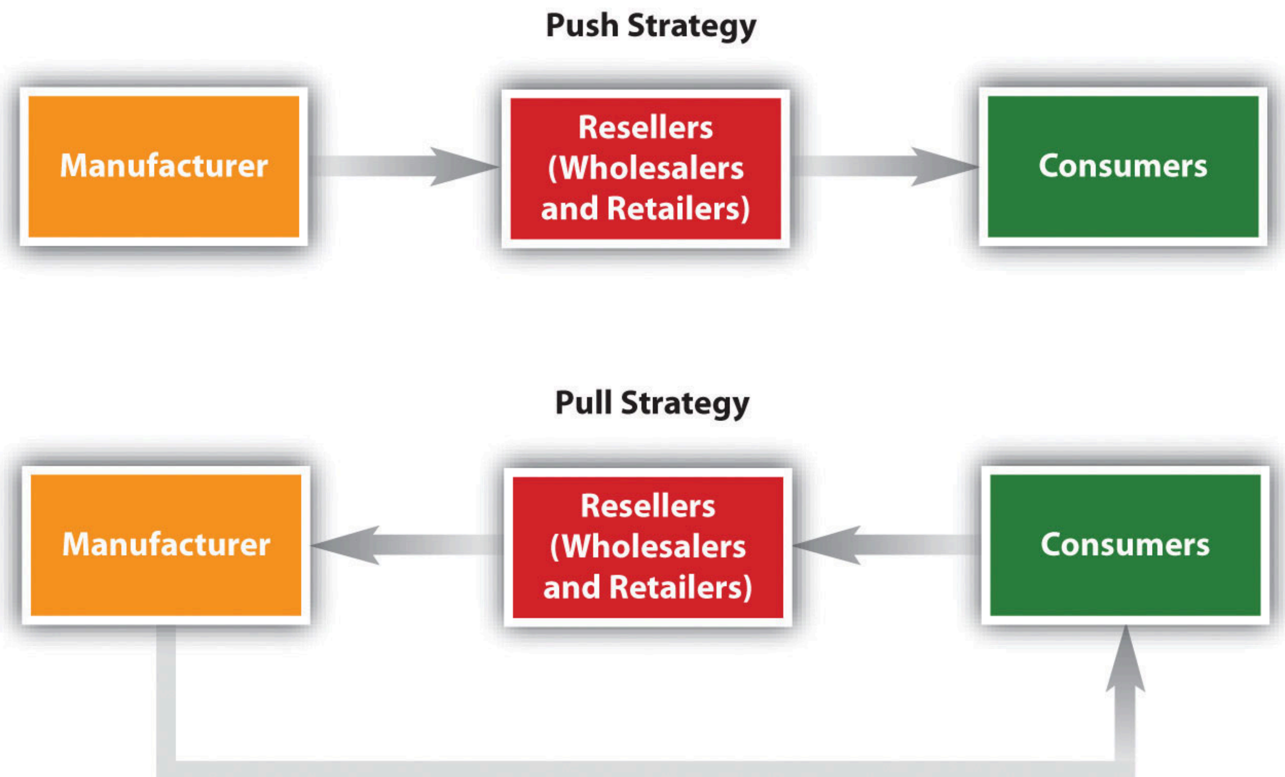


Figure 10.10. A Push versus a Pull Strategy.

Key Takeaways

Companies use sales promotions to get customers to take action (make purchases) quickly. Sales promotions increase the awareness of products, help introduce new products, and often create interest in the organizations that run the promotions. Coupons, contests, samples, and premiums are among the types of sales promotions aimed at consumers. Trade promotions, or promotions aimed at businesses, include trade shows, sales contests, trade allowances, and push money.

Review and Reflect

1. What are the objectives of sales promotions?
2. Identify and provide an example of three sales promotion tools targeted at consumers.
3. Explain the difference between a push strategy and a pull strategy.

Media Attributions

- Coupon Pile Stock Photo © Carol Pyles is licensed under a CC BY (Attribution) license
- PC optimum card © Justin Wong is licensed under a CC BY (Attribution) license
- A Push versus a Pull Strategy © University of Minnesota Libraries is licensed under a CC BY-NC-SA (Attribution NonCommercial ShareAlike) license

10.7 PUBLIC RELATIONS ACTIVITIES AND TOOLS

Learning Objectives

1. Understand the concept of public relations and why organizations allocate part of their promotional budgets to it.
2. Understand what the different types of public relations tools are.
3. Explain how companies use different public relations tools to their advantage.

Public Relations

Good public relations (PR) efforts can help a firm create rapport with its customers, promote what it has to offer, and supplement its sales efforts. PR puts a positive spin on news stories and is often perceived as more neutral and objective than other forms of promotion because much of the information is tailored to sound as if it has been created by an organization independent of the seller. PR materials include press releases, publicity, and news conferences. Companies also use PR to promote products and to supplement their sales efforts.

Many organizations that engage in PR have in-house PR departments, media relations groups, or investor relations groups. Other organizations sometimes hire external PR firms or advertising agencies to find and create PR opportunities for them. PR specialists must build relationships with people at different media outlets to help get their stories placed. Universities, hospitals, government organizations, and charitable organizations often hire PR people to help disseminate positive information about their services and to increase interest in what they do. As such, PR is part of a company's promotion budget and their integrated marketing communications.

PR specialists also help political campaign managers generate positive information in the press. PR specialists can handle crisis communication and create a positive perception of situations when something bad happens to an organization or person. In foreign markets, PR agencies may help ensure product concepts are understood correctly. Getting all PR stories placed in desired media is not guaranteed. A lot of time and effort is spent getting to know people who can help publish or announce the information to the public.

Companies use a variety of tools for their PR purposes, including annual reports, brochures and magazines for both employees and the public, websites to show good things they're doing, speeches, blogs, and podcasts. Some of the most commonly used PR tools include press releases and news conferences. Sponsorships, product placements, and social media also generate a lot of positive PR.

Press Releases

Part of a company's PR efforts includes putting a positive spin on news stories. A **press release** is a news story written by an organization to promote a product, organization, or person. Consider how much better a story or a product recommendation is likely to be perceived when the receiver thinks the content is from an objective third party rather than an organization writing about itself. PR personnel frequently prepare press releases in the hopes that the news media will pick them up and disseminate the information to the public. However, there is no guarantee that the media will use a press release. Some of the PR opportunities companies may seek to highlight in their press releases include charity events, awards, new products, company reports, and things they are doing to improve the environment or local community.

An Example of a Press Release to Show How a Company Helps Feed the Hungry and Restock Food Banks around the Country

Stubb's Teams Up with Mobile Loaves & Fishes to Launch "Feed the World Tour"

Tuesday, May 26, 5 p.m. @ Wooldridge Park

AUSTIN—Stubb's Legendary Kitchen will kick off its 12-city "Feed the World Tour" this Tuesday, May 26 at 5 p.m. in Wooldridge Square Park, 9th and Guadalupe Streets, by serving chopped beef sandwiches with famous Stubb's barbecue sauce to homeless and working poor people from one of Mobile Loaves & Fishes' special catering trucks, which serve people in six cities every day.

Kurt Koegler, president of Stubb's Legendary Kitchen, will join Alan Graham, Mobile Loaves' founder/president, and volunteers from the company and MLF volunteers to serve the sandwiches and distribute Stubb's T-shirts. The Austin-based company chose Mobile Loaves as its partner to kick off the "Feed the World Tour," which is named for the stated mission of Texas Bar-B-Q legend, C.B. "Stubb" Stubblefield, who said: "I was born hungry I want to feed the world."

After leaving Austin, the tour will swing through the Southeast, up the East Coast and into Washington, D.C. where the Stubb's team will compete at the annual BBQ Battle on Pennsylvania Avenue. In each city, Stubb's Legendary Kitchen and company president Koegler will barbecue for the homeless and help restock depleted food banks.

"Stubb was a cook but more than that, a lover of people. The values that guided his life still guide the company that bears his name. Stubb's life truly is in every bottle of sauce and marinade we make. All of us at Stubb's are thrilled to be working with Mobile Loaves and bringing all of Stubb's Love and Happiness to those who all too often need it most" said Koegler.

"The economy has placed greater demand on organizations like Mobile Loaves and local food banks, so we couldn't think of a better time to show our support," Koegler said. "Stubb's greatest joy was feeding the people who came from all around for a taste of his famous barbecue, and it is an honour for us to fulfill his mission with our Feed the World Tour."

"We're honoured to be selected as Stubb's charity partner for the kick-off of this awesome tour," Graham said. "As someone who once was poor and hungry, C.B. 'Stubb' Stubblefield is smiling in heaven to know that his creation is helping feed brothers and sisters on the street here in Austin and around the country. We look forward to connecting Stubb's with people on the streets here and in the other cities we serve" ("Stubbs Teams," 2009).[1]

Press releases and other PR activities can also be used for damage control purposes. **Crisis communication** is the process of countering the extreme negative effects a company experiences when it receives bad publicity.

1. *Stubbs teams up with MLF to launch "Feed The World" tour! #homeless*. (2009, May 22). Mobile Loaves & Fishes. Accessed December 9, 2009.

Domino's Pizza was forced to engage in damage control after two of its employees created a video doing disgusting things to pizzas and then posting it to YouTube. If the publicity is particularly bad, as it was for Domino's, a company might hold a press conference or prepare a speech for the top executive to give. For example, the president of Domino's spoke on video to try to control the damage to Domino's business. The company then posted video 10.10 on YouTube.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://kpu.pressbooks.pub/introductiontomarketing/?p=281#oembed-1

Video 10.10. Patrick Doyle, the president of Domino's, responds on YouTube to a video created by two Domino's employees, who were subsequently fired by the pizza chain (an example of crisis communication). Source: Dominos Pizza President Patrick Doyle Apologizes for Employees' YouTube Prank on PublicApologyCentral.

Just as press releases can be used to promote the good things an organization or person does, press conferences can also be held when a company is simply seeking good PR. An organization might hold a press conference to announce that it has hired new, highly sought-after executives, that it is breaking ground on a new building, or to talk about its community service projects.

Sponsorships

Many of you have heard of the Staples Center (figure 10.11), where the Los Angeles Lakers play basketball. But imagine how many *more* people heard about the Staples Center following the announcement that Michael Jackson's public memorial would take place there. All the news stories talking about tickets and information about the memorial provided "free" publicity for the centre and for the office supplies store, Staples, for which the centre is named. Staples paid $375 million for the naming rights of the centre, which was built in 1998 ("Crypto.com Arena," 2009).[2] Indeed, the chain has gotten a huge return on its sponsorship of the centre.

2. Crypto.com Arena. (2009, November 24). In *Wikipedia*. Accessed December 9, 2009.

Figure 10.11. The Staples Center in Los Angeles is an example of a venue sponsorship. The office supplies store Staples paid for the naming rights to the stadium.

A **sponsorship** involves paying a fee to have your name associated with different things, such as the following:

- A particular venue (Roger's Arena; BMO Field)
- A superstar's apparel (Tiger Woods' line of Nike hats and shirts)
- An event (the National Bank Open (tennis))
- A cause (Bell's Let's Talk Day (mental health))
- An educational workshop or information session
- A NASCAR vehicle (by Pfizer, the maker of Viagra; see figure 10.12)

Even though sponsorships are expensive, they are growing in popularity as corporations seek ways to strengthen their corporate image, increase their brand awareness, differentiate their products, and reach their target markets. Worldwide, corporations spent over $43 billion on sponsorships in 2008 (“Events Sponsorships,” 2008);[3] however, the recession has taken a toll, and the new stadium for the Dallas Cowboys still doesn’t have a sponsor with naming rights. Over two-thirds of the sponsorships in North America are for sports, followed by entertainment (e.g., music and performing arts) and causes (e.g., the Susan G. Komen Race for the Cure and “alternative spring breaks” for college students). Other organizations and structures, such as buildings and bridges, may seek sponsorships as a means of generating revenue. Imagine how many people drive across the Brooklyn Bridge in New York or the Golden Gate Bridge in San Francisco and how much awareness an organization would get if they were allowed to pay to have their name on either of the bridges.

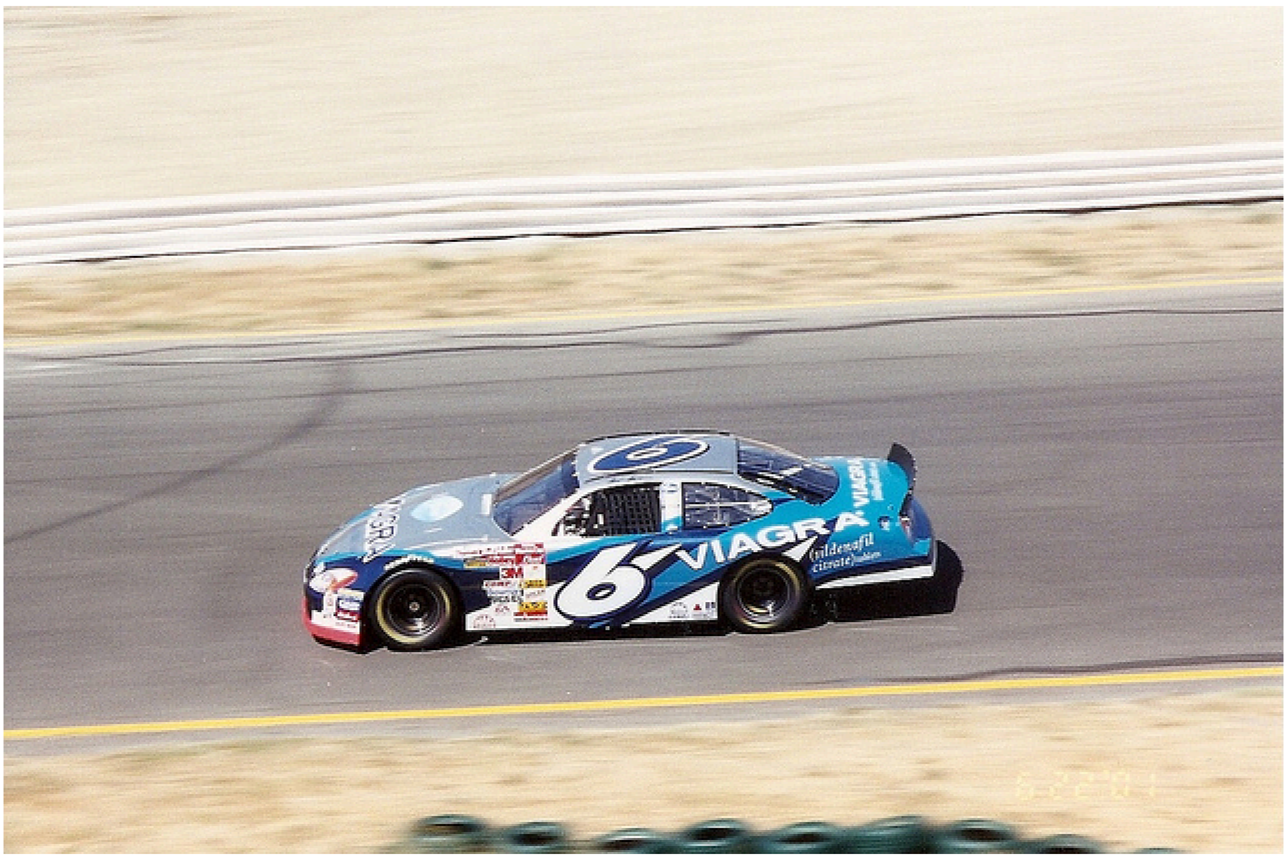


Figure 10.12. Pfizer, the maker of Viagra, is one of the many companies that sponsor NASCAR racing teams.

Cause-related marketing is one of the fastest-growing types of sponsorships. It occurs when a company

3. Events and sponsorship 2008: Marketing fact book. (2008, July 15). *Marketing News, 26*.

supports a nonprofit organization in some way. For example, Tim Hortons sponsors camps for disadvantaged youth, and Bell Canada raises money for mental health awareness. Cause-related marketing can have a positive PR impact by strengthening the affinity people have for a company. However, companies can engage in marketing that intends to deceive or distract its consumers as you will learn in chapter 11.

Product Placements

Getting a company's product included as part of a television show, movie, video game, special event, or book is called a **product placement**. When you watch movies or tv shows, you often see different Coca-Cola products being consumed. Apple placed products in twenty-four movies that reached number one between August 1, 2008 and August 1, 2009, while Ford products appeared twenty times and Budweiser products appeared twelve times ("2009 brandcameo," 2009).[4]

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://kpu.pressbooks.pub/introductiontomarketing/?p=281#oembed-2

Video 10.11. How Coca-Cola 'Places' Products in Movies and TV by The Coca-Cola Co..

Typically, a company pays a fee to have one of its products placed. But sometimes the company pays nothing if the product is needed for a show in some way or as part of the plot. FedEx did not pay for product placement in the movie *Cast Away* ("Cast Away," 2009).[5] Product placement can improve a brand's awareness and exposure and often increase its sales. Given the number of exposures an organization receives with product placement, the cost of a product placement can be less expensive than commercials might cost.

Although most product placements appear in television shows and movies, corporations are pursuing other options. For example, they are now placing products in online videos, computer games, and books. The number of product placements is expected to increase as consumers engage with entertainment via streaming services.

4. *2009 brandcameo product placements awards*. (2009). Brandchannel.com. Accessed on August 15, 2023.
5. Cast Away. (2009, December 5). In *Wikipedia*. Accessed December 9, 2009.

Key Takeaways

Public relations (PR) are the activities organizations engage in to create a positive image for a company, product, service, or person. Press releases, a commonly used PR tool, are designed to generate publicity, but there is no guarantee the media will use them in the stories they write. Sponsorships are designed to increase brand awareness, improve corporate image, and reach target markets. Product placements are designed to generate exposure, brand awareness, and interest.

Review and Reflect

1. Why are public relations efforts funded by firms?
2. Who does the public relations for a firm?
3. Why are sponsorships becoming more popular?
4. Here are a few examples to apply your knowledge about Public Relations:

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://kpu.pressbooks.pub/introductiontomarketing/?p=281#h5p-44

Media Attributions

- Staplescenter © Carol M. Highsmith is licensed under a CC0 (Creative Commons Zero) license
- Pfizer's Viagra NASCAR car © Jay Bonvouloir is licensed under a CC BY-NC-ND (Attribution NonCommercial NoDerivatives) license

10.8 DISCUSSION QUESTIONS AND ACTIVITIES

Review and Reflect

1. Provide an example of how an organization, such as your university, uses different media to present a consistent message using integrated marketing communications (IMC). Who is their target, what is their message, and what media should they use?
2. In your opinion, what are the advantages and disadvantages of advertising on the radio, in magazines, on television, through direct marketing, and on the Internet?
3. Give an example of an organization's promotional strategy and how it gets consumers to select it, pay attention to it, and retain it as intended.
4. Give an example of the unique selling proposition of one of your favourite brands.
5. Think about and provide examples of two different message strategies you've seen in commercials in the last year. Why do you think they were or were not effective?
6. Can you think of any times when a commercial was entertaining, but it was difficult to remember the brand or product.
7. As the manufacturer of small appliances (i.e. Soda Stream), explain how you might plan to use both a push strategy and pull strategy.
8. What type of sales promotions do you feel are most effective for university students?
9. Explain three different types of public relations tools that a company can use to generate interest in its products.
10. What types of sponsorships are becoming more popular and why?
11. What are the risks of posting information on social media?

Activities

1. Identify your three favourite and least favourite commercials and explain why you like or don't like each one. Notice whether there are similarities in your preferences. In other words, are your favourite commercials humourous? Are your least favourite commercials annoying?
2. Create a message strategy for a cover letter to go with your résumé.
3. Outline three message strategies that you feel would get consumers' attention in television commercials and in print ads.
4. Create a sales promotion you think will attract a lot of students to your favourite fast-food restaurant.
5. You are applying for a job in an advertising agency. Write an ad about yourself that explains your unique selling proposition and why they should hire you.
6. What media do you think would be most (and least) effective for university students? Why?
7. Create a product review or a blog for your favourite fast-food restaurant that you would like other people to see on social media. Where would you post it?
8. Identify your favourite television show and explain what product placements you think would be successful. Would you change your recommended product placements if you were making recommendations for shows that appealed more to parents or grandparents?
9. You've been asked to create a new social media platform. What would you name it and what would you suggest to make it better than existing platforms?

CHAPTER 11: ETHICS & SOCIAL RESPONSIBILITY

11.1 MARKETING ETHICS

Learning Objectives

1. Discuss how social media has altered the advertising landscape
2. Explain the influence of advertising on consumers

Legal and Ethical Constraints on Marketing and Advertising

As the most visible form of marketing, advertising is one of the principal motors of a capitalist economy and also one of the largest modern industries: the global advertising market was projected to be at $790 billion in 2022 (the United States was the largest national market at $318 billion). Advertisements not only inform consumers of available products, services, promotions, and sales, they also serve a vital business function by allowing brands to distinguish themselves from competitors, which rewards firms for improving the quality of their offerings. Advertising is a key ally for innovation because advertising allows firms to create awareness and desire among consumers to buy new products. Despite these benefits, the advertising industry has long been suspected of using devious tactics. As a result, many consumers are highly skeptical and even disdainful of advertising in general.

Advertisers sometimes take the risk of shocking the public with their ads because they are seeking to break through the communications clutter of modern life. Today, the average person is exposed to a great number of advertising messages every day, with estimates running from several hundred to several thousand ads per day. To attract the public's attention, advertisers may resort to appeals and tactics of questionable taste. Social critics point to advertising as one of the most objectionable aspects of our consumer economy. From the billboards that blot out the countryside along highways, to the television shows that are interrupted every few minutes by outlandish commercials, to the mailboxes and e-mail accounts that become cluttered with direct marketing, advertising methods are often criticized for being intrusive, offensive, silly, and even dishonest.

Figure 11.1. Advertisers are continually exploring new media for advertising as they seek to break through the promotional clutter of modern life to attract the attention of consumers. Here, the Budweiser beer logo is imprinted on the top of a house adjacent to the Wrigley Field baseball park in Chicago, Illinois.

As a result of the perceived abuses of advertising, national governments all over the world have imposed laws and regulations on the advertising industry. Every country or region has its own area of sensitivity. In many Muslim nations, for example, there are prohibitions against advertisements that display nudity or offend traditional notions of decency. France and Germany prohibit comparative advertisements in which one brand claims to be superior to another.

The modern marketplace abounds with products that pose difficult challenges for regulators. Consider the example of tobacco and alcohol. These products can be harmful or dangerous, but many people nonetheless desire to consume them. Most Western countries have decided that it is counterproductive to outlaw the sale of tobacco and alcohol, as doing so may create a black market and stimulate organized crime. The official response of most governments has been to allow the sale of such products but to prohibit or strictly constrain their advertising. Other product categories that tend to be governed by specific advertising regulations include pharmaceuticals and financial products.

Another common type of marketing regulation is one that prohibits advertisements from making false, deceptive, or misleading claims. In most countries, such rules are enforced by the ministry for consumer affairs. In the United States, rules against deceptive advertisements are promulgated and enforced by the Federal Trade Commission (FTC).

There are certain product categories in which exaggerated claims are commonly made. For example, in the case of skin creams, cosmetics, perfumes, deodorants, toothpaste, mouthwash, and so on, advertisers typically claim (or suggest indirectly) that their products make the consumer more physically attractive, especially to the opposite sex. The problem is that some consumers may not be sophisticated enough to discern the difference between innocent **puffery** and claims of effectiveness. Thus, teenage boys have been known to douse themselves with Unilever's Axe deodorant products in the hope that they will attract females as effectively as is suggested in Axe's notoriously provocative advertising. Many advertisements for such products come so close to making deceptive appeals that they may garner the FTC's attention. As a result, advertisers have learned to be cautious in the precise wording of their claims. For example, advertisements for skin cream may permissibly suggest that the user's skin will "look and feel better" after use of the product, but they cannot include text guaranteeing the disappearance of wrinkles.

Figure 11.2: Does Starbucks really have the 'best coffee'?

In many countries, regulators are especially vigilant when it comes to advertising aimed at children, because it is felt that children are sometimes more susceptible to manipulation or suggestion and are less likely to understand the dangers associated with the use of an advertised product. In Greece, for example, toy advertisements are prohibited between the hours of 7 a.m. and 10 p.m. In Sweden and Norway, all advertising aimed at children is prohibited, and in France, a child may not appear as the spokesperson in a commercial. In Holland, advertisements for sweets must include a toothbrush at the bottom of the ad to remind children to brush their teeth after eating sweets.

Many advertisements and marketing tactics fall into a regulatory grey area, where the advertisement is technically legal but still manages to offend some of the population. A frequent cause of such offense is the advertiser's quest to develop a humourous or surprising advertisement. For example, one Danish advertisement featured an image of the Pope wearing a particular brand of sneakers, which offended many Catholics. In Italy, the fashion company Benetton shocked the nation by using an advertisement in which a priest is seen kissing a nun. In cases like these, it is not possible to make the advertisements illegal, but advertising industry associations feel it is necessary nonetheless to police the market for objectionable advertisements.

The Rise of Social Media

Relevant to any discussion of the influence and ethics of advertising is the emergence and dominance of **social media**, which now serve as the format within which many people most often encounter ads. Kelly Jensen, a digital-marketing consultant, says, "Today, using social media to create brand awareness, drive revenue, engage current customers, and attract new ones isn't optional anymore. Now it is an absolute must." Jensen argues convincingly that social media platforms reach many consumers, especially younger ones, who simply cannot be captured by conventional advertising schemes.

This upending of conventional modes of advertising has begun to dramatically change the content of ads. It certainly presents a new stage on which people as young as their teens increasingly rely for help in choosing what to buy. Many marketers have come to appreciate that if they are not spreading the word about their products and services via an electronic source, the younger market segments will ignore it.

Undeniably, a digital environment for advertising, selling, and delivering products and services functions as a two-edged sword for business. It provides lightning-quick access to potential customers, but it also opens pathways for sensitive corporate and consumer data to be hacked on an alarming scale. It offers astute companies nearly unlimited capacity to brand themselves positively in the minds of purchasers, but it simultaneously offers a platform for disgruntled stakeholders to assail companies for both legitimate and self-serving reasons.

Regardless of the delivery platform, however, any threat the advertising of unnecessary or harmful products may pose to our autonomy as consumers is complicated by the fact that sometimes we willingly choose to buy goods or services we may not necessarily require. Sometimes we even buy things that have been proven to be harmful to us, such as cigarettes and sugary drinks. Yet we may *desire* these products even if we do not *need* them. If we have the disposable income to make these discretionary purchases, why should we not do so, and why should advertisers not advise us of their availability?

Does Advertising Drive Us to Unnecessary Purchases?

Psychological appeals form the basis of the most successful ads. Going beyond the standard ad pitch about the product's advantages, **psychological appeals** try to reach our self-esteem and persuade us that we will feel better about ourselves if we use certain products. If advertising frames the purchase of a popular toy as the act of a loving parent rather than an extravagance, for instance, consumers may buy it not because their child needs it but because it makes them feel good about what generous parents they are. This is how psychological appeals become successful, and when they do work, this often constitutes a victory for the power of psychological persuasion at the expense of ethical truthfulness.

Purchases are also affected by our notion of what constitutes a necessity versus a luxury, and that perception often differs across generations. Older consumers today can probably remember when a cell phone was considered a luxury, for instance, rather than a necessity for every schoolchild. On the other hand, many younger consumers consider the purchase of a landline unnecessary, whereas some older people still use a conventional phone as their main or even preferred means of communication. The cars and suburban homes that were once considered essential purchases for every young family are slowly becoming luxuries, replaced, for many millennials, by travel. Generational differences like these are carefully studied by advertisers who are anxious to make use of psychological appeals in their campaigns.

A consumer craze based on little more than novelty—or, at least, not on necessity or luxury in the conventional sense—is the Pet Rock, a recurring phenomenon that began in 1977. Pet Rocks have been purchased by the millions over the years, despite being nothing more than rocks. During the 2017 holiday shopping season, they retailed at $19.95. Is this a harmless fad, or a rip-off of gullible consumers who are persuaded it can satisfy a real need? In the annals of marketing, the Pet Rock craze denotes one of the most successful campaigns—still unfolding today, though in subdued fashion—in support of a dubious product.

Figure 11.3. Fidget Spinners were a short lived fad in 2017

As long as marketers refrain from breaking the law or engaging in outright lies, are they still acting ethically in undertaking influential advertising campaigns that may drive gullible consumers to purchase products with minimal usefulness? Is this simply the free market in operation? In other words, are manufacturers just supplying a product, promoting it, and then seeing whether customers respond positively to it? Or are savvy marketing campaigns exerting too much influence on consumers ill prepared to resist them? Many people have long asked exactly these questions, and we still have arrived at no clear consensus as to how to answer them. Yet it remains an obligation of each new generation of marketers to reflect on these points and, at the very least, establish their convictions about them.

A second ethical question is how we should expect reasonable people to respond to an avalanche of marketing schemes deliberately intended to separate them from their hard-earned cash. Are consumers obligated to sift through all the messages and ultimately make purchasing decisions in their own best interest? For example, does a perceived "deal" on an unhealthy food option justify the purchase (figure 11.4)? These questions have no consensus answers, but they underlie any discussion of the point at which sophisticated advertising runs headlong into people's obligation to take responsibility for the wisdom of their purchases.

Figure 11.4. When an unwise purchase is made appealing, where does the consumer's responsibility for decision-making lie? Furthermore, if the purchase is spurred by children who are responding to advertising specifically directed at them, is consumer responsibility diminished?

No one would argue that children are particularly susceptible to the ads commercial television constantly rains over them. Generally, young children have not developed sufficient judgment to know what advertised products are good for them and which ones have little or no benefit or perhaps can even harm. Research has even shown that very young children have difficulty separating what is real on television from what is not. This is especially so as it pertains to advertising for junk food. Savvy marketers take advantage of the fact that young children (those younger than age seven or eight years) view advertising in the same manner they do information from trustworthy adults—that is, as very credible—and so marketers hone pitches for junk food directly to these children.

What restrictions could we reasonably impose on those who gear their ads toward children? We could argue that they should take special care that ads targeting children make absolutely no exaggerated claims because children are less capable of seeing through the usual puffery that most of us ignore. Children are more literal, and once they gain the ability to understand messages directed toward them, especially when voiced by adult authority figures, they typically accept these as truthful statements.

When adults make poor consumer choices, who is responsible? Is it ourselves? Is it our society and culture, which permit the barrage of marketing to influence us in ways we often come to regret? Is it the persuasive power of marketers, and should we rein it in through law? Do adults have the right to some assistance from marketers as they attempt to carry out their responsibility to protect children from manipulative ads? We have no easy answers to these questions, though they have taken on special urgency as technology has expanded the range of advertising even to our smartphones.

Key Takeaways

Advertising, while informing consumers, has potential for being harmful to consumers and remain a regulated industry. Despite this, there are many "grey" areas in which companies publish legal, though morally questionable, ads. Social media has changed the way advertisers reach out to their customers. Further criticisms include inducing customers to purchase unneeded items and making poor financial decisions.

Review and Reflect

1. Does modern society have too much advertising? How could we control it? Can you suggest any specific mechanisms or regulations that should be implemented?
2. Why is self-regulation important in advertising?

Media Attributions

- Budweiser © Frank Gruber is licensed under a CC BY-NC-ND (Attribution NonCommercial NoDerivatives) license
- pexels-leonardo-luz-16488170 © Leonardo Luz is licensed under a All Rights Reserved license
- fidget-spinner-2748231_1920 © RobinHiggins is licensed under a All Rights Reserved license
- Big Burgers – Asia (5490379696) © Kinoko kokonotsu is licensed under a CC BY (Attribution) license

11.2 ONLINE MARKETING REGULATION

Learning Objectives

1. Apply general ethical principles and concepts to online marketing.
2. Explain the laws that regulate online and other types of marketing.

You are about to graduate and move to another city to start a new job. Your employer is paying for your moving expenses, so you go online to see what people have to say about the different moving companies. One company has particularly good reviews so you hire it. Yet what actually happens is vastly different—and a complete disaster. Little surprise, then, when you later discover that the company actually paid people to post those positive reviews!

Once upon a time, before the days of the Internet, any form of selling under another guise or a phony front was called **sugging** (a word created from the first letters of *selling under the guise* or SUG). The term was primarily applied to a practice in which a salesperson would pretend to be doing marketing research by interviewing a consumer and then turn the consumer's answers into reasons to buy. More recently, some companies have hired young, good-looking, outgoing men and women to hang out in bars and surreptitiously promote a particular brand of alcohol or cigarettes. Sugging seems to be a good term to apply to fake reviews as well.

Truly, in no other marketplace should the term *caveat emptor* apply as strongly as it does on the Internet. Caveat emptor means, "let the buyer beware" or "it's your own fault if you buy it and it doesn't work!" Product reviews can be posted by anyone—even by a company or its competitors. So how do you know which ones to trust? Oftentimes you don't. Yet many of us do trust them. One study found that over 60 percent of buyers look for online reviews for their most important purchases, including over 45 percent of senior citizens (Neff, 2007).[1]

Figure 11.5. Most of us know that you can't believe everything a salesperson says about a product in a store. But what about online? Whom can you believe? It's caveat emptor, or let the buyer beware, there, too!

While sugging isn't illegal, it isn't fair. Not only is the content potentially misrepresented, but the source certainly is. As you already know, a marketer cannot make promises about an offering's capabilities unless those capabilities are true. Sugging is similar—it involves misrepresenting or lying about the source of the information in an effort to gain an unfair advantage.

The consequences of being caught while sugging can be high. Even if the information posted was actually an accurate depiction of the offering's capabilities and benefits, consumers will be less likely to believe it—or any

1. Neff, J. (2007). Spate of recalls boost potency of user reviews. *Advertising Age, 78*(43), 3–4.

of the other company's marketing communications, for that matter. The loss of trust makes building any kind of lasting relationship with a buyer extremely difficult.

Legal Requirements

So far, there are no regulations regarding sugging, though that may change if the government decides a crackdown is needed. There are, however, regulations affecting how one uses e-mail to sell.

Specifically, the **CAN-SPAM Act** prohibits the use of e-mail and other technology to randomly push a message to a potential consumer. **Spam** is a term for unwanted commercial e-mail similar to junk mail. Using e-mail and other forms of technology to sell is legal if the seller and the buyer have a preexisting relationship or if the buyer has given his or her permission.

Permission marketing is a term created to suggest that marketers should always ask for permission to sell or to offer buyers marketing messages. The idea was that when permission is granted, the buyer is willing to listen. Now, however, anything "free" online requires that you sign up and give "permission," not just to get the freebie but also all kinds of future spam and annoying messages. You might also inadvertently give a seller permission or allow it to sell your name and contact information. When you sign up for contests or agree to the seller's privacy statement when you order something online, you may have given them permission to resell your contact information to one of their "partners."

Because of trust issues and the overuse of permission marketing, many consumers create separate e-mail addresses they use whenever they need to register for something online. The account is used only for this purpose so that all spam goes to that account and not the person's personal account. Many consumers find it easier to do this rather than read every privacy policy and try to remember which vendors won't sell the e-mail addresses to their "partners" for marketing purposes. Therefore, when you are a marketing manager, don't expect all the e-mail addresses you collect from a free offer to be valid.

In the B2B world, when attendees sign up for a trade show, they often give the show's exhibitors permission to send them e-mails and other information. Most sellers won't send marketing communication to fax machines because they are often shared by a number of people, and there is no guarantee that the intended person will receive the fax. Using e-mail, however, is acceptable because the buyer gave permission.

Privacy Laws

Canadian **privacy laws** apply to both Internet marketing and other forms of commerce. The laws limit the amount and type of information a company can collect about a consumer and also specify how that information can be used or shared. In the EU, the types of data a company can collect are fewer, and the sharing of information is far more restricted. For example, a company cannot share information about customers in one division with another division (sending out unsolicited e-mails to potential buyers is also restricted in Europe).

The Personal Information Protection and Electronic Documents Act lays out how private sector organizations can collect, use, and disclose personal information in the course of for-profit, commercial activities.

For an example of a privacy policy, take a look at Amazon's. You can find it at Amazon.ca Privacy Notice or just go to amazon.ca and click on the "Privacy Notice" link at the bottom of their page.

What kind of data do companies want on you? They want to know where you live so they can apply data about your neighbourhood to know you better and create marketing messages more likely to persuade you to buy something. They want to know how much you make to see if you can afford a higher-priced product. They want to know about the other things you buy, because that will likely affect what you buy in the future. If you own a boat, for example, you're more likely to buy fishing gear in the future. If you buy fishing gear, you're more likely to buy clothes from MEC. And so on. The more they know, the more they can create offers tailored to fit your lifestyle and to entice you to buy.

Figure 11.6. Your university may know a lot about you, including your health history, your financial situation, and even the car you drive, but FIPPA requires your school to protect that data so your privacy is protected.

Some organizations also have data, such as your social insurance number, that criminals could use to steal your identity. For example, think about how much information your university has on you. They not only have your social insurance number, but they may also have your financial information (through financial aid), your health information (through the campus health centre), and your vehicle information (through parking fees). Protecting that information so you aren't harmed is a huge responsibility for the university according to British Columbia's Freedom of Information and Protection Act ("FIPPA").

Privacy policies and privacy laws apply to both business customers and individual consumers. Many business buyers require vendors to sign nondisclosure agreements (NDAs) that specify what information is proprietary, or owned by the customer, and how, if at all, the seller can use that information. NDAs are not an online tool specifically but are often used in the normal course of business.

What about the offering itself? When you buy something online, you don't get to see it first, so how do you know it is what the seller says it is, and what can you do if it isn't? The **Personal Property Security Act (PPSA)** governs commercial practices and defines many aspects of sales, such as when a sale actually takes place and what warranties buyers can expect.

Warranties and Promises

A **warranty** is a promise by the seller that an offering will perform as the seller said it would. The UCC/PPSA makes a distinction between two types of warranties. The first is an **expressed warranty**, which is an oral or written statement by the seller regarding how the product should perform and the remedies available to the consumer in the event the offering fails.

An **implied warranty** is an obligation for the seller to provide an offering of at least average quality, beyond any written statements. For example, when you buy a new car, there is an implied warranty that it will run as promised after you drive it off the lot. You also have the right to expect average quality for any characteristic of a product you buy online, except for those characteristics specifically described in the online material. If you were able to inspect the product before you bought it, such as by looking at it in a store, the implied warranty only applies to those aspects you couldn't inspect or observe in the store.

Where the law gets tricky is when it comes to other forms of writing. Marketing messages, whether written in a brochure or advertisement or stated by a salesperson, are considered implied warranties. Any written statement about what the offering does has to be true, or it violates the PPSA's definition of an implied warranty (and is therefore punishable by law).

Keep in mind that a salesperson can create an implied warranty in an e-mail or during an online chat session if he or she makes a promise. Even if the salesperson says something that contradicts a company's written material elsewhere, the consumer has the right to believe what the salesperson says. As such, the salesperson's promise is legally binding.

Protecting Your Company

As a marketer, you have an obligation to protect your company from consumers who might not have honest intentions. For example, have you noticed how you sometimes have to reproduce a strange-looking set of letters or words before you are allowed to make a purchase when buying something online? That simple step prevents automatic ordering by bots. A **bot**, which is short for *robot*, is a program that performs automatic functions online. One of those functions could be to purchase products, such as tickets to a highly desirable sporting event, that the buyer can then resell at a higher price. Or a bot could be used to obtain many units of a freebie that someone can then resell. Bots can be used for many illicit purposes; a good marketer anticipates their uses and creates barriers to prevent being taken advantage of.

A legal tool to help protect your company is the **Copyright Modernization Act of Canada**. This act is designed to prevent copyrighted material from being pirated online. While prominent cases involve downloading music, your marketing information is also included. When you find a good way to market your offerings online, a competitor can't just steal your communications and insert their name. You are protected by this act.

What is very difficult to protect against is **phishing** or soliciting personal information in order to steal an identity and use it to generate cash fraudulently. However, you may find it reassuring to your customers to remind them of your privacy policies and your customer contact practices. For example, a bank may remind its customers that it will never ask for a social security number by e-mail. Making sure your customer contact policies protect your customers can also help protect them against phishing from someone pretending to be you or your company.

Key Takeaways

Sugging is selling under any phony type of front. It includes posting fake reviews about products online. Sugging damages a seller's trust among buyers and should never be done. North American laws govern how products can be marketed, both those that are sold electronically and through more traditional channels. Companies must have permission before they can send you spam, and they have to tell you how they will gather and use your personal information. Warranties—expressed and implied—are binding no matter how companies deliver them. Good marketers anticipate less-than-honest activities by individuals and take steps to prevent them. Bots are online robots that some people use to take advantage of marketers.

Review and Reflect

1. What damage is done by sugging? If the customer buys your product, was the sugging OK? How does sugging differ online versus in person?

2. What does the CAN-SPAM Act do?
3. When do you mind a company having a lot of information on you and when is it OK? Are there advantages to you as a consumer when a company knows a lot about you? Are there disadvantages? What safeguards are there for consumers?
4. How can a bot hurt a marketer?

Media Attributions

- Man Standing Beside Man Holding Gray Club © Jopwell is licensed under a All Rights Reserved license
- Ford Focus RS © FotoSleuth is licensed under a CC BY (Attribution) license

11.3 CORPORATE SOCIAL RESPONSIBILITY

Learning Objectives

1. Define corporate social responsibility and the triple bottom line approach
2. Compare the sincere application of CSR and its use as merely a public relations tool
3. Explain why CSR benefits both companies and their stakeholders
4. Explain how CSR can be used by corporations to harm stakeholders

Thus far, we have discussed stakeholders mostly as individuals and groups outside the organization. This section focuses on the business firm as a stakeholder in its environment and examines the concept of a corporation as a socially responsible entity that is conscious of the influences it has on society. That is, we look at the role companies, and large corporations in particular, play as active stakeholders in communities. Corporations, by their sheer size, affect their local, regional, national, and global communities. Creating a positive impact in these communities may mean providing jobs, strengthening economies, or driving innovation. Negative impacts may include doing damage to the environment, forcing the exit of smaller competitors, and offering poor customer service, to name a few. This section examines the concept of a corporation as a socially responsible entity that is conscious of the influences it has on society.

Corporate Social Responsibility Defined

In recent years, many organizations have embraced **corporate social responsibility (CSR)**, a philosophy in which the company's expected actions include not only producing a reliable product, charging a fair price with fair profit margins, and paying a fair wage to employees, but also caring for the environment and acting on other social concerns. Many corporations work on prosocial endeavors and share that information with their customers and the communities where they do business. CSR, when conducted in good faith, is beneficial to corporations and their stakeholders. This is especially true for stakeholders that have typically been given low priority and little voice, such as the natural environment and community members who live near corporate sites and manufacturing facilities.

CSR in its ideal form focuses managers on demonstrating the social good of their new products and endeavors. It can be framed as a response to the backlash corporations face for a long track record of harming environments and communities in their efforts to be more efficient and profitable.

CSR and the Environment

Corporations have responded to stakeholder concerns about the environment and sustainability. In 1999, Dow Jones began publishing an annual list of companies for which sustainability was important. Sustainability is the practice of preserving resources and operating in a way that is ecologically responsible in the long term.

There is a growing awareness that human actions can, and do, harm the environment. Destruction of the environment can ultimately lead to a reduction of resources, declining business opportunities, and lowered quality of life. Enlightened business stakeholders realize that profit is only one positive effect of business operations. In addition to safeguarding the environment, other ethical contributions that stakeholders could lobby corporate management to make include establishing schools and health clinics in impoverished neighbourhoods and endowing worthwhile philanthropies in the communities where companies have a presence.

Corporate Philanthropy

Corporate philanthropy refers to a corporation's gifts to charitable organizations. There is an implication that the corporation's donations have no strings attached, which is probably quite rare. At a minimum, most corporations expect that their donations will be publicly attributed to the corporation, thus generating positive PR. When corporations make large cash gifts to universities or museums, they are usually rewarded with a plaque or with a building or library named after the donor. Such attributions burnish the corporation's public image, and in such cases, we are not dealing with true corporate philanthropy, strictly speaking, but something more in the nature of marketing or PR.

Stakeholder Capitalism

Stakeholder capitalism refers to a conception of the corporation as a body that owes a duty not only to its *shareholders* (the predominant American view) but also to all its *stakeholders*, defined as all those parties who have a stake in the performance and output of the corporation. Stakeholders include the company's employees, unions, suppliers, customers, local and national governments, and communities that may be affected by corporate activities such as construction, manufacturing, and pollution. Stakeholder capitalism is a concept that was largely developed in Europe and reflects the widespread European attitude toward corporate governance, which accepts a great degree of government and social oversight of the corporation. The American approach is often described, in contrast, as *laissez-faire* (meaning "leave alone"), in that corporations are granted more freedom of operation than in Europe. One example of a stakeholder approach is in the German practice known as *codetermination*, in which corporations are required to provide a seat on the corporation's board of directors for a union representative. This is intended to oblige the corporation to be more cognizant of worker needs and demands and to ensure that corporate strategies are not concealed from workers.

Cause-Related Marketing

Cause-related marketing refers to a corporation associating the sales of its products to a program of donations or support for a charitable or civic organization. An example is the famous Red campaign, in which corporations such as Gap pledged to contribute profits from the sale of certain red-coloured products to a program for African development and the alleviation of AIDS-related social problems. The basic idea of cause-related marketing is that the corporation markets its brand at the same time that it promotes awareness of the given social problem or civic organization that addresses the social problem. Another well-known example is the pink ribbon symbol that promotes breast-cancer awareness and is used prominently in the marketing of special lines of products by many corporations, such as Estée Lauder, Avon, New Balance and Self Magazine. In addition to marketing products with the pink-ribbon symbol, Estee Lauder has made support for breast cancer awareness one of the defining features of its corporate philanthropy. Thus, Estee Lauder also frequently refers to such charitable contributions, currently on the order of $150 million, in its corporate communications and PR documents.

Sponsorship

Sponsorship refers to a corporation's financial support for sports, art, entertainment, and educational endeavors in a way that prominently attributes the support to the particular corporation. Sponsorship can be considered a form of marketing communications because it seeks to raise awareness and appreciation of the corporation in a given target audience. Arguably, of course, sponsorship benefits society, because society appreciates sports, art, and entertainment. However, in the case of sponsorship, as opposed to philanthropy, the sponsors expect a clear return. Indeed, many corporations carefully analyze the benefits of their sponsorship activities in the same way they measure the impact of their marketing and advertising.

Many prominent global sponsors are companies that find it difficult to advertise through other channels. For example, Philip Morris, the world's largest tobacco company and owner of the Marlboro brand, which finds its global advertising restricted due to a number of bans and limits on tobacco advertising, has invested heavily in sponsorship. Philip Morris has long been the number one sponsor of Formula 1 race car competitions, and it is impossible for a spectator to watch one of these races without observing, consciously or otherwise, huge billboards and banners featuring the famous red-and-white Marlboro logo. Similarly, since alcohol advertising is also increasingly scrutinized, it is not surprising that Budweiser has followed a similar tactic and become the principal sponsor of NASCAR racing. Pharmaceuticals have also become an area subjected to tight advertising and marketing controls; therefore, Pfizer, the world's largest pharmaceutical company, engages in scores of sponsorship activities, notably in its support for the Paralympics, an Olympic-style competition for physically handicapped athletes.

Sustainability

Sustainability has become such an important concept that it is frequently confused with CSR. Indeed, for some companies it seems that CSR is sustainability. This is perhaps not surprising, given the growing media attention on issues related to sustainability.

Sustainability is a concept derived from environmentalism; it originally referred to the ability of a society or company to continue to operate without compromising the planet's environmental condition in the future. In other words, a sustainable corporation is one that can sustain its current activities without adding to the world's environmental problems. Sustainability is therefore a challenging goal, and many environmentalists maintain that no corporation today operates sustainably since all use energy (leading to the gradual depletion of fossil fuels while emitting greenhouse gases) and all produce waste products like garbage and industrial chemicals. Whether or not true sustainability will be attainable anytime in the near future, the development and promotion of sustainability strategies has become virtually an obsession of most large corporations today, as their websites will attest in their inevitable reference to the corporation's sincere commitment to sustainability and responsible environmental practices. No corporation or corporate executive today will be heard saying that they do not really care about the environment. However, if we observe their actions rather than their words, we may have cause for doubt.

More recently, many people have been using the term *sustainability* also to refer to social and political sustainability, which brings the concept closer to that of CSR.

Greenwashing

Greenwashing refers to when corporations exaggerate or misstate the impact of their environmental actions. By the early 1990s, a great number of consumer products were being promoted as "environmentally friendly," "eco-friendly," or "green," when in fact there was little or nothing to justify the claims. In 1991, an American Marketing Association study revealed that 58% of environmental ads contained at least one deceptive claim. As a result, many advertising regulatory bodies around the world adopted specific advertising codes to regulate the honesty and accuracy of environmental claims in advertising. For example, in the UK, a producer of a recycling bin advertised that it helped buyers "save the rainforests" by encouraging recycling of plastic and paper products. The advertisement was found to be misleading because most paper products sold in the UK were not made from wood in tropical rainforests but from wood harvested on northern European tree farms.

In Norway, car manufacturers and dealers are prohibited from claiming that their cars are green, eco-friendly, etc., because in the view of the Norwegian Consumer Ombudsman, it is impossible for cars to be beneficial for the environment; the best they can do is reduce the environmental damage they cause.

Greenwashing is not only a corporate practice but a political one as well, as politicians everywhere promise to undertake actions to improve the environment. Thus, the administration of former US President George W. Bush was widely criticized for promoting legislation under the name "Clear Skies Initiative," when in fact the purpose of the legislation was to weaken antipollution measures.

Social Entrepreneurship and Social Enterprise

Social entrepreneurship and **social enterprise** refer to the use of business organizations and techniques to attain laudable social goals. For example, Blake Mycoskie decided to create TOMS Shoes largely as a reaction to his travels in Argentina, which had exposed him to terrible poverty that left many school-age children without shoes. An important part of the corporate mission of TOMS Shoes lies in its pledge to give away a free pair of shoes for every pair purchased by a customer. TOMS Shoes' model has been imitated by many others, including the popular online eyewear brand Warby Parker.

The difference between social entrepreneurship and CSR is that with social entrepreneurship the positive social impact is built into the mission of the company from its founding. Other examples of social entrepreneurship include The Body Shop, Ben & Jerry's ice cream, and Newman's Own. The Body Shop was founded by noted activist Anita Roddick, who insisted that all products be derived from ingredients that were natural, organic, and responsibly sourced. Her employment policies famously allowed every employee to take off one day a month from work to engage in social or community projects. Similarly, Ben & Jerry's was founded to promote the use of organic, locally produced food. The company's founders insisted on a policy that executives earn no more than seven times the salary of factory line-workers (though this policy was eventually relaxed when it became difficult to recruit a competent CEO at those wages). Ben & Jerry's engaged in a number of high-profile political activities in which they encouraged their employees to participate, such as protesting the building of the Seabrook nuclear power plant in Vermont. Newman's Own was founded by film actor Paul Newman and his friend A. E. Hotchner with the goal of selling wholesome products and giving away 100% of the profits to charitable ventures. To date, Newman's Own has given away over $200 million.

People, Planet, Profit: Triple Bottom Line

How can corporations and their stakeholders measure some of the effects of CSR programs? The **triple bottom line (TBL)** offers a way. The TBL is a measure described in 1994 by John Elkington, a British business consultant, and it forces us to reconsider the very concept of the "bottom line." Most businesses, and most consumers for that matter, think of the bottom line as a shorthand expression of their financial well-being. Are they making a profit, staying solvent, or falling into debt? That is the customary bottom line, but Elkington suggests that businesses need to consider not just one but rather three measures of their *true* bottom line: the economic and also the social and environmental results of their actions. The social and environmental impacts of doing business, called people and planet in the TBL, are the *externalities* of their operations that companies must take into account.

CSR: Potential Benefits

Neglected Social Problems Are Addressed

It is undeniable that even governments in the wealthiest countries cannot effectively address all social problems. Every society is to some extent plagued by issues such as unemployment, criminality, homelessness, disease, discrimination, pollution, and natural disasters. Why not mobilize the vast economic and organizational resources of corporations to help alleviate the damage caused by such problems?

Corporate Employees are Energized and Motivated

A large percentage of the workforce in most countries is employed in the corporate sector (38% of Americans are employed by large companies). CSR allows corporate employees to feel an added level of meaning in their lives by enriching their jobs with an ethical dimension. Such employees may be more productive on the job and may be more willing to volunteer for community service and contribute to charitable organizations.

Links between Business, Nonprofits and the Government are Enhanced

Today, a great deal of CSR involves partnerships between corporations, nonprofit organizations, and governmental bodies. For example, the Timberland footwear and apparel company developed a partnership with the Boston-based nonprofit organization City Year in 1989, beginning with a small contribution of 50 boots. City Year engages young people from 17 to 24 in a 10-month program of community service. By 1994, Timberland had provided $5 million to help City Year expand into 6 cities, and by 1998, Timberland employees had contributed 20,000 hours to City Year efforts. President Bill Clinton was so impressed by the City Year story in 1992 that, in 1993, he enlisted its founders to help him establish the AmeriCorps program, a federally funded means of supporting community service by young people. Since its founding, 575,000 AmeriCorps volunteers have contributed over 700 million hours of community service.

Corporate Image is Improved

In a competitive global marketplace, corporations want to maintain a strong, positive image in the minds of consumers and legislators, and CSR helps them achieve this. For example, Estée Lauder has become closely associated with the pink ribbon symbol of its Estée Lauder Breast Cancer Awareness Campaign, a program that has raised over $35 million for breast cancer research and has spread to over 70 countries.

CSR: Potential Drawbacks

Bad Corporations are Able to Buy a Positive Image

Some of the biggest contributors to CSR are companies in the oil, tobacco, and alcohol sectors, arguably those who have the most to gain from repairing negative associations with the harm caused by their products. Although the World Health Organization has declared that tobacco is the single greatest cause of preventable deaths worldwide, that fact has not stopped global tobacco companies, such as Philip Morris International (owner of the Marlboro brand) from spending huge sums to improve their image. Philip Morris not only contributes over $30 million per year to a variety of charitable causes in over 50 countries, it is also a leading sponsor of sporting events (notably Formula 1 racing).

The Public is Misled on the True Impact of Corporate Activities, e.g., "Greenwashing"

Greenwashing refers to the corporate practice of making misleading environmental claims. By the early 1990s, nearly a quarter of all consumer products were marketed with some sort of environmental claim, using terms such as "green" or "environmentally friendly." So many of these claims were later found to be exaggerated or deceptive that a number of advertising regulatory bodies and consumer protection agencies around the world enacted strict controls on environmental claims in advertising.

Among the leaders in making environmental claims have been oil, chemical, and automobile companies, all of which are arguably linked to increasing levels of pollution. Thus, in Norway, for example, strict regulations prohibit car manufacturers from making virtually any environmental claims because, in the view of the Norwegian Consumers Ombudsman, "cars can't be environmentally beneficial."

As early as the mid-1990s, the Chevron oil company had become a leader in touting its commitment to environmentalism, but that did not prevent it from getting embroiled in a controversial lawsuit involving claims of massive amounts of pollution in the Ecuadorian Amazon, with Chevron suffering an adverse $19 billion legal judgment for the environmental damage it caused. Similarly, BP (British Petroleum), went so far as to revamp the corporate logo in its attempt to become recognized for environmentalism despite evidence that BP management was aware of the risks that led to the offshore oil platform explosion off the coast of Louisiana in 2010, considered the worst marine oil spill in the world and the greatest environmental disaster in the history of the United States. Evidence uncovered in a U.S. Congressional hearing suggested that BP management had overruled its own staff and consultants to undertake riskier procedures because these were perceived to save time and money.

Nonprofits and Charities May Rely Too Heavily on Corporate Handouts

Many charities and nonprofits come to rely heavily on corporate contributions and often on contributions from a single corporation, which leaves them at the mercy of corporate goodwill, and at the risk of economic or management reversals that could lead to a cutoff of their funds. Thus, in the Timberland–City Year example discussed earlier, by 1997, City Year found that it was almost wholly dependent on Timberland for financial support, and it was only at that point that Timberland and City Year reached out for help from other corporations. Indeed, the City Year sponsorship had even caused a problem within Timberland when the company suffered a sharp decline in revenue in 1995 that led to layoffs. Employees were angry that management continued to spend millions on charitable contributions at the same time it was terminating jobs.

CSR as a Public Relations Tool

On the other hand, for some, CSR is nothing more than an opportunity for publicity as a firm tries to look good through various environmentally or socially friendly initiatives without making systemic changes that will have long-term positive effects. Carrying out superficial CSR efforts that merely cover up systemic ethics problems in this inauthentic way (especially as it applies to the environment) and acting simply for the sake of PR is called **greenwashing**. To truly understand a company's approach toward the environment, we need to do more than blindly accept the words on its website or its advertising. For example, Coca-Cola claims that its bottles are composed of 25% of marine plastic, but it does not disclose that the company is the largest polluter of plastic on the planet.

Key Takeaways

Corporate Social Responsibility (CSR) is a philosophy applied by companies to involve themselves in social and environmental issues. Companies can engage in philanthropy, cause-related marketing, and sponsorships to further their CSR goals. While CSR offers various benefits to both companies and stakeholders alike, it can be used to mislead and deceive consumers.

Review and Reflect

1. Why is corporate responsibility important for companies?
2. In what circumstances can CSR be considered harmful?

11.4 DISCUSSION QUESTIONS AND ACTIVITIES

Review and Reflect

1. What are some other ways that companies can ensure marketing ethics without government regulation?
2. Discuss the tension marketers might feel when describing their product. Do they underpromise and overdeliver? Or do they promise the moon to get sales?
3. Does modern society have too much advertising? How could we control it? Can you suggest any specific mechanisms or regulations that should be implemented?

Activities

1. Identify one example of CSR that benefits stakeholders. Now identify one other example that may deceive stakeholders. Notice what makes each action helpful or harmful.
2. Brainstorm some ads which you think are problematic. What makes them as such? How could they be improved?

APPENDIX: THE MARKETING PLAN

APPENDIX 1.1 THE MARKETING PLAN

Learning Objectives

1. Role of marketing plans in organizations.

Much as firms must set their customers' expectations, marketing managers must set their organization's marketing expectations. Marketing plans help them do that. A well-designed marketing plan should communicate realistic expectations to a firm's CEO and other stakeholders. Another function of the **marketing plan** is to communicate to everyone in the organization who has what marketing-related responsibilities and how they should execute those responsibilities (Maddox, 2007).[1]

Katie Scallan-Sarantakes develops and executes marketing plans for the Gulf States region of Toyota. Her path to this position is not unusual. Listen as she describes what she did to prepare herself for a position running a regional marketing office of a major global automaker.

Who, within an organization, is responsible for creating its marketing plans? From our discussion above, you might think the responsibility lies with the organization's chief marketing officer (CMO). The reality is that a team of marketing specialists is likely to be involved. Sometimes multiple teams are involved. Many companies create marketing plans at the divisional level. For example, Rockwell International has so many different business areas that each does its own strategic planning. The division responsible for military avionics, for instance, creates its own marketing plans and strategies separately from the division that serves the telecommunications industry. Each division has its own CMO.

1. Maddox, K. (2007, December 10). Bottom-line pressure forcing CMO turnover. *B2B, 92*(17), 3–4.

Figure A.1. Rockwell International's many divisions serve a diverse set of industries, from military avionics and communications to consumer and business telecommunications. That's why Rockwell develops marketing plans at the division level (business-unit level).

Some of the team members specialize in certain areas. For example, the copier company Xerox has a team that specializes in competitive analysis. The team includes an engineer who can take competitors' products apart to see how they were manufactured as well as a systems analyst who tests them for their performance. Also on the team is a marketing analyst who examines the competition's financial and marketing performance.

Some marketing-analyst positions are entry-level positions. You might be able to land one of these jobs straight out of college. Other positions are more senior and require experience, usually in sales or another area of marketing. Marketing analysts, who are constantly updating marketing information, are likely to be permanent members of the CMO's staff.

In some consumer-goods companies with many brands (such as P&G and SC Johnson), product—or brand—managers serve on their firm's marketing planning teams on an as-needed basis. These individuals are not permanent members of the team but participate only to the extent that their brands are involved. Many other members of the firm will also participate on marketing planning teams as needed. For example, a marketing researcher is likely to be part of such a team when it needs data for the planning process.

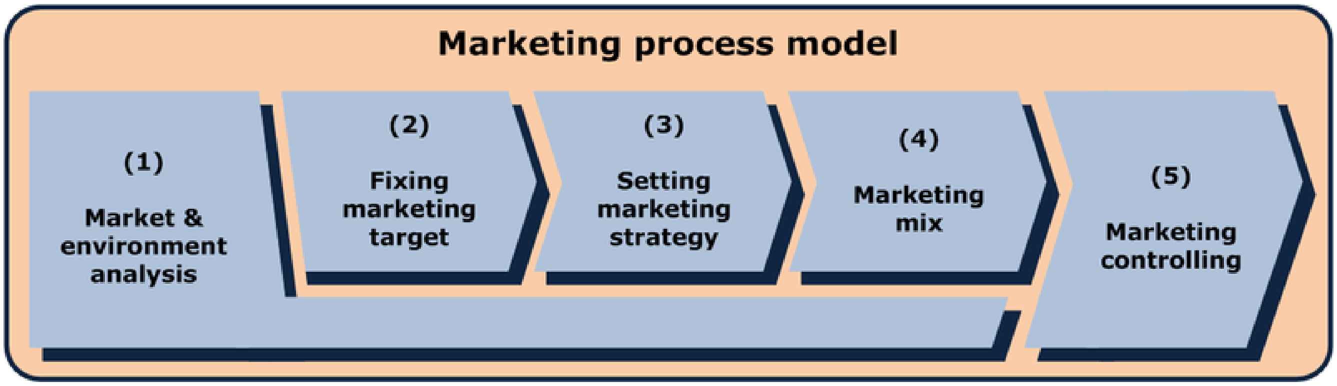


Figure A.2. The marketing process model.

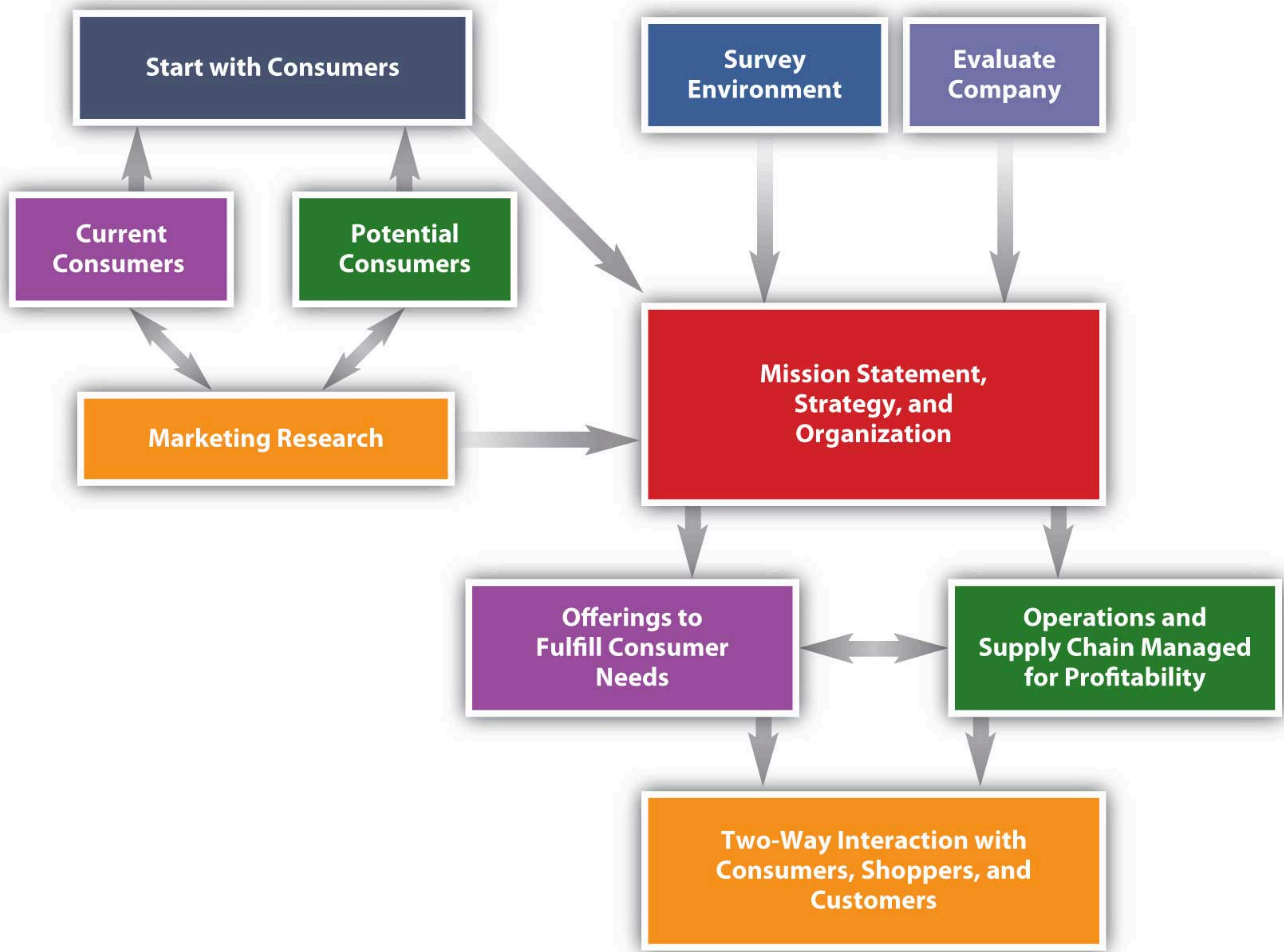


Figure A.3. Steps in Creating a Marketing Plan. *[Read full image description.]*

THE MARKETING PLANNING PROCESS

Figure A.4. Illustration of a marketing planning process with different stages and other factors. *[Read full image description.]*

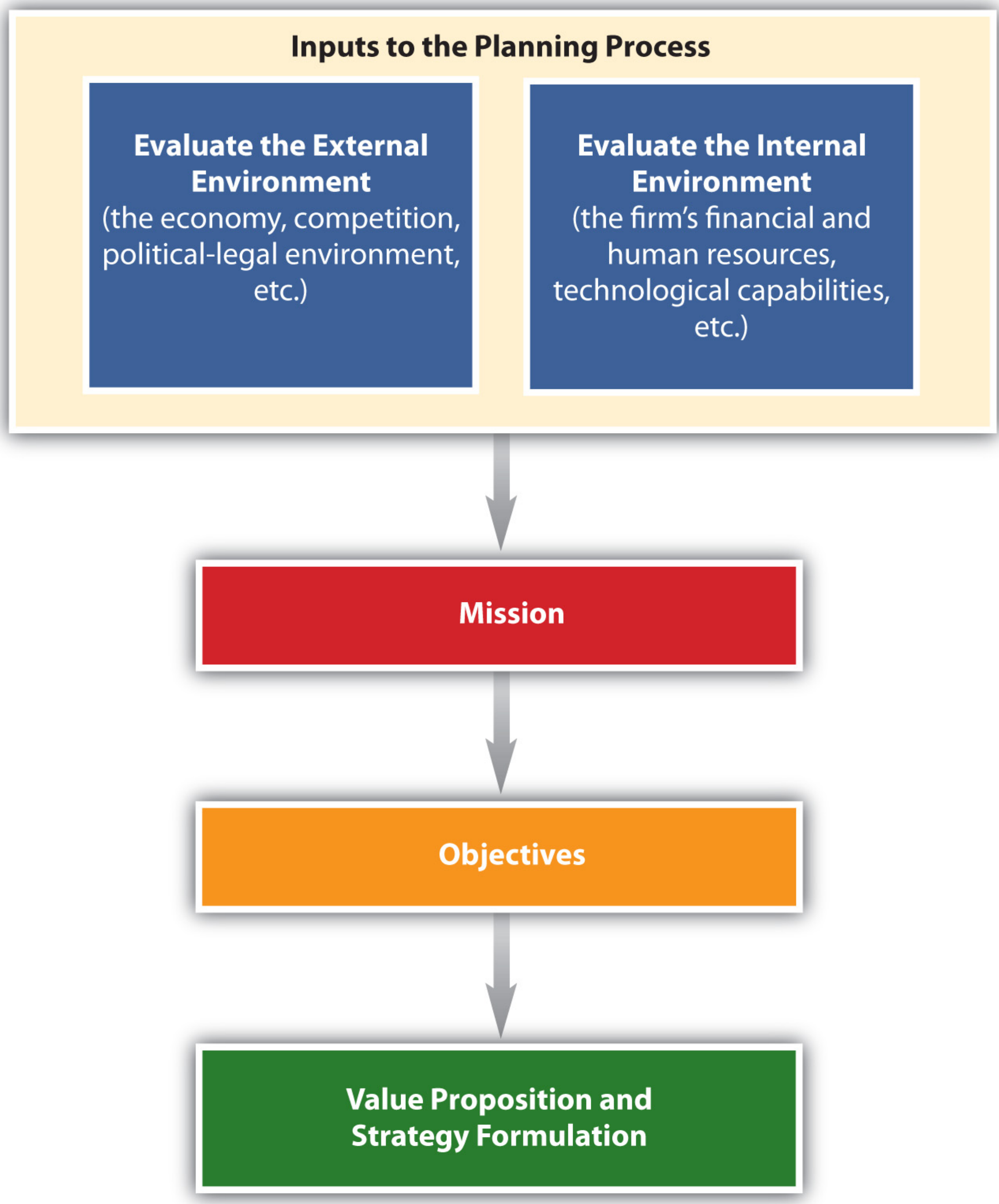


Figure A.5. The Strategic Planning Process.

Key Takeaways

The CMO of a business unit is likely to be responsible for the creation of its marketing plan. However, the CMO is generally assisted by marketing professionals and other staff members, who often work on marketing planning teams as needed. Marketing analysts, however, are permanent members of the CMO's staff.

Find a summary of the marketing planning roles in the below hotspot image:

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://kpu.pressbooks.pub/introductiontomarketing/?p=351#h5p-45

Review and Reflect

1. Who is involved in the creation of a marketing plan?
2. In addition to marketing analysts, what other members of an organization help create marketing plans?

Media Attributions

APPENDIX 1.2 FUNCTIONS OF THE MARKETING PLAN

Learning Objectives

1. Understand the functions of a marketing plan.
2. Write a marketing plan.

A marketing plan should do the following:

1. Identify customers' needs.
2. Evaluate whether the organization can meet those needs in some way that allows for profitable exchanges with customers to occur.
3. Develop a mission statement, strategy, and organization centreed on those needs.
   1. Create offerings that are the result of meticulous market research.
   2. Form operations and supply chains that advance the successful delivery of those offerings.
4. Pursue advertising, promotional, and PR campaigns that lead to continued successful exchanges between the company and its customers.
5. Engage in meaningful communications with customers on a regular basis.

The Marketing Plan's Outline

The actual marketing plan you create will be written primarily for executives, who will use the forecasts in your plan to make budgeting decisions. These people will make budgeting decisions not only for your marketing activities but also for the firm's manufacturing, ordering, and production departments, and other functions based on your plan.

In addition to executives, many other people will use the plan. Your firm's sales force will use the marketing plan to determine its sales strategies and how many salespeople are needed. The entire marketing staff will rely on the plan to determine the direction and nature of their activities. The advertising agency you hire to create your promotional campaigns will use the plan to guide its creative team. Figure A.6 shows a complete outline of a marketing plan. Next, we will discuss the elements in detail so you will know how to prepare a marketing plan.

The Marketing Plan: An Outline

I. Executive Summary
II. The Business Challenge
  a. A brief description of the offering and the goals of the plan. This section serves as an introduction.
III. The Market
  a. Customers: Who are they, and what do they need?
  b. Company analysis: Your firm's strengths and weaknesses relative to this market and the offering.
  c. Collaborators: Your collaborators could include suppliers and/or distributors or retailers.
  d. Competitors: Who are they, and what are they doing?
  e. Business climate: The business climate includes the opportunities and threats created by environmental forces, such as government regulations and legislation, the economy, and social, cultural, and technological forces.
IV. The Strategy
  a. The strategy: Why did you choose the strategy you did? Consider including a brief discussion of alternatives that were considered and discarded.
  b. The offering: Provide details on the features and benefits of the offering, as well as its pricing options.
  c. The communication plan: How will the offering be launched? What will the ongoing communication strategies be? This section is likely to be fairly broad and will require collaboration with communication partners such as your firm's advertising agency.
  d. Distribution: How will the offering be sold? Who will sell it? Who will ship it? Who will service it?
V. Budget
  a. Investment: Provide details about the budget needed to launch and maintain the offering.
  b. Return: List both the short-term and long-term financial goals of the offering, including its projected sales, costs, and net income.
  c. Other resources required.
VI. Conclusion

Figure A.6. Marketing Plan Outline. *[Read full image description.]*

The Executive Summary

A marketing plan starts with an executive summary. An executive summary should provide all the information your company's executives need to make a decision without reading the rest of the plan. The summary should include a brief description of the market, the product to be offered, the strategy behind the plan, and the budget. Any other important information, such as how your competitors and channel partners will respond to the actions your firm takes, should also be summarized. Because most executives will be reading the plan to make budgeting decisions, the budgeting information you include in the summary is very important. If the executives want more detail, they can refer to the "budget" section, which appears later in the plan. The executive summary should be less than one page long; ideally, it should be about a half-page long. Most marketing plan writers find it easier to write a plan's summary last, even though it appears first in the plan. A summary is hard to write when you don't know the whole plan, so waiting until the plan is complete makes writing the executive summary easier.

The Business Challenge

In the "business challenge" section of the plan, the planner describes the offering and provides a brief rationale for why the company should invest in it. In other words, why is the offering needed? How does it fit in with what the company is already doing and further its overall business goals? In addition, the company's mission statement should be referenced. How does the offering and marketing plan further the company's mission?

Figure A.7. Your marketing plan has to convince busy executives and other stakeholders that your idea is worth investing in.

Remember that a marketing plan is intended to be a persuasive document. You are trying not only to influence executives to invest in your idea but also to convince other people in your organization to buy into the plan. You are also trying to tell a compelling story that will make people outside your organization—for example, the director of the advertising agency you work with or a potential supplier or channel partner—invest money, time, and effort into making your plan a success. Therefore, as you write the plan you should constantly be answering the question, "Why should I invest in this plan?" Put your answers in the business challenge section of the plan.

The Market

The market section of the plan should describe your customers and competitors, any other organizations with which you will collaborate, and the state of the market. We suggest that you always start the section by describing the customers who will purchase the offering. Why? Because customers are central to all marketing plans. After that, discuss your competitors, the climate, and your company in the order you believe readers will find most persuasive. In other words, discuss the factor you believe is most convincing first, followed by the second-most convincing factor, and so on.

Customers

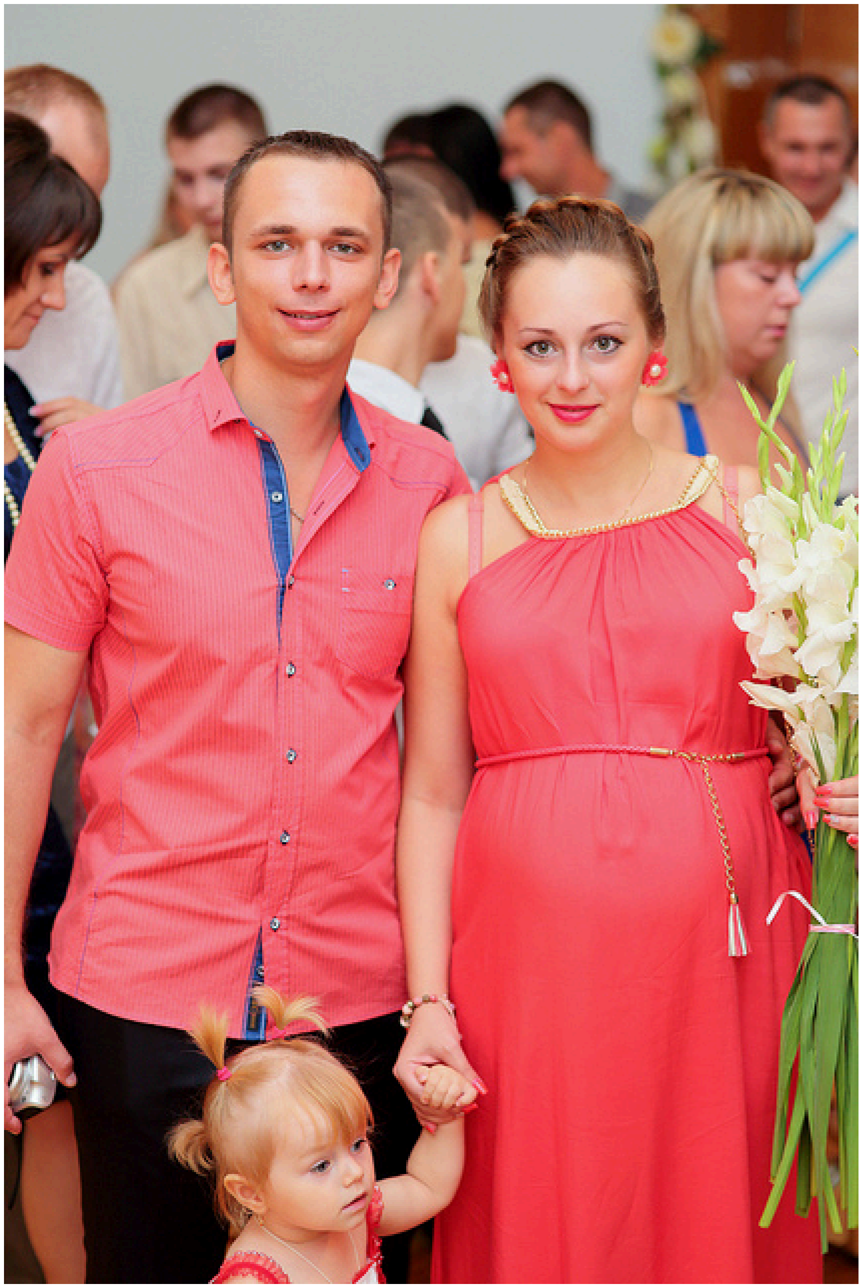


Figure A.8. Campbell Soup may divide their market into several groups. This family photo might actually represent three different markets: a person who eats lunch at his or her desk at work and needs something quick and filling; a retired but active couple that wants something hot and nourishing; and a busy young family looking for easy meals to prepare.

Who does your market consist of? What makes these people decide to buy the products they do, and how do they fulfill their personal value equations? What is their buying process like? Which of their needs does your offering meet?

Break the market into customer segments and describe each segment completely while answering those questions for each segment. When you write your plan, begin with the most important segment first and work your way to the least important segment. Include in your discussion the market share and sales goals for each segment.

For example, Campbell Soup's primary market segments might include the following:

- Families in colder regions
- People who need a good lunch but have to eat at their desks
- Busy young singles
- Older, perhaps retired, empty-nesters

These segments would be based on research that Campbell's has completed showing that these are the groups that eat the most soup.

Your discussion of each segment should also include how to reach the customers within it, what they expect or need in terms of support (both pre-sales and post-sales support), and other information that helps readers understand how each segment is different from the others. After reading the section, a person should have a good grasp of how the segments differ yet understand how the needs of each are satisfied by the total offering.

A marketing plan has to account for many factors: customers, competitors, and more. Listen as Katie Scallan-Sarantakes describes how she had to consider these factors when creating marketing plans for Toyota.

Company Analysis

Include the results of your analysis of your company's strengths and weaknesses in this section. How is the company perceived by the customers you described earlier? Why is the company uniquely capable of capitalizing on the opportunity outlined in the plan? How sustainable is the competitive advantage you are seeking to achieve?

You will also need to identify any functional areas in which your company might need to invest for the plan to succeed. For example, money might be needed for new production or distribution facilities and to hire new marketing or sales employees and train existing ones.

One tool that is useful for framing these questions is the **SWOT analysis**. SWOT stands for strengths, weaknesses, opportunities, and threats. Strengths and weaknesses are internal, meaning they are conditions of the company. Either these conditions are positive (strengths) or negative (weaknesses). Opportunities and threats are external to the company and could be due to potential or actual actions taken by competitors, suppliers, or customers. Opportunities and threats could also be a function of government action or changes in technology and other factors.

When working with executives, some consultants have noted the difficulty executives have in separating opportunities from strengths and weaknesses from threats. Statements such as "We have an opportunity to leverage our strong product features" indicate such confusion. An opportunity lies in the market, not in a strength. Opportunities and threats are external; strengths and weaknesses are internal. Assuming demand (an external characteristic) for a strength (an internal characteristic) is a common marketing mistake. Sound marketing research is therefore needed to assess opportunity.

Other factors that make for better SWOT analysis are these:

- **Honest.** A good SWOT analysis is honest. A better way to describe those "strong" product features mentioned earlier would be to say "strong reputation among product designers," unless consumer acceptance has already been documented.
- **Broad.** The analysis has to be broad enough to capture trends. A small retail chain would have to look beyond its regional operating area in order to understand larger trends that may impact the stores.
- **Long term.** Consider multiple time frames. A SWOT analysis that only looks at the immediate future (or the immediate past) is likely to miss important trends. Engineers at Mars (makers of Skittles, M&Ms, and Snickers) visit trade shows in many fields, not just candy, so that they can identify trends in manufacturing that may take a decade to reach the candy industry. In this way, they can shorten the cycle and take advantage of such trends early when needed.
- **Multiple perspectives.** SWOT analyzes are essentially based on someone's perception. Therefore, a good SWOT should consider the perspective of all areas of the firm. Involve people from shipping, sales, production, and perhaps even from suppliers and channel members.

The SWOT analysis for a company, or for any organization, is both internal and external in focus. Some of the external areas for focus are collaborators (suppliers, distributors, and others), competitors, and the business climate.

Collaborators

Along with company strengths and weaknesses, identify any actual or potential partners needed to pull the plan off. Note that collaborators are more than just a list of suppliers and distributors. Collaborators are those organizations, either upstream or downstream in the value chain, you need to partner with to cocreate value.

For example, AT&T collaborated with Apple to develop the iPhone. AT&T is downstream in the value chain, providing the needed cell service and additional features that made the iPhone so revolutionary. At the same time, however, AT&T was a part of the development of the iPhone and the attendant marketing strategy; the partnership began well before the iPhone was launched.

Competitors

Your marketing plan, if it is any good at all, is likely to spark retaliation from one or more competitors. For example, Teradata and Unica operate in the same market. Both sell data-warehousing products to companies. Teradata primarily focuses on the information technology departments that support the data warehouse, whereas Unica focuses on the marketing departments that actually use the data warehouse. Nonetheless, Teradata is well aware of Unica's marketing strategy and is taking steps to combat it by broadening its own market to include data-warehousing users in marketing departments. One step was to teach their salespeople what marketing managers do and how they would use a data warehouse as part of their job so that when these salespeople are talking to marketing managers, they can know what they're talking about.

Teradata marketing planners also have to be aware of potential competitors. What if IBM or HP decided to enter the market? Who is most likely to enter the market, what would their offering look like, and how can we make it harder for them to want to enter the market? If your company captures their market before they can enter, then they may choose to go elsewhere.

Identify your competitors and be honest about both their strengths and weaknesses in your marketing. Remember that other people, and perhaps other organizations, will be using your plan to create their own plans. If they are to be successful, they have to know what competition they face. Include, too, in this section of the plan how quickly you expect your competitors to retaliate and what the nature of that retaliation will be. Will they lower their prices, create similar offerings, add services to drive up the value of their products, spend more on advertising, or a combination of these tactics?

A complete competitive analysis not only anticipates how the competition will react; it also includes an analysis of the competition's financial resources. Do your competitors have money to invest in a competitive offering? Are they growing by acquiring other companies? Are they growing by adding new locations or new sales staff? Or are they growing simply because they are effective? Maybe they are not growing at all. To answer these questions, you will need to carefully review your competitors' financial statements and all information publicly available about them. This can include an executive quoted in an article about a company's growth for a particular product or an analyst's projection for future sales within a specific market.

Business Climate

You may have already addressed some of the factors in the business environment that are creating the opportunity for your offering. For example, when you discussed customers, you perhaps noted a new technology they are beginning to use.

A complete coverage of the climate would include the following (the PEST analysis):

- Political climate
- Economic climate
- Social and cultural environment
- Technological environment

A scan of the political climate should include any new government regulations as well as legislation. For example, will changes in the tax laws make for more or less disposable income among our customers? Will the tightening of government regulations affect how salespeople can call on doctors, for example, hindering your marketing opportunity? Will federal policies that affect exchange rates or tariffs make global competitors stronger or weaker? For example, the government introduced the Cash for Clunkers program to encourage people to buy new cars. Within only a few weeks, 250,000 new cars were sold through the program and it ran out of money. Auto dealers were caught unprepared, and many actually ran out of popular vehicles.

The economic climate is also important to consider. While 2008 saw tremendous swings in gas prices, other factors such as the global financial crisis affected everything from the price of corn to the sales of movie tickets. Such volatility is unusual, but it is important nonetheless to know what the economy is doing.

The social and cultural environment is also important to watch. Marketers, for example, may note the rise in the immigrant population as a market segment, but it is also important to recognize the influence of different immigrant cultures. Understanding these cultures is important in reaching this market segment with the right marketing mix. In creating marketing campaigns for something such as a financial product, it's very important to understand the history that immigrants have had with financial institutions in their home countries.

Finally, the technological environment should be considered. Technology is the application of science to solve problems. It encompasses more than just information (computer) technology. For example, when Ted Schulte discusses a pacemaker with a cardiac surgeon, Ted is describing the latest technology available. The new technology could be related to the battery used to power the pacemaker, the materials used in the leads (the wires that connect the pacemaker to the body), or even the material that encases the pacemaker. Understanding the technological environment can provide you with a greater understanding of a product's life cycle and the direction the market is taking when it comes to newer technologies.

Figure A.9. Technology encompasses more than just information technology. Produced by Guidant Technologies, this pacemaker utilizes information technology to record heart-function data a doctor can read later. But the product might also utilize other new technologies, such as a new battery, materials used to connect the pacemaker to the heart, and the casing for the pacemaker, all of which affect its performance.

Many of the environmental factors we mentioned impact other factors. For example, technological changes are altering the social and cultural environment. Instead of writing letters to one another, families and friends use e-mail and social networking sites to communicate and maintain relationships. Online communication has affected any number of businesses, including the greeting card business and Canada Post, which recently announced it was closing many facilities.

The Strategy

The next section of the plan details the strategy your organization will use to develop, market, and sell the offering. This section is your opportunity to create a compelling argument as to what you intend to do and why others should invest in the strategy. Your reader will be asking, "Why should we adopt this strategy?" To answer that question, you may need to include a brief discussion of the strategic alternatives that were considered and discarded. When readers complete the section, they should conclude that the strategy you proposed is the best one available.

The Product (or Offering)

Provide details on the features and benefits of the offering, including pricing options, in this section. For example, in some instances, your organization might plan for several variations of the offering, each with different pricing options. The different options should be discussed in detail, along with the market segments expected to respond to each option. Some marketing professionals like to specify the sales goals for each option in this section, along with the associated costs and gross profit margins for each. Other planners prefer to wait until the budget section of the plan to provide that information.

The plan for the offering should also include the plan for introducing offerings that will follow the initial launch. For example, when should Campbell's introduce new soup flavors? Should there be seasonal flavors? Should there be smaller sizes and larger sizes, and should they be introduced all at the same time or in stages?

Part of an offering is the service support consumers need to extract the offering's full value. The support might include presales support as well as post-sales support. For example, Teradata has a team of finance specialists who can help customers document the return on investment they would get from purchasing and implementing a Teradata data warehouse. This presales support helps potential buyers make a stronger business case for buying Teradata's products with executives who control their companies' budgets.

Postsales support can include technical support. In B2B environments, sellers frequently offer to train their customers' employees to use products as part of their post-sales support. Before you launch an offering, you need to be sure your firm's support services are in place. That means training service personnel, creating the appropriate communication channels for customers to air their technical concerns, and other processes.

Figure A.10. Prior to launching a new offering, the pre-sales and post-sales support personnel for it have to be trained and the appropriate work processes created so that the right level of support is provided. These call-centre technicians had to first learn the offering's technical processes before it could be launched.

The Communication Plan

How will the offering be launched? Will it be like Dow Corning's launch of a new silicon acrylate copolymer, a product used to add colour to cosmetics? That product was announced at the In-Cosmetics trade show in Barcelona. Or will you invite customers, media, and analysts from around the globe to your company's offices for the launch, as SAS did with its latest software product?

In addition to the announcement of the new product, the communication plan has to specify how ongoing customer communications will be conducted. The mechanisms used to gather customer feedback as well as how the offering will be promoted to customers need to be spelled out. For example, will you create an online community for PlayStation as Sony has.

The discussion of the communication plan can be fairly broad. You can put additional details in a separate planning document that outlines the product's advertising strategies, event strategies (such as trade shows and special events like customer golf tournaments that will be used to promote the product), and sales strategies.

Distribution

This section should answer questions about where and how the offering will be sold. Who will sell it? Who will ship it? Who will service and support it? In addition, the distribution section should specify the inventories that need to be maintained to meet customer expectations for fast delivery and where those inventories should be kept.

Budget

The budget section is more than just a discussion of the money needed to launch the new offering. A complete budget section will cover all the resources, such as new personnel, new equipment, new locations, and so forth, for the launch to be a success. Of course, these resources have costs associated with them. In some instances, the budget might require that existing resources be redeployed and a case made for doing so.

The first portion of the budget will likely cover the investment required for the launch. The plan might point out that additional funds need to be allocated to the offering to make it ready for the market. For example, perhaps additional beta testing or product development over and above what the firm normally commits to new products is needed. Certainly, marketing funds will be needed to launch the offering and pay for any special events, advertising, promotional materials, and so forth. Funds might also be needed to cover the costs of training salespeople and service personnel and potentially hiring new staff members. For example, Teradata introduced a new offering that was aimed at an entirely new market. The new market was so different that it required a new sales force. Details for the sales force, such as how many salespeople, sales managers, and support personnel will be needed, would go in this section.

The budget section should include the costs associated with maintaining the amount of inventory of the product to meet customers' needs. The costs to provide customers with support services should also be estimated and budgeted. Some products will be returned, some services will be rejected by the consumer, and other problems will occur. The budget should include projections and allowances for these occurrences.

The budget section is also the place to forecast the product's sales and profits. Even though the plan likely mentioned the sales goals set for each market segment, the budget section is where the details go. For example, the cost for advertising, trade shows, special events, and salespeople should be spelled out. The projections should also include timelines. The sales costs for one month might be estimated, as well as two months, six months, and so forth, as figure A.11 shows.

Note that figure A.11 shows that the product's costs are high early on and then decrease before leveling out. That cost line assumes there is a heavy upfront investment to launch the offering, which is usually true for new products. The sales of the offering should grow as it gathers momentum in the market. However, the market potential stays the same, assuming that the potential number of customers stays the same. That might not always be the case, though. If we were targeting mothers of babies, for example, the market potential might vary based on the projected seasonality in birth rates because more babies tend to be born in some months than others.

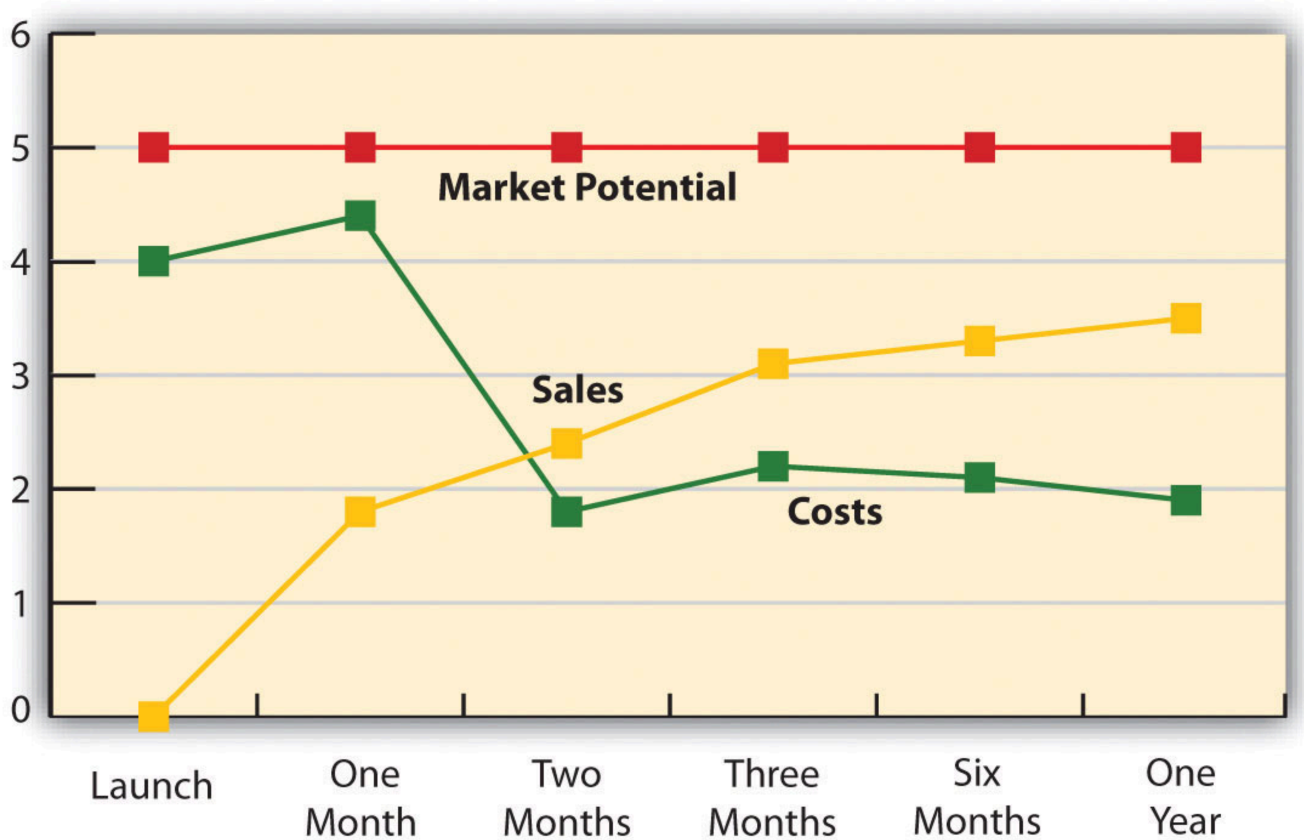


Figure A.11. A Marketing Plan Timeline Illustrating Market Potential, Sales, and Costs. *[Read full image description.]*

Conclusion

In the conclusion, repeat the highlights. Summarize the target market, the offer, and the communication plan. Your conclusion should remind the reader of all the reasons why your plan is the best choice.

Of course, the written plan is itself a marketing tool. You want it to convince someone to invest in your ideas, so you want to write it down on paper in a compelling way. Figure A.12 offers some tips for effectively doing so. Also, keep in mind that a marketing plan is created at a single point in time. The market, though, is dynamic. A good marketing plan includes how the organization should respond to various scenarios if the market changes. In addition, the plan should include "triggers" detailing what should happen under the scenarios. For example, it might specify that when a certain percentage of market share is reached, then the price of the product will be reduced (or increased). Or the plan might specify the minimum amount of the product that must be sold by a certain point in time—say, six months after the product is launched—and what should happen if the mark isn't reached. Also, it should once again be noted that the marketing plan is a communication device. For that reason, the outline of a marketing plan may look somewhat different from the order in which the tasks in the outline are actually completed.

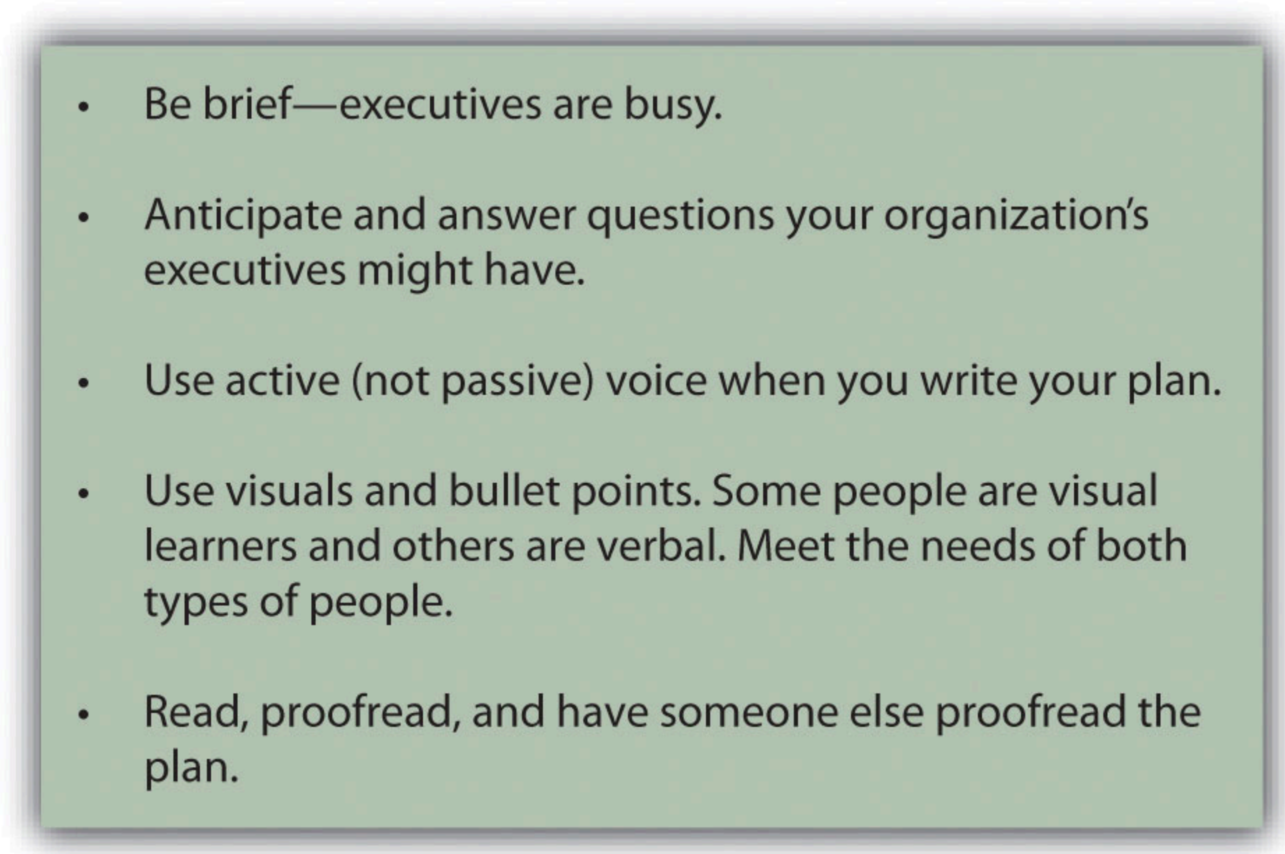


Figure A.12. Tips for Writing an Effective Marketing Plan. *[Read full image description.]*

Key Takeaways

A marketing plan's executive summary should include a brief summary of the market, the product to be offered, the strategy behind the plan, and the budget as well as any other important information. In this section of the plan, the planner describes the offering and a brief rationale for why the company should invest in it. The market section of the plan should describe a firm's customers, competitors, any other organizations with which it will collaborate, and the climate of the market. The strategy section details the tactics the organization will use to develop, market, and sell the offering. When readers complete the strategy section, they should conclude that the proposed strategy is the best one available.

The budget section of the marketing plan covers all the resources, such as new personnel, new equipment, new locations, and so forth, needed to successfully launch the product, as well as details about the product's costs and sales forecasts.

Review and Reflect

1. What is a marketing plan and how is it used?
2. Which section of the marketing plan is most important? Why? The least important?
3. What is the purpose of scenario planning?
4. Can you show us into which section of the Marketing Plan the items on the right go? What is their correct place?

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://kpu.pressbooks.pub/introductiontomarketing/?p=364#h5p-46

Media Attributions

- Marketing Plan Outline © Unknown is licensed under a CC BY-NC-SA (Attribution NonCommercial ShareAlike) license
- Business presentation © Vector Open Stock is licensed under a CC BY-SA (Attribution ShareAlike) license
- Family © Vladimir Pustovit is licensed under a CC BY (Attribution) license
- Pacemaker © Steven Rodriquez is licensed under a CC BY-NC-ND (Attribution NonCommercial NoDerivatives) license
- Salesman © CWCS Managed Hosting is licensed under a CC BY (Attribution) license
- A Marketing Plan Timeline Illustrating Market Potential, Sales, and Costs © Anonymous is licensed under a CC BY-NC-SA (Attribution NonCommercial ShareAlike) license
- Tips for Writing an Effective Marketing Plan © Anonymous is licensed under a CC BY-NC-SA (Attribution NonCommercial ShareAlike) license

GLOSSARY

action

a desired response

actual product

features that surround the core product

adaptation

changing the product as needed to meet the needs of the local culture

advertising

paying to disseminate a message that identifies a brand or an organization being promoted to many people at one time

advertising allowance

a type of trade allowance that applies to advertising

AIDA model

attention, interest, desire, and action (stages a consumer goes through)

alpha testing

to ensure that the product works like it's supposed to in a variety of different environments

analytics software

software that allows managers who are not computer experts to gather all kinds of different information from a company's databases

atmospherics

physical factors in a store that firms can control

attitude

mental positions or emotional feelings, favourable or unfavourable evaluations, and action tendencies people have about products, services, companies, ideas, issues, or institutions

augmented product

features that surround the actual product

bait and switch

when a business tries to lure in customers with an incredibly low-priced product and sales personnel attempt to sell them more expensive products

behavioural segmentation

divides people and organizations into groups according to how they behave with or act toward products

benefit

when a feature satisfies a need or want that a customer has (what does the customer get out of using the product)

beta testing

having actual customers make sure the product works under real-world conditions

bot

a program that performs automatic functions online

brand

a name, picture, design, or symbol, or combination of those items used by a seller to identify its offerings and to differentiate them from competitors' offerings

brand extension

utilizing an existing brand name or brand mark for a new product category

brand mark

the symbol associated with a brand

brand name

the spoken part of a brand's identity

branding

the set of activities designed to create a brand and position it in the minds of consumers

breakeven point (BEP)

the point at which the revenue (or number of units sold) equals total costs

business-to-government (B2G) market

when companies sell to local, state, and federal governments

buying centre

groups of people within organizations who make purchasing decisions

CAN-SPAM Act

prohibits the use of e-mail and other technology to randomly push a message to a potential consumer

captive pricing

when consumers must buy a given product because they are at a certain event or location or they need a particular product because no substitutes will work

case study

analyzes how another company solved the problem that's being researched

category killer

sells a high volume of a particular type of product so that other retailers have difficulty competing

cause-related marketing

a corporation associating the sales of its products to a program of donations or support for a charitable or civic organization

channel conflict

a dispute among channel members related to goals, roles or rewards

channel leader

a strong channel partner with channel power

channel partner

a partner to actively promote and sell a product as it travels through its marketing channel to users

channel power

channel partners who wield strong power in areaas such as economic or expertise

closed-ended question

questions that limit a respondent's answers

consumer insight

what results when you use both quantitative and qualitative information and data

consumer sales promotion

short-term incentives such as coupons, contests, games, rebates, and mail-in offers that supplement the advertising and sales efforts

contest

sales promotions people enter or participate in to have a chance to win a prize

convenience offering

products and services consumers generally don't want to put much effort into shopping for

convenience sample

a sample a researcher draws because it's readily available and convenient to do so

convenience store

miniature supermarkets

core product

the central functional offering

corporate philanthropy

a corporation's gifts to charitable organizations

corporate social responsibility (CSR)

a philosophy in which the company's expected actions include not only producing a reliable product, charging a fair price with fair profit margins, and paying a fair wage to employees, but also caring for the environment and acting on other social concerns

cost-plus pricing

taking the cost of the product and then add a profit to determine a price

coupon

an immediate price reduction off an item

crisis communication

the process of countering the extreme negative effects a company experiences when it receives bad publicity

culture

the shared beliefs, customs, behaviours, and attitudes that characterize a society

customer profile

types of buyers

decider

the person who makes the final purchasing decision

decline stage

the last stage of the project life cycle

decoding

the receiver (customer or consumer) interpreting the message

demographic segmentation

segmenting buyers by personal characteristics such as age, income, ethnicity and nationality, education, occupation, religion, social class, and family size

department store

carry a wide variety of household and personal types of merchandise such as clothing and jewelry

derived demand

demand that comes from a source other than the primary buyer of a product

direct channel

the shortest marketing channel consists of just two parties: a producer and a consumer

direct investment

acquiring part or all of a foreign company

direct mail

direct marketing through the mail

direct marketing

delivery of personalized and often interactive promotional materials to individual consumers

direct response advertising

includes an offer and a call to action

disintermediation

cutting middlemen or intermediaries out of the process

diversification strategy

entering new markets with new products or doing something outside a firm's current business

Do Not Call List

a list of phone numbers registered with the government

double-barreled question

asking two questions in the same question

downsize

decrease the package sizes of their products or the amount of the product in the packages to save money and keep prices from rising too much

drugstore

specialize in selling over-the-counter medications, prescriptions, and health and beauty products and may offer services such as photo printing

dumping

selling a large quantity of goods at a price too low to be economically justifiable in another country

encoding

translating a message so that it's appropriate for the message channel

ethnography

researchers interview, observe, and often videotape people while they work, live, shop, and play

evaluative criteria

certain characteristics that are important to you

everyday low prices

the price initially set is the price the seller expects to charge throughout the product's life cycle

exclusive distribution

selling products through one or very few outlets

exploratory research design

when you are initially investigating a problem but you haven't defined it well enough to do an in-depth study of it

export

sell products to buyers abroad

expressed warranty

an oral or written statement by the seller regarding how the product should perform and the remedies available to the consumer in the event the offering fails

family life cycle

the stages families go through over time and how this affects people's buying behaviour

feature

delivers a benefit

feedback

information the seller receives by someone purchasing a product

fixed costs

costs that a company must pay regardless of its level of production or level of sales

fluctuating demand

a small change in demand by consumers can have a big effect throughout the chain of businesses that supply all the goods and services that produce it

focus group

a group of potential buyers who are brought together to discuss a marketing research topic with one another

franchising

grants an independent operator the right to use a company's business model, name, techniques, and trademarks for a fee

free merchandise

product provided by the manufacturer for free to retailers if they sell products to consumers

free on board

designates who is responsible for what shipping costs and who owns the title to the goods and when

free sample

allows consumers to try a small amount of a product so that hopefully they will purchase it

gatekeeper

people who will decide if and when you get access to members of the buying centre

geocoding

a process that takes data and plots it on a map

geodemographics

combining both demographic and geographic information

geographic segmentation

divides the market into areas based on location

green marketing

marketing environmentally safe products and services in a way that is good for the environment

greenwashing

when corporations exaggerate or misstate the impact of their environmental actions

grey market

a market in which a producer hasn't authorized its products to be sold

growth stage

the second stage of the product life cycle

hierarchy of needs

a pyramid-shaped hierarchy of motives

horizontal conflict

conflict that occurs between organizations of the same type

implied warranty

an obligation for the seller to provide an offering of at least average quality, beyond any written statements

impulse offering

items purchased without any planning

indirect channel

the product passes through one or more intermediaries

industrial espionage

gathering corporate information illegally or unethically

influencer

people who may or may not use the product but have experience or expertise that can help improve the buying decision

initiator

the people within the organization who first see the need for the product

institutional market

nonprofit organizations such as the Canadian Red Cross Society, churches, hospitals, charitable organizations, universities, clubs, and so on

integrated marketing communications (IMC)

an approach designed to deliver one consistent message to buyers through an organization's promotions that may span all different types of media

intensive distribution

strategy to try to sell products in as many outlets as possible

intermediary

the other organizations that products and services pass through before they get to you

interview

engaging in detailed, one-on-one, question-and-answer sessions with potential buyers

introduction stage

the first stage in a product's life cycle

joint demand

when the demand for one product increases the demand for another

joint venture

an entity created when two parties agree to share their profits, losses, and control with one another in an economic activity they jointly undertake

leader pricing

pricing one or more items low to get people into a store

learning

the process by which consumers change their behaviour after they gain information or experience

license

sell the right to use some aspect of the production processes, trademarks, or patents to individuals or firms in foreign markets

line breadth

how many different, or distinct, product lines a company has

line depth

how many offerings there are in a single product line

line extension

when new but similar products are added to the product line

loss leader

items priced below cost in an effort to get people into stores

loyalty program

sales promotions designed to get repeat business

margin of error

the overall tendency of the study to be off kilter

markdown

price reductions

market development strategy

focus on entering new markets with existing products

market penetration strategy

focus on increasing a firm's sales of its existing products to its existing customers

market test

test the complete launch of a product's marketing plan to ensure that it reaches buyers, gets positive feedback, and generates sales of the product or service

marketing

a set of business practices designed to plan for and present an organization's products or services in ways that build effective customer relationships

marketing mix

the components of marketing: product, price, place, promotion

marketing plan

a strategic plan at the functional level that provides a firm's marketing group with direction

marketing research aggregator

a marketing research company that buys research reports from other marketing research companies and then sells the reports in their entirety or in pieces to other firms

markup

an amount added to the cost of a product

mass marketing

broadcasting a message that will reach the largest number of people possible

maturity stage

the third stage of the product life cycle

medium

form of media

mission statement

states the purpose of the organization and why it exists

mobile marketing

promotions sent to personal devices through the internet

modified rebuy

when a company wants to buy the same type of product it has in the past, but it makes some modifications

motivation

inward drive to get what we need

mystery shopper

someone who is paid to shop at a firm's establishment or one of its competitors to observe the level of service, cleanliness of the facility, and so forth and report his or her findings to the firm

new-buy

when a firm purchases a product for the first time

noise

interference that distorts marketing messages

nondisclosure agreement (NDA)

a contract that specifies what information is proprietary, or owned by the partner, and how, if at all, the partner can use that information

nonprobability sample

any type of sample that's not drawn in a systematic way

nonstore retailing

retailing not conducted in stores

objective

what organizations want to accomplish in a given time frame

odd-even pricing

when a company prices a product a few cents or a few dollars below the next dollar amount

off-price retailer

stores that sell a variety of discount merchandise that consists of seconds, overruns, and the previous season's stock other stores have liquidated

online retailer

can fit into any store category

open-ended question

questions that ask respondents to elaborate

out-of-home advertising

promotions in public locations

outlet store

discount retailers that operate under the brand name of a single manufacturer, selling products that couldn't be sold through normal retail channels due to mistakes made in manufacturing

penetration pricing strategy

using a low initial price to encourage many customers to try a product

perception

how you interpret the world around you and make sense of it in your brain

perceptual map

a two-dimensional graph that visually shows where your product stands relative to your competitors based on criteria important to buyers

perceptual process

how a person decides what to pay attention to and how to interpret and remember different things

phishing

soliciting personal information in order to steal an identity and use it to generate cash fraudulently

planned obsolescence

a deliberate effort by companies to make their products obsolete, or unusable, after a period of time

point-of-purchase display

encourage consumers to buy a brand or product immediately

pop-up store

small temporary stores

population

from which you derive your target market

positioning

how consumers perceive a product relative to the competition

post-purchase dissonance

when a product or service does not meet expectations of the buyer

predatory pricing

setting low prices to drive competitors out of business

premium

something you get either for free or for a small shipping and handling charge with your proof of purchase

press release

a news story written by an organization to promote a product, organization, or person

prestige pricing

when a higher price is utilized to give an offering a high-quality image

price bundling

when different offerings are sold together at a price that's typically lower than the total price a customer would pay by buying each offering separately

price discrimination

charging different customers different prices for the same product

price elastic

when consumers are very sensitive to the price change of a product

price elasticity

people's sensitivity to price changes

price fixing

when firms get together and agree to charge the same prices

price inelastic

when the demand for a product stays relatively the same and buyers are not sensitive to changes in its price

price lining

offering a few price levels for different packages

pricing objective

what a company wants to accomplish with its pricing

primary data

information you collect yourself, using hands-on tools such as interviews or surveys, specifically for the research project you're conducting

primary demand

demand for a product category

privacy laws

limit the amount and type of information a company can collect about a consumer and also specify how that information can be used or shared

probability sample

each would-be participant has a known and equal chance of being selected

producer

companies that purchase goods and services that they transform into other products

product

a tangible good people can buy, sell, and own

product demonstration

show a channel partner's customers how products work and answer any questions they might have

product development strategy

creating new products for existing customers

product life cycle (PLC)

the stages the product goes through after development, from introduction to the end of the product

product line

a group of related offerings

product mix

the entire assortment of products a firm offers

product placement

getting a company's product included as part of a television show, movie, video game, special event, or book

professional selling

an interactive, paid approach to marketing that involves a buyer and a seller

projective technique

used to reveal information research respondents might not reveal by being asked directly

promotion or communication mix

the different types of marketing communications an organization uses

promotional pricing

a short-term tactic designed to get people into a store or to purchase more of a product

proximity marketing

segment and target buyers geographically within a few hundred feet of their businesses using wireless technology

psychographic segmentation

people's activities, interests, opinions, attitudes, values, and lifestyles

psychographics

combines the lifestyle traits of consumers and their personality styles with an analysis of their attitudes, activities, and values to determine groups of consumers with similar characteristics

psychological appeal

trying to reach our self-esteem and persuade us that we will feel better about ourselves if we use certain products

public relations (PR)

communication designed to help improve and promote an organization's image and products

puffery

exaggerated claims

pull strategy

creating demand for a product among consumers so that businesses agree to sell the product

push money

a cash incentive from the manufacturer to push a particular item

push strategy

a manufacturer convinces wholesalers, distributors, or retailers to sell its products

qualitative research

any form of research that includes gathering data that are not quantitative, and it often involves exploring questions such as *why* as much as *what* or *how much*

rebate

refunding part (or all) of the purchase price of a product after the buyer completes a form and sends it to the manufacturer with proof of purchase

reference group

groups a consumer identifies with and may want to join

repositioning

an effort to 'move' a product to a different place in the minds of consumers

request for proposal (RFP)

an invitation to submit a bid to supply the good or service

research design

what data you are going to gather and from whom, how and when you will collect the data, and how you will analyze them once they've been obtained

research objective

the goal(s) the research is supposed to accomplish

reseller

companies that sell goods and services produced by other firms without materially changing them

retailer

companies that buy products from wholesalers, agents, or distributors and then sell them to consumers

retro brands

old brands or products that companies bring back for a period of time

rolling launch

the product is made available to certain markets first and then other markets later

sales contest

provide incentives for salespeople to increase their sales

sample

a subset of potential buyers that are representative of your *entire* target market

sampling error

any type of marketing research mistake that occurs because a sample was utilized

scanner-based research

information collected by scanners at checkout stands in stores

secondary data

data that have already been collected by someone else, or data you have already collected for another purpose

segmentation base

criteria to classify buyers

selective attention

the process of filtering out information based on how relevant it is to you

selective demand

demand for a specific brand

selective distortion

misinterpretation of the intended message

selective distribution

having products available in a few specific outlets

selective retention

when people forget information

sentiment analysis

a method of examining content in blogs, tweets, and other online media (other than news media) to determine what people are thinking at any given time

service

an action that provides a buyer with an intangible benefit

shopping offering

one for which the consumer will make an effort to compare and select a brand

situation analysis

analyzes both external and the internal environments

skimming pricing strategy

setting a high initial price for a product to more quickly recoup the investment related to its development and marketing

social enterprise

the use of business organizations and techniques to attain laudable social goals

social media

online communication among interdependent and interconnected networks of organizations, people, and communities

spam

unwanted commercial e-mail similar to junk mail

specialty offering

highly differentiated offerings

specialty store

sell a certain type of product, but they usually carry a deep line of it

sponsorship

financial support for events, venues, or experiences and provide the opportunity to target specific groups

stakeholder capitalism

a conception of the corporation as a body that owes a duty not only to its shareholders but also to all its stakeholders, defined as all those parties who have a stake in the performance and output of the corporation

standardized

products are kept the same in international markets

store brand

products retailers produce themselves or pay manufacturers to produce for them

straight rebuy

a situation in which a purchaser buys the same product in the same quantities from the same vendor

strategic channel alliance

companies increasing their sales by forming alliances with one another

strategic planning process

a process that helps an organization allocate its resources to capitalize on opportunities in the marketplace

strategy

what a firm is going to do to achieve its objectives

subculture

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

sugging

any form of selling under another guise or a phony front

supermarket

self-service retailers that provide a full range of food products to consumers as well as some household products

superstore

oversized department stores that carry a broad array of general merchandise as well as groceries

supply chain

all the organizations that figure into any part of the process of producing, promoting, and delivering an offering to its user

supply chain management

monitoring supply chains and tinkering with them so they're as efficient as possible

sustainability

the ability of a society or company to continue to operate without compromising the planet's environmental condition in the future

SWOT analysis

analyzes **S**trengths, **W**eaknesses, **O**pportunities, and **T**hreats

syndicated research

primary data that marketing research firms collect on a regular basis and sell to other companies

tactic

specific actions taken to execute a strategy

tagline

a catchphrase designed to sum up the essence of a product

target market

a specific group of customers firms want to reach

telemarketing

direct marketing by phone

total costs

include both fixed costs and variable costs

trade allowance

give channel partners different incentives to push a product

trade promotion

targeted to channel members who conduct business or trade with consumers

training

manufacturers helping salespeople understand how the manufacturers' products work and how consumers can be enticed to buy them

trend

influence on consumer behaviour

triple bottom line (TBL)

economic, social, and environmental results as well as financial well-being (People, Planet, Profit)

unfair trade law

state laws preventing large businesses from selling products below cost

unique selling proposition (USP)

specific benefit consumers will remember

unsought offering

those that buyers do not generally want to have to shop for until they need them

used retailer

retailers that sell used products

user

the people and groups within the organization that actually use the product

value

benefits buyers receive that meet their needs

value proposition

the specific benefits a product or service offering provides a buyer

variable costs

costs that change with a company's level of production and sales

vertical conflict

a conflict that occurs between two different types of members in a channel

warehouse club

supercentres that sell products at a discount and requires a membership to access

warranty

a promise by the seller that an offering will perform as the seller said it would

wholesaler

companies that obtain large quantities of products from producers, store them, and break them down into cases and other smaller units more convenient for retailers to buy

VERSIONING HISTORY

This page lists major changes to this book with major changes marked with a 1.0 increase in the version number and minor changes marked with a 0.1 increase.

Version	Date	Change
1.0	16-Feb-2024	Pressbook Created