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Marketing: Developing Relationships

● CHAPTER 12 Customer-Driven Marketing

● CHAPTER 13 Dimensions of Marketing Strategy

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CHAPTER OUTLINE

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OBJECTIVES

After reading this chapter, you will be able to:

- Define marketing, and describe the exchange process.
- Specify the functions of marketing.
- Explain the marketing concept and its implications for developing marketing strategies.
- Examine the development of a marketing strategy, including market segmentation and marketing mix.
- Investigate how marketers conduct marketing research and study buying behavior.
- Summarize the environmental forces that influence marketing decisions.
- Assess a company's marketing plans, and propose a solution for resolving its problem.

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Bargain Shopping for Bridal Gowns

Most women have been planning their wedding day for their whole lives, with a lot of their thoughts going to the wedding dress. Even into adulthood, many women are still searching for that fairytale gown. Consumed by that vision of the magical, designer-made dress, many women are willing to spend thousands of dollars to purchase it. However, such an expense is not a reality for most women. Increasingly, however, alternatives do exist. As the cost of the average wedding ceremony balloons—up to nearly \$28,000 in 2007—more companies are seeking to take advantage of the large segment of the market that cannot afford this level of extravagance by offering lower-cost, yet stylish gowns.

In the past 60 years, the bridal industry has reinvented itself numerous times. In the 1950s, most women purchased their wedding dresses in department stores. Then, in the 1960s, small, exclusive, boutique-style wedding shops offering more expensive selections began popping up. Finally, in the 1990s, David's Bridal entered the market, offering affordable gowns ranging from \$99 to \$1,000. Today, David's Bridal maintains about 30 percent of the wedding dress market. Recognizing this company's success, a number of well-known apparel retailers also now produce low-cost wedding dresses. JC Penney offers a popular wedding gown style for \$179.99, J.Crew sells gowns for \$225 to \$2,950, Ann Taylor has gowns for \$600 to \$1,200, and Target features an entire line of Isaac Mizrahi gowns all for under \$160. Brides will always dream of their perfect wedding, and designers have been able to play off of that by advertising stylish, yet affordable, offerings.

To maintain the appearance of high style at a lower price, David's Bridal and other companies typically use synthetic materials and send production

continued

overseas. A typical designer dress makes use of expensive materials such as silk, pearls, crystals, and fine lace. Fabric alone may cost \$60 to \$125 per yard. Wedding dresses can require many yards of fabric. High-end dresses usually have a lot of detailing, making their design very labor intensive, and therefore even more costly. A basic designer dress usually sells for \$4,000 to \$6,000, with more detailed custom gowns going for much higher. If one has a limited budget and is willing to sacrifice hand-tooled buttons in favor of a zipper, David's Bridal offers acceptable alternatives.

Catering to the brides who cannot let the dream of a designer dress die, Filene's Basement's "Running of the Brides" is an occasion so famous that it hardly requires promotion. An annual event, this sale offers designer gowns originally priced up to \$5,000 that are discounted all the way to \$249 to \$699. To secure their positions at the front of the line, brides and their friends often begin to line up the night before the sale. Complete mayhem ensues once the doors open, and racks are stripped bare within minutes. There is no time for a second look-around. A bride grabs as many dresses as she can, and tries them on. If she can find the right dress, the experience can be worth the insanity.

The wedding industry has grown by leaps and bounds, and these examples are but a few of the wedding dress shopping choices available to women. Regardless of a woman's tastes and budget, high competition, strong demand, and market segmentation have ensured that these days, there is the perfect dress at the right price for every bride.¹

Introduction

Marketing involves planning and executing the development, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational goals. These activities ensure that the products consumers want to buy are available at a price they are willing to pay and that consumers are provided with information about product features and availability. Organizations of all sizes and objectives engage in these activities.

In this chapter, we focus on the basic principles of marketing. First we define and examine the nature of marketing. Then we look at how marketers develop marketing strategies to satisfy the needs and wants of their customers. Next we discuss buying behavior and how marketers use research to determine what consumers want to buy and why. Finally we explore the impact of the environment on marketing activities.

Nature of Marketing

A vital part of any business undertaking, **marketing** is a group of activities designed to expedite transactions by creating, distributing, pricing, and promoting goods, services, and ideas. These activities create value by allowing individuals

marketing

a group of activities designed to expedite transactions by creating, distributing, pricing, and promoting goods, services, and ideas

and organizations to obtain what they need and want. A business cannot achieve its objectives unless it provides something that customers value. Nike, for example, has created the Nike Plus system, which combines Nike's popular footwear with Apple's extremely successful iPod. For \$29, users can buy the Nike Plus iPod kit, which includes a sensor that can be inserted in the bottom of a Nike Plus–equipped shoe, along with a receiver that is attached to an iPod Nano. When installed, the kit measures a runner's speed, calories burned, and distance run. The data stored in the Nano can be uploaded to the Web, where people can monitor their own progress or see how they stack up against others using the system. Researchers at Nike came up with the idea after seeing how popular the iPod had become with runners.² But just creating an innovative product that meets many users' needs isn't sufficient in today's volatile global marketplace. Products must be conveniently available, competitively priced, and uniquely promoted.

Of all the business concepts covered in this text, marketing may be the hardest for organizations to master. Businesses try to respond to consumer wants and needs and to anticipate changes in the environment. Unfortunately, it is difficult to understand and predict what consumers want: Motives are often unclear; few principles can be applied consistently; and markets tend to fragment, each desiring customized products, new value, or better service.

It is important to note what marketing is not: It is not manipulating consumers to get them to buy products they do not want. It is not just selling and advertising; it is a systematic approach to satisfying consumers. Marketing focuses on the many activities—planning, pricing, promoting, and distributing products—that foster exchanges. As gas prices increased in 2008, General Motors recognized that it would not be able to sell as many trucks because consumer preference was moving toward smaller cars. GM, therefore, had to shift its strategy in order to be successful in a time of high gas prices and poor U.S. economic performance. The company closed some of its truck plants, began to consider selling the Hummer brand, and increased production of more fuel-efficient vehicles.³

The Exchange Relationship

At the heart of all business is the **exchange**, the act of giving up one thing (money, credit, labor, goods) in return for something else (goods, services, or ideas). Businesses exchange their goods, services, or ideas for money or credit supplied by customers in a voluntary *exchange relationship*, illustrated in Figure 12.1. The buyer must feel good about the purchase, or the exchange will not continue. If your local dry cleaner cleans your nice suit properly, on time, and without damage, you will probably feel good about using its services. But if your suit is damaged or isn't ready on time, you will probably use another dry cleaner next time.

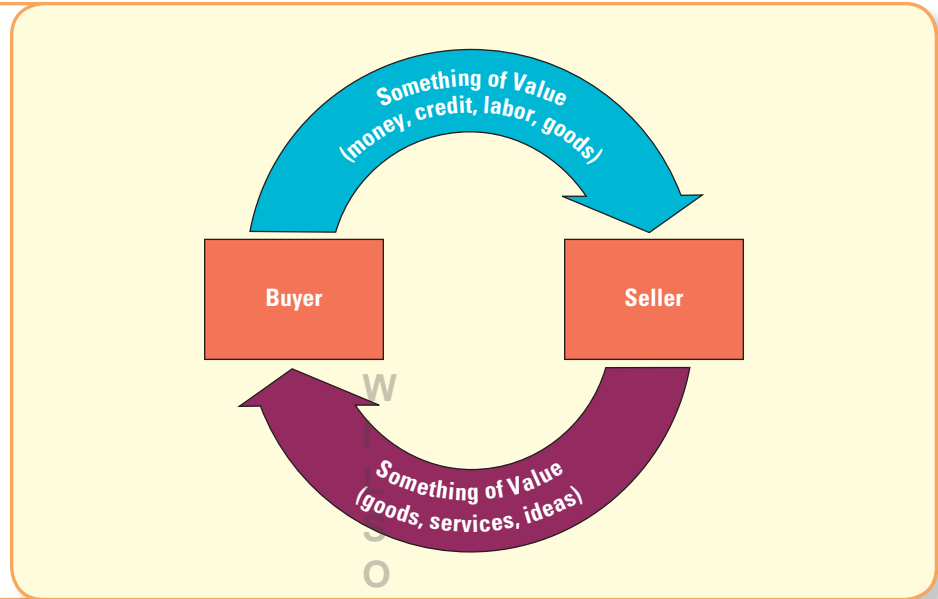
For an exchange to occur, certain conditions are required. As indicated by the arrows in Figure 12.1, buyers and sellers must be able to communicate about the “something of value” available to each. An exchange does not necessarily take place just because buyers and sellers have something of value to exchange. Each participant must be willing to give up his or her respective “something of value” to receive the “something” held by the other. You are willing to exchange your “something of value”—your money or credit—for compact discs, soft drinks, football tickets, or new shoes because you consider those products more valuable or more important than holding on to your cash or credit potential.

When you think of marketing products, you may think of tangible things—cars, stereo systems, or books, for example. What most consumers want, however, is a

exchange
the act of giving up one thing (money, credit, labor, goods) in return for something else (goods, services, or ideas)

FIGURE 12.1

The Exchange Process:
Giving Up One Thing in
Return for Another

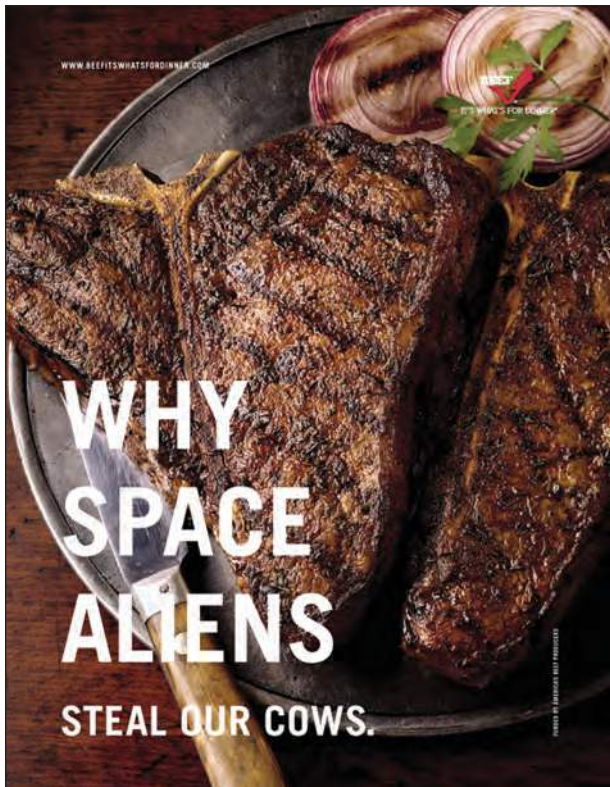


way to get a job done, solve a problem, or gain some enjoyment. You may purchase a Hoover vacuum cleaner not because you want a vacuum cleaner but because you want clean carpets. Starbucks serves coffee drinks at a premium price, providing convenience, quality, and an inviting environment. Therefore, the tangible product itself may not be as important as the image or the benefits associated with the product. This intangible “something of value” may be capability gained from using a product or the image evoked by it, or even the bond name. Recently, wines named after animals have become popular. Names such as Dancing Bull, Smoking Loon, or The Little Penguin are fun, unpretentious, and easy to remember. They are also far less intimidating than a multisyllabic foreign name. The label or brand name may also offer the added bonus of being a conversation piece in a social environment.

Functions of Marketing

Marketing focuses on a complex set of activities that must be performed to accomplish objectives and generate exchanges. These activities include buying, selling, transporting, storing, grading, financing, marketing research, and risk taking.

Buying. Everyone who shops for products (consumers, stores, businesses, governments) decides whether and what to buy. A marketer must understand buyers’ needs and desires to determine what products to make available.



Marketing can be used by industry groups to increase demand for their industry’s product—like The Beef Checkoff Program.

Selling. The exchange process is expedited through selling. Marketers usually view selling as a persuasive activity that is accomplished through promotion (advertising, personal selling, sales promotion, publicity, and packaging).

Transporting. Transporting is the process of moving products from the seller to the buyer. Marketers focus on transportation costs and services.

Storing. Like transporting, storing is part of the physical distribution of products and includes warehousing goods. Warehouses hold some products for lengthy periods in order to create time utility. Time utility has to do with being able to satisfy demand in a timely manner. This especially pertains to a seasonal good such as orange juice. Fresh oranges are only available for a few months annually, but consumers demand juice throughout the entire year. Sellers must arrange for cold storage of orange juice concentrate so that they can maintain a steady supply all of the time.

Grading. Grading refers to standardizing products by dividing them into subgroups and displaying and labeling them so that consumers clearly understand their nature and quality. Many products, such as meat, steel, and fruit, are graded according to a set of standards that often are established by the state or federal government.

Financing. For many products, especially large items such as automobiles, refrigerators, and new homes, the marketer arranges credit to expedite the purchase.

Marketing Research. Through research, marketers ascertain the need for new goods and services. By gathering information regularly, marketers can detect new trends and changes in consumer tastes.

Risk Taking. Risk is the chance of loss associated with marketing decisions. Developing a new product creates a chance of loss if consumers do not like it enough to buy it. Spending money to hire a sales force or to conduct marketing research also involves risk. The implication of risk is that most marketing decisions result in either success or failure.

The Marketing Concept

A basic philosophy that guides all marketing activities is the **marketing concept**, the idea that an organization should try to satisfy customers' needs through coordinated activities that also allow it to achieve its own goals. According to the marketing concept, a business must find out what consumers desire and then develop the good, service, or idea that fulfills their needs or wants. The business must then get the product to the customer. In addition, the business must continually alter, adapt, and develop products to keep pace with changing consumer needs and wants. McDonald's faces increasing pressure to provide more healthful fast-food choices. The company has eliminated supersized fries and soft drinks from its menu to address these concerns.⁴ McDonald's was also the first fast-food chain to put nutritional information on its food packaging.⁵ In 2008, the company took a further step to address its health commitment by switching to trans-fat-free cooking oils. Now all of McDonald's french fries, pies, and cookies distributed in the United States and Canada are trans-fat free.⁶ Over the years, the fast-food giant has experimented with healthier fare, but consumers often have rejected these items. To remain competitive, the company must be prepared to add to or adapt its menu to satisfy customers' desires for new fads or changes in eating habits. Each business must determine how best to implement the marketing concept, given its own goals and resources.

marketing concept
the idea that an organization should try to satisfy customers' needs through coordinated activities that also allow it to achieve its own goals



Entrepreneurship in Action

Samantha's Table Sparks High-End Romance

Samantha Daniels

Business: Samantha's Table

Founded: 2001

Success: Daniels earns between \$25,000 and \$50,000 per client, plus a hefty bonus if the client marries as the result of her matching skills.

Originally a divorce attorney hailing from Pennsylvania, Samantha Daniels changed course to become a high-end matchmaker for Los Angeles's and New York's wealthy singles. If this scenario sounds at all familiar, that is because Daniels's life and business spawned a television show. The NBC comedy *Miss Match*, which starred Alicia Silverstone, was based on her life as a Hollywood matchmaker. While Daniels remains single, she has found great success finding love for some of the country's richest and most influential individuals. To differentiate herself from online dating services, Daniels takes a much more hands-on approach. She also does not limit her search to paying clients, but rather considers everyone she knows in her vast network of singles.

Daniels says that her number-one concern is finding the right match for her clients, regardless of whether the other party has paid for her services or not. She strategically matches individuals based on what she knows of them and brings together potential matches over drinks, at exclusive events, or trendy venues. Daniels does not reveal names of clients but has disclosed that she has been employed by famous actors, athletes, and those involved in high-profile professional companies. In case you're wondering how this setup works, a potential client pays around \$500 for a two-hour initial consultation. She likes to conduct initial meetings in public to better observe clients' behavioral patterns in social situations. Each client is asked to supply information about ex-spouses, homes, and finances and to fill out a prepared questionnaire. Should the deal go further, Daniels charges anywhere from \$25,000 to \$50,000 to provide dates, coaching, personal shopping, and styling advice. If a match ends in marriage, Daniels usually gets a sizable bonus as well. While this might sound like a strange way to find love, Daniels says that business is booming, with around 200 requests for help daily.⁷

Trying to determine customers' true needs is increasingly difficult because no one fully understands what motivates people to buy things. However, Estée Lauder, founder of her namesake cosmetics company, had a pretty good idea. When a prestigious store in Paris rejected her perfume in the 1960s, she "accidentally" dropped a bottle on the floor where nearby customers could get a whiff of it. So many asked about the scent that Galeries Lafayette was obliged to place an order. Lauder ultimately built an empire using then-unheard-of tactics like free samples and gifts with purchases to market her "jars of hope."⁸

Although customer satisfaction is the goal of the marketing concept, a business must also achieve its own objectives, such as boosting productivity, reducing costs, or achieving a percentage of a specific market. If it does not, it will not survive. For example, Dell could sell computers for \$50 and give customers a lifetime guarantee, which would be great for customers but not so great for Dell. Obviously, the company must strike a balance between achieving organizational objectives and satisfying customers.

To implement the marketing concept, a firm must have good information about what consumers want, adopt a consumer orientation, and coordinate its efforts throughout the entire organization; otherwise, it may be awash with goods, services, and ideas that consumers do not want or need. Successfully implementing the marketing concept requires that a business view the customer's perception of value as the ultimate measure of work performance and improving value, and the rate at which this is done, as the measure of success.⁹ Everyone in the organization who interacts with customers—all customer-contact employees—must know what customers want. They are selling ideas, benefits, philosophies, and experiences—not just goods and services.

Someone once said that if you build a better mousetrap, the world will beat a path to your door. Suppose you do build a better mousetrap. What will happen? Actually, consumers are not likely to beat a path to your door because the market is so competitive. A coordinated effort by everyone involved with the mousetrap is needed to sell the product. Your company must reach out to customers and tell them about your mousetrap, especially how your mousetrap works better than those offered by competitors. If you do not make the benefits of your product widely known, in most cases, it will not be successful. Consider Apple's 208 national and international retail stores, which market computers and electronics in a way unlike any other computer manufacturer or retail establishments. The upscale stores, located in high-rent shopping districts, show off Apple's products in airy, stylish settings to encourage consumers to try new things—like making a movie on a computer. The stores also offer special events like concerts and classes to give customers ideas on how to maximize their use of Apple's products.¹⁰ You must also find—or create—stores willing to sell your mousetrap to consumers. You must implement the marketing concept by making a product with satisfying benefits and making it available and visible.

Orville Wright said that an airplane is “a group of separate parts flying in close formation.” This is what most companies are trying to accomplish: They are striving for a team effort to deliver the right good or service to customers. A breakdown at any point in the organization—whether it be in production, purchasing, sales, distribution, or advertising—can result in lost sales, lost revenue, and dissatisfied customers.

Evolution of the Marketing Concept

The marketing concept may seem like the obvious approach to running a business and building relationships with customers. However, businesspeople are not always focused on customers when they create and operate businesses. Many companies fail to grasp the importance of customer relationships and fail to implement customer strategies. A recent survey indicated that only 46 percent of executives believe that their firm is committed to customers, but 67 percent of executives frequently meet with customers.¹¹ Our society and economic system have changed over time, and marketing has become more important as markets have become more competitive.

The Production Orientation. During the second half of the 19th century, the Industrial Revolution was well under way in the United States. New technologies, such as electricity, railroads, internal combustion engines, and mass-production techniques, made it possible to manufacture goods with ever increasing efficiency. Together with new management ideas and ways of using labor, products poured into the marketplace, where demand for manufactured goods was strong.

The Sales Orientation. By the early part of the 20th century, supply caught up with and then exceeded demand, and businesspeople began to realize they would have to “sell” products to buyers. During the first half of the 20th century, businesspeople viewed sales as the primary means of increasing profits, and this period came to have a sales orientation. They believed the most important marketing activities were personal selling and advertising. Today some people still inaccurately equate marketing with a sales orientation.

The Marketing Orientation. By the 1950s, some businesspeople began to recognize that even efficient production and extensive promotion did not guarantee sales. These businesses, and many others since, found that they must first determine what

marketing orientation
an approach requiring organizations to gather information about customer needs, share that information throughout the firm, and use that information to help build long-term relationships with customers

customers want and then produce it, rather than making the products first and then trying to persuade customers that they need them. Managers at General Electric first suggested that the marketing concept was a companywide philosophy of doing business. As more organizations realized the importance of satisfying customers' needs, U.S. businesses entered the marketing era, one of marketing orientation.

A **marketing orientation** requires organizations to gather information about customer needs, share that information throughout the entire firm, and use it to help build long-term relationships with customers. Top executives, marketing managers, nonmarketing managers (those in production, finance, human resources, and so on), and customers all become mutually dependent and cooperate in developing and carrying out a marketing orientation. Nonmarketing managers must communicate with marketing managers to share information important to understanding the customer. Consider the 117-year history of Wrigley's gum. In 1891 it was given away to promote sales of baking powder. The gum was launched as a product in 1893, and after four generations of Wrigley family CEOs, the company continues to reinvent itself and focus on consumers. In 2008, the family made the decision to sell the company to Mars. Wrigley now functions as a stand-alone subsidiary of Mars. The deal combined such popular brands as Wrigley's gums and Life Savers with Mars' M&Ms, Snickers, and Skittles to form the world's largest confectionary company.

Trying to assess what customers want, difficult to begin with, is further complicated by the rate at which trends, fashions, and tastes can change. Businesses today want to satisfy customers and build meaningful long-term relationships with them. It is more efficient and less expensive for the company to retain existing customers and even increase the amount of business each customer provides the organization than to find new customers. Most companies' success depends on increasing the amount of repeat business; therefore, relationship building between company and customer is key. As we saw in Chapter 4, many companies are turning to technologies associated with customer relationship management to help build relationships and boost business with existing customers.

Communication remains a major element of any strategy to develop and manage long-term customer relationships. By providing multiple points of interactions with customers—that is, Web sites, telephone, fax, e-mail, and personal contact—companies can personalize customer relationships.¹² Like many online retailers,

Amazon.com stores and analyzes purchase data in an attempt to understand each customer's interests. This information helps the retailer improve its ability to satisfy individual customers and thereby increase sales of books, music, movies, and other products to each customer. The ability to identify individual customers allows marketers to shift their focus from targeting groups of similar customers to increasing their share of an individual customer's purchases.¹³ Regardless of the medium through which communication occurs, customers should ultimately be the drivers of marketing strategy because they understand what they want. Customer relationship management systems should ensure that marketers listen to customers in order to respond to their needs and concerns and build long-term relationships.



Wrigley's originally gave gum away to promote its baking powder. The company, which sells its products in more than 180 countries, continues to reorient and reinvent itself. In 2008, it announced it would merge with the candy maker Mars.



Destination CEO

Tom Ryan, CVS

Today, CVS is the largest retail pharmacy chain in the United States. The company began as a small New England chain and rapidly grew through acquisitions of other leading chains such as Eckerd Drugs. In 10 years, CVS quadrupled in size.

Tom Ryan is the CEO of CVS. He has been with the company his entire professional career, beginning as a pharmacist directly out of pharmacy school. At the age of 29, he was promoted to head the company, making him one of the youngest CEOs in the country at the time. CVS has not always had an excellent track record, however. In 2001 sales stalled for the retail chain, forcing Ryan to close more than 200 stores. This slowdown, however, was short lived, and according to industry experts, CVS, under Ryan's leadership, is not likely to slow down anytime soon.

The exceptional success of the company is attributed to Ryan's keen focus on marketing research. The company remodeled all of its retail stores based on market research that identified three prototypes. More than 80 percent of CVS's customers are women. Based on the market research, women wanted lower shelves, wider aisles, and a selection of higher-end personal care products. Using this market

research data, CVS has responded directly to its customer needs. Another key differentiator for CVS is customer service. For example, robotics have been introduced in the pharmacies to count out pills to free up pharmacists to consult directly with customers.

The future of the business is constantly on the mind of Ryan. Walgreens, CVS's major rival, even though having fewer stores, generates more annual revenue. The primary reason is that Walgreens' sales are driven by products other than pharmaceutical and health-related products. CVS, on the other hand, attributes 70 percent of its revenue to prescriptions and other pharmaceutical products.

Discussion Questions

1. In your opinion, does CVS use a marketing orientation?
2. How does CVS use market segmentation?
3. When CVS contracts for market research, what type of information is most useful to Ryan and the management team in terms of decision making?

Developing a Marketing Strategy

To implement the marketing concept and customer relationship management, a business needs to develop and maintain a **marketing strategy**, a plan of action for developing, pricing, distributing, and promoting products that meet the needs of specific customers. This definition has two major components: selecting a target market and developing an appropriate marketing mix to satisfy that target market.

Selecting a Target Market

A **market** is a group of people who have a need, purchasing power, and the desire and authority to spend money on goods, services, and ideas. A **target market** is a more specific group of consumers on whose needs and wants a company focuses its marketing efforts. Nike, for example, introduced a new line of golf clubs targeted at recreational golfers.¹⁴

Marketing managers may define a target market as a relatively small number of people within a larger market, or they may define it as the total market (Figure 12.2). Rolls Royce, for example, targets its products at a very exclusive, high-income market—people who want the ultimate in prestige in an automobile. General Motors, on the other hand, manufactures vehicles ranging from the Saturn to Cadillac to GMC trucks in an attempt to appeal to varied tastes, needs, and desires.

Some firms use a **total-market approach**, in which they try to appeal to everyone and assume that all buyers have similar needs and wants. Sellers of salt, sugar, and many agricultural products use a total-market approach because everyone

marketing strategy

a plan of action for developing, pricing, distributing, and promoting products that meet the needs of specific customers

market

a group of people who have a need, purchasing power, and the desire and authority to spend money on goods, services, and ideas

target market

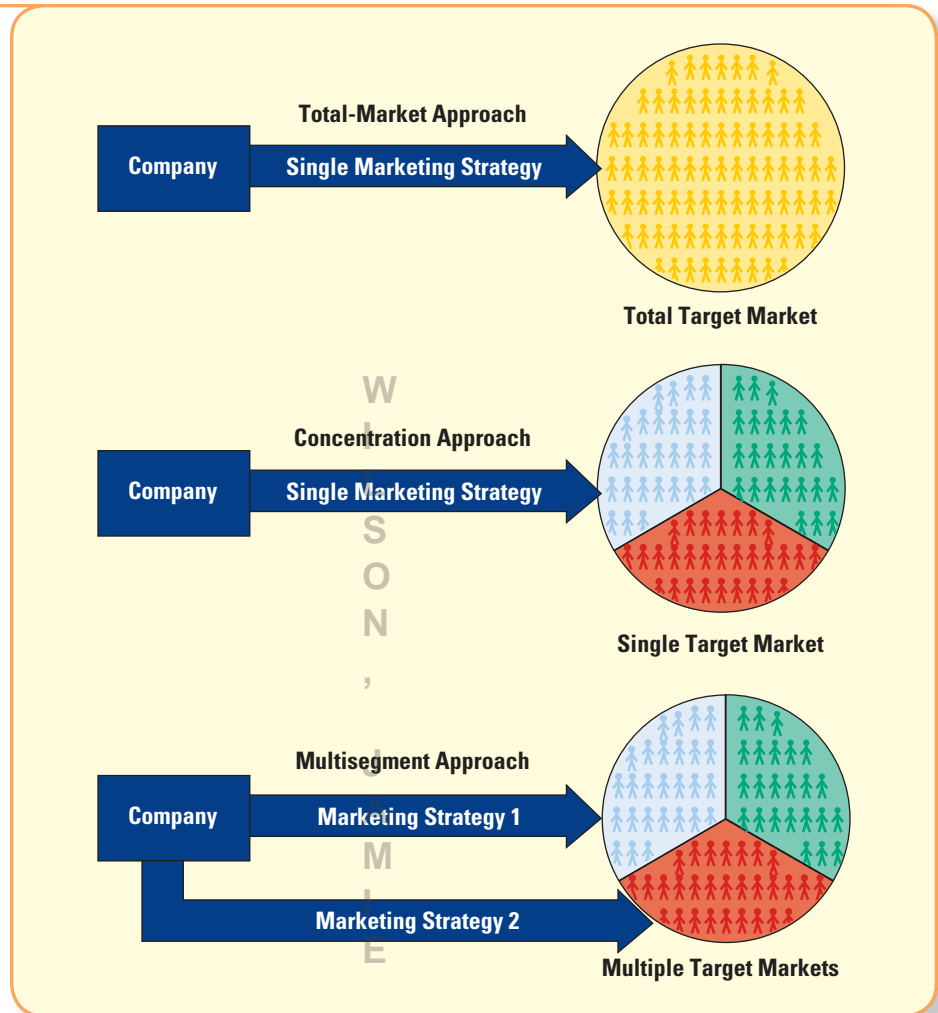
a specific group of consumers on whose needs and wants a company focuses its marketing efforts

total-market approach

an approach whereby a firm tries to appeal to everyone and assumes that all buyers have similar needs

FIGURE 12.2

Target Market Strategies



market segmentation a strategy whereby a firm divides the total market into groups of people who have relatively similar product needs

market segment a collection of individuals, groups, or organizations who share one or more characteristics and thus have relatively similar product needs and desires

is a potential consumer of these products. Most firms, though, use **market segmentation** and divide the total market into groups of people. A **market segment** is a collection of individuals, groups, or organizations who share one or more characteristics and thus have relatively similar product needs and desires. Women are the largest market segment, with 51 percent of the U.S. population. In addition, 11 million privately held companies are majority owned (50 percent or more) by women.¹⁵ At the household level, segmentation can unlock each woman's social, cultural, and stage in life to determine preferences and needs.¹⁶ One market segment on which many marketers are focusing is the growing Hispanic population. Wal-Mart has recently made a move to acknowledge the demographic shift toward more Latino shoppers. The mega-chain has long featured McDonald's and Subway restaurants within its stores, but in a move to cater to the Hispanic market some stores will feature Pollo Campero and Taco Maker as well. This agreement represent the first time an ethnic restaurant has managed to land franchise agreements with Wal-Mart.¹⁷ Marketers are also trying to figure out ways to best reach African American consumers, without making them feel singled out or targeted.¹⁸ One of the challenges for marketers in the future will be to effectively address an

increasingly racially diverse United States. Staples gained a footing in the Hispanic market with a program called Exito Empressarial (Business Success) for small business owners. It is a seminar program to learn about accounting, taxes, and running a small business.¹⁹ Table 12.1 shows the buying power and market share percentages of four market segments. In future decades, the purchasing power of minority market segments is set to grow by leaps and bounds. It is estimated that by 2050, African Americans will represent around 15 percent of the U.S. population, while Latinos and Hispanics will make up 24 percent.²⁰ Companies will have to learn how to most effectively reach these growing segments—which already outmeasure all but nine of the world’s economies in terms of purchasing power.²¹ Companies use market segmentation to focus their efforts and resources on specific target markets so that they can develop a productive marketing strategy. Two common approaches to segmenting markets are the concentration approach and the multi-segment approach.

Market Segmentation Approaches. In the **concentration approach**, a company develops one marketing strategy for a single market segment. The concentration approach allows a firm to specialize, focusing all its efforts on the one market segment. Porsche, for example, directs all its marketing efforts toward high-income individuals who want to own high-performance vehicles. A firm can generate a large sales volume by penetrating a single market segment deeply. The concentration approach may be especially effective when a firm can identify and develop products for a segment ignored by other companies in the industry.

In the **multisegment approach**, the marketer aims its marketing efforts at two or more segments, developing a marketing strategy for each. Many firms use a multisegment approach that includes different advertising messages for different segments. Companies also develop product variations to appeal to different market segments. The U.S. Post Office, for example, offers personalized stamps; clothing company J.Crew sells jeans customization kits; various on-demand television services ensure that consumers only watch what they want to watch; and LEGO toy company offers a service through its Web site wherein children can design their own sets.²² Many other firms also attempt to use a multisegment approach to market segmentation, such as the manufacturer of Raleigh bicycles, which has designed separate marketing strategies for racers, tourers, commuters, and children.

Niche marketing is a narrow market segment focus when efforts are on one small, well-defined group that has a unique, specific set of needs. Catering to ice cream “addicts” and people who crave new, exotic flavors, several companies are selling ice cream on the Internet. This niche represents only a fraction of the \$20.3 billion a year ice cream business, but online sales at some of the biggest makers

concentration approach
a market segmentation approach whereby a company develops one marketing strategy for a single market segment

multisegment approach
a market segmentation approach whereby the marketer aims its efforts at two or more segments, developing a marketing strategy for each

Category	Buying Power (billions)			% Market Share		
	1990	2003	2005	1990	2003	2005
Asian	112.9	344.2	396.5	2.7	4.2	4.4
American Indian	19.2	45.2	51.1	0.5	0.5	1.0
Black	307.8	687.7	760.7	7.4	8.4	12.8
Hispanic	207.5	652.6	735.6	5.0	7.9	8.1

TABLE 12.1

Minority Buying Power by Race, 1990 versus 2003 and 2005

Source: Jeffrey M. Humphreys, “The Multicultural Economy 2005,” *GBEC* 63 (3rd Quarter, 2005), pp. 10, 12, available at www.selig.uga.edu/forecast/GBEC/GBEC053Q.pdf.



Responding to Business Challenges

Apple and Phinnaeus or Julie and David: What's in a Name?

With celebrities setting the standard by naming their children Tallulah Belle, Apple, Moses, and Phinnaeus, many expectant parents feel pressure to come up with interesting, original names for their kids. Maryanna Korwitts has developed a business around the national concern for picking the right name. She believes that a name can even endow people with certain personality traits and is therefore a task not to be taken lightly. Korwitts is a self-designated nameologist and intuitive, meaning she studies names and how they may affect an individual's life. She believes in what she teaches so much that she changed her own name from Mary Ann, which she thought caused her to be a procrastinator overly concerned with others' opinions of her; to Maryanna, a name which she says she has helped her to become a more balanced person.

Korwitts started off working as a schoolteacher. Over the years, she and her co-workers began to notice similarities among students sharing the same name. For example, Julies tended to lose things and Davids tended to be studious. Intrigued, Korwitts began studying naming practices in ancient and traditional cultures. She found that many cultures gave great thought to naming individuals and even changed names to bring about improvements in health or in other aspects of a person's life. She soon determined that nameology was for her, and started Name Structures. Today, she

writes books, lectures, makes regular appearances on the media circuit, and provides one-on-one consultations.

Some parents feel that the stress to find the perfect name is so great that they will pay hundreds of dollars to receive guidance. This is where Korwitts comes in. For \$399, an expectant parent receives a copy of Korwitts' book *Name Power 101*, five online *BABYtalk* profiles of top name choices, three 30-minute phone consultations, and a personalized *Name Owner's Manual* for the baby. During the consultations, Korwitts discusses possible first and middle name choices based on the positive or negative influences they may have on the child's personality, relationships, career, finances, and health. She also considers the name as it relates to the rest of the family dynamic. Whether you believe in nameology or not, it is certain that some people do, and Maryanna Korwitts is there to help fill that need.²³

Discussion Questions

1. What business opportunity has Maryanna Korwitts identified and taken advantage of, and was the founding of her business customer driven?
2. What is Korwitts's target market?
3. What kinds of companies or products would represent competitive threats to Korwitts's business?

increased 30 percent in just one year. Some of the firms focusing on this market are IceCreamSource.com, Nuts About Ice Cream, and Graeter's.²⁴

For a firm to successfully use a concentration or multisegment approach to market segmentation, several requirements must be met:

1. Consumers' needs for the product must be heterogeneous.
2. The segments must be identifiable and divisible.
3. The total market must be divided in a way that allows estimated sales potential, cost, and profits of the segments to be compared.
4. At least one segment must have enough profit potential to justify developing and maintaining a special marketing strategy.
5. The firm must be able to reach the chosen market segment with a particular market strategy.

Bases for Segmenting Markets. Companies segment markets on the basis of several variables:

1. *Demographic*—age, sex, race, ethnicity, income, education, occupation, family size, religion, social class. These characteristics are often closely related to customers' product needs and purchasing behavior, and they can be readily measured. For example, deodorants are often segmented by sex: Secret and Soft n' Dry for women; Old Spice and Mennen for men.
2. *Geographic*—climate, terrain, natural resources, population density, subcultural values. These influence consumers' needs and product usage. Climate,

for example, influences consumers' purchases of clothing, automobiles, heating and air conditioning equipment, and leisure activity equipment.

3. *Psychographic*—personality characteristics, motives, lifestyles. Soft-drink marketers provide their products in several types of packaging, including two-liter bottles and cases of cans, to satisfy different lifestyles and motives.
4. *Behavioristic*—some characteristic of the consumer's behavior toward the product. These characteristics commonly involve some aspect of product use.

Developing a Marketing Mix

The second step in developing a marketing strategy is to create and maintain a satisfying marketing mix. The **marketing mix** refers to four marketing activities—product, price, distribution, and promotion—that the firm can control to achieve specific goals within a dynamic marketing environment (Figure 12.3). The buyer or the target market is the central focus of all marketing activities.

Product. A product—whether a good, a service, an idea, or some combination—is a complex mix of tangible and intangible attributes that provide satisfaction and benefits. A *good* is a physical entity you can touch. A Porsche Cayenne, an Outkast compact disc, a Hewlett-Packard printer, and a kitten available for adoption at an animal shelter are examples of goods. A *service* is the application of human and mechanical efforts to people or objects to provide intangible benefits to customers. Air travel, dry cleaning, haircuts, banking, insurance, medical care, and day care are examples of services. *Ideas* include concepts, philosophies, images, and issues. For instance, an attorney, for a fee, may advise you about what rights you have in the event that the IRS decides to audit your tax return. Other marketers of ideas include political parties, churches, and schools.

A product has emotional and psychological, as well as physical characteristics, that include everything that the buyer receives from an exchange. This definition includes supporting services such as installation, guarantees, product information, and promises of repair. Products usually have both favorable and unfavorable attributes; therefore, almost every purchase or exchange involves trade-offs as consumers try to maximize their benefits and satisfaction and minimize unfavorable attributes.

Products are among a firm's most visible contacts with consumers. If they do not meet consumer needs and expectations, sales will be difficult, and product life spans

marketing mix
the four marketing activities—product, price, promotion, and distribution—that the firm can control to achieve specific goals within a dynamic marketing environment

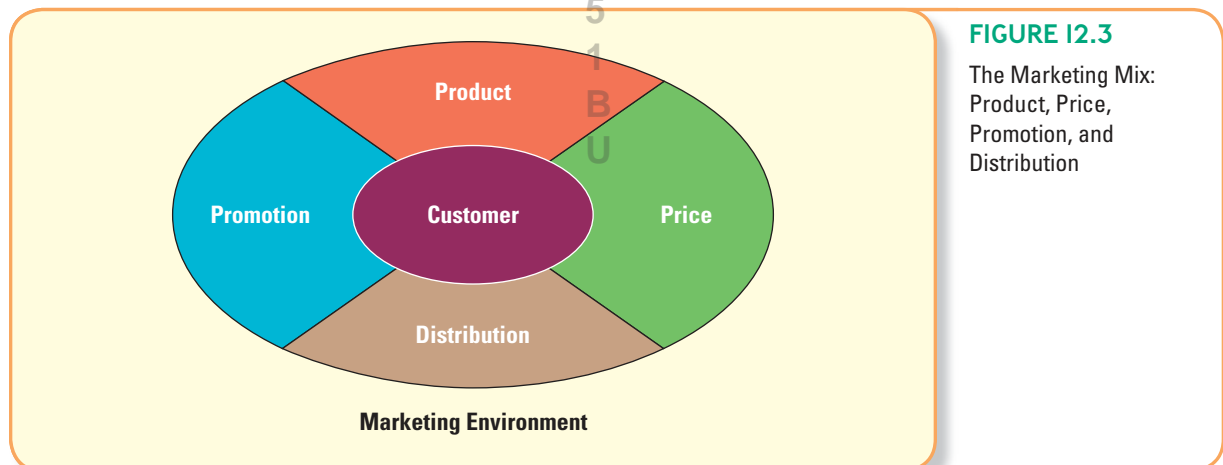


FIGURE 12.3

The Marketing Mix: Product, Price, Promotion, and Distribution

will be brief. The product is an important variable—often the central focus—of the marketing mix; the other variables (price, promotion, and distribution) must be coordinated with product decisions.

price

a value placed on an object exchanged between a buyer and a seller

Price. Almost anything can be assessed by a **price**, a value placed on an object exchanged between a buyer and a seller. Although the seller usually establishes the price, it may be negotiated between buyer and seller. The buyer usually exchanges purchasing power—income, credit, wealth—for the satisfaction or utility associated with a product. Because financial price is the measure of value commonly used in an exchange, it quantifies value and is the basis of most market exchanges.

Did You Know? During its first year of operation, sales of Coca-Cola averaged just nine drinks per day for total first-year sales of \$50. Today, Coca-Cola products are consumed at the rate of 1 billion drinks per day.²⁵

Marketers view price as much more than a way of assessing value, however. It is a key element of the marketing mix because it relates directly to the generation of revenue and profits. Prices can also be changed quickly to stimulate demand or respond to competitors' actions. The sudden increase in the cost of commodities such as oil can create price increases or a drop in consumer demand for a product. The increase

in the cost of oil caused price tags for even the cheapest airline tickets to double on average in 2008.²⁶ The demand for gas-guzzling trucks and SUVs has dropped, while small cars such as the Chevy Aveo and Ford Focus continue to see strong sales.²⁷

distribution

making products available to customers in the quantities desired

Distribution. **Distribution** (sometimes referred to as “place” because it helps to remember the marketing mix as the “4 Ps”) is making products available to customers in the quantities desired. Blockbuster realizes that its distribution network has to change in order to stay competitive. People are less likely to drive to pick up a DVD when they now have the option to receive them in the mail or watch them online. Because of this, the company has altered the way it distributes movies and videogames.²⁸ To better compete with companies like Netflix and cable's on-demand services, Blockbuster has gone online. It now battles Netflix on its own territory by offering a combination mail order and online video and game rental business. Intermediaries, usually wholesalers and retailers, perform many of the activities required to move products efficiently from producers to consumers or industrial buyers. These activities involve transporting, warehousing, materials handling, and inventory control, as well as packaging and communication.

Critics who suggest that eliminating wholesalers and other middlemen would result in lower prices for consumers do not recognize that eliminating intermediaries would not do away with the need for their services. Other institutions would have to perform those services, and consumers would still have to pay for them. In addition, in the absence of wholesalers, all producers would have to deal directly with retailers or customers, keeping voluminous records and hiring extra people to deal with customers.

promotion

a persuasive form of communication that attempts to expedite a marketing exchange by influencing individuals, groups, and organizations to accept goods, services, and ideas

Promotion. **Promotion** is a persuasive form of communication that attempts to expedite a marketing exchange by influencing individuals, groups, and organizations to accept goods, services, and ideas. Promotion includes advertising, personal selling, publicity, and sales promotion, all of which we will look at more closely in Chapter 13.

The aim of promotion is to communicate directly or indirectly with individuals, groups, and organizations to facilitate exchanges. When marketers use advertising and other forms of promotion, they must effectively manage their promotional resources and understand product and target-market characteristics to ensure that these promotional activities contribute to the firm's objectives. The spike in gas

prices has provided some companies with promotional opportunities. For example, Callaway Golf offered an “Increase Your Driving Distance” giveaway wherein customers are eligible to win a \$100 gas card with the purchase of certain golf clubs. Chrysler also developed a “Let’s Refuel America” promotion. With the purchase of certain models, customers receive a gas card that entitles them to \$2.99 fixed-price gasoline for up to 12,000 miles or three years.²⁹

Most major companies have set up Web sites on the Internet to promote themselves and their products. The home page for Betty Crocker, for example, offers recipes, meal planning, the company’s history, descriptions for its 200 products, online shopping for complementary items such as dinnerware, linens, and gifts, and the ability to print a shopping list based on recipes chosen or ingredients on hand in the consumer’s kitchen. The Web sites for The Gap and Old Navy provide consumers with the opportunity to purchase clothing and other items from the convenience of their homes or offices. Some sites, however, simply promote a company’s products but do not offer them for sale online.



Jones Soda’s original distribution methods were as offbeat as the company’s products. The beverages were initially placed in coolers in places like tattoo parlors, skate parks and ski shops. Only later were the drinks available in more conventional outlets, like convenience stores.

Marketing Research and Information Systems


Before marketers can develop a marketing mix, they must collect in-depth, up-to-date information about customer needs. **Marketing research** is a systematic, objective process of getting information about potential customers to guide marketing decisions. Such information might include data about the age, income, ethnicity, gender, and educational level of people in the target market, their preferences for product features, their attitudes toward competitors’ products, and the frequency with which they use the product. For example, Toyota’s marketing research about Generation Y drivers (born between 1977 and 1994) found that they practically live in their cars, and many even keep a change of clothes handy in their vehicles. As a result of this research, Toyota designed its Scion as a “home on wheels” with a 15-volt outlet for plugging in a computer, reclining front seats for napping, and a powerful audio system for listening to MP3 music files.³⁰ Marketing research is vital because the marketing concept cannot be implemented without information about customers.

A marketing information system is a framework for accessing information about customers from sources both inside and outside the organization. Inside the organization, there is a continuous flow of information about prices, sales, and expenses. Outside the organization, data are readily available through private or public reports and census statistics, as well as from many other sources. Computer networking technology provides a framework for companies to connect to useful databases and customers with instantaneous information about product acceptance, sales performance, and buying behavior. This information is important to planning and marketing strategy development.

marketing research
a systematic, objective process of getting information about potential customers to guide marketing decisions

primary data
marketing information
that is observed,
recorded, or collected
directly from
respondents

Two types of data are usually available to decision makers. **Primary data** are observed, recorded, or collected directly from respondents. If you've ever participated in a telephone survey about a product, recorded your TV viewing habits for A. C. Nielsen or Arbitron, or even responded to a political opinion poll, you provided the researcher with primary data. Primary data must be gathered by researchers who develop a method to observe phenomena or research respondents. Many



Certified excitement.
Certified leasing and financing.
Certified 6-year/100,000-mile warranty*
Certified by BMW.
Certified only at an authorized BMW center.

Certified Pre-Owned
BMW
Certified Pre-Owned
The Ultimate Driving Machine

We have the BMW you're looking for. Search the entire inventory in your area at bmwusa.com or visit your local authorized BMW center.

*Warranty: 6-year/100,000-mile powertrain coverage. Limited to 200,000 miles. Actual mileage covered from first to last date. © 2014 BMW Group of North America, LLC. All rights reserved. BMW is a registered trademark of BMW Group of North America, LLC. All other marks and logos are registered trademarks.

Market research can lead to a whole new market for your product. BMW targets a lower income consumer than its typical high-end one by selling “certified” used BMWs at a lower cost, but still with the BMW brand recognition and expectation.

secondary data
information that is
compiled inside or
outside an organization
for some purpose other
than changing the
current situation

companies use “mystery shoppers” to visit their retail establishments and report on whether the stores were adhering to the companies’ standards of service. Some use digital cameras and computer equipment to document their observations of store appearance, employee effectiveness and customer treatment. These mystery shoppers provide valuable information that helps companies improve their organizations and refine their marketing strategies.³¹ The state of Nebraska used focus groups as part of its effort to develop a formal marketing campaign. Among other things, focus groups suggested the state promote its history and natural beauty.³² A weakness of surveys is that respondents are sometimes untruthful in order to avoid seeming foolish or ignorant.

Some methods for marketing research use passive observation of consumer behavior and open-ended questioning techniques. Called ethnographic or observational research, the approach can help marketers determine what consumers really think about their products and how different ethnic or demographic groups react to them.

Secondary data are compiled inside or outside the organization for some purpose other than changing the current situation. Marketers typically use information compiled by the U.S. Census Bureau and other government agencies, databases created by marketing research firms, as well as sales and other internal reports, to gain information about customers.

The marketing of products and collecting of data about buying behavior—information on what people actually buy and how they buy it—represents marketing research of the future. New information technologies are changing the way businesses learn about their customers and market their products. Interactive multimedia research, or *virtual testing*, combines sight, sound, and animation to facilitate the testing of concepts as well as packaging and design features for consumer products. Computerization offers a greater degree of flexibility, shortens the staff time involved in data gathering, and cuts marketing research costs. The evolving development of telecommunications and computer technologies is allowing marketing researchers quick and easy access to a growing number of online services and a vast database of potential respondents. Online research is set to grow to \$4 billion in the next few years, according to a report by Cambiar and GMI.³³ Many companies have created private online communities and research panels that bring consumer feedback into the companies 24 hours a day.

Look-Look.com is an online, real-time service that provides accurate and reliable information research and news about trendsetting youths ages 14 to 30. With this age group spending an estimated \$140 billion a year, many companies are willing to shell out an annual subscription fee of about \$20,000 for access to these valuable data. Look-Look pays more than 35,000 handpicked, prescreened young people from all over the world to e-mail the company information about their styles, trends, opinions, and ideas.³⁴

Other companies are finding that quicker, less expensive online market research is helping them develop products faster and with greater assurance that the products will be successful. Scheduled to coincide with the presidential primaries and election, Mountain Dew opened an online survey in order to decide on a new soda flavor (strawberry, raspberry, or wild berry). The “Dewmocracy” campaign allowed consumers to vote online for their favorite flavor.³⁵

Buying Behavior

Carrying out the marketing concept is impossible unless marketers know what, where, when, and how consumers buy; marketing research into the factors that influence buying behavior helps marketers develop effective marketing strategies.

Buying behavior refers to the decision processes and actions of people who purchase and use products. It includes the behavior of both consumers purchasing products for personal or household use as well as organizations buying products for business use. Marketers analyze buying behavior because a firm’s marketing strategy should be guided by an understanding of buyers. People view pets as part of their families, and they want their pets to have the best of everything. Iams, which markets the Iams and Eukanuba pet food brands, recognized this trend and shifted its focus. Today, it markets high-quality pet food, fancy pet treats, sauces, and other items that allow pet lovers to spoil their pets.³⁶

Both psychological and social variables are important to an understanding of buying behavior.

Psychological Variables of Buying Behavior

Psychological factors include the following:

- **Perception** is the process by which a person selects, organizes, and interprets information received from his or her senses, as when hearing an advertisement on the radio or touching a product to better understand it.
- **Motivation**, as we said in Chapter 10, is an inner drive that directs a person’s behavior toward goals. A customer’s behavior is influenced by a set of motives rather than by a single motive. A buyer of a home computer, for example, may be motivated by ease of use, ability to communicate with the office, and price.
- **Learning** brings about changes in a person’s behavior based on information and experience. If a person’s actions result in a reward, he or she is likely to behave the same way in similar situations. If a person’s actions bring about a negative result, however—such as feeling ill after eating at a certain restaurant—he or she will probably not repeat that action.
- **Attitude** is knowledge and positive or negative feelings about something. For example, a person who feels strongly about protecting the environment may refuse to buy products that harm the earth and its inhabitants.
- **Personality** refers to the organization of an individual’s distinguishing character traits, attitudes, or habits. Although market research on the

buying behavior
the decision processes and actions of people who purchase and use products

perception
the process by which a person selects, organizes, and interprets information received from his or her senses

motivation
inner drive that directs a person’s behavior toward goals

learning
changes in a person’s behavior based on information and experience

attitude
knowledge and positive or negative feelings about something

personality
the organization of an individual’s distinguishing character traits, attitudes, or habits



Going Green Making Reusable Cool

Every year an estimated 500 billion to 1 trillion plastic bags are consumed globally. In the United States alone, 88.5 billion plastic bags were consumed in 2007, and less than 1 percent were recycled. The average American family of four consumes about 1,460 plastic bags every year, the production of which requires 12 million barrels of oil annually. Plastic bags take more than 1,000 years to fully photo-degrade and are a toxic threat for all of that time, representing a pollution crisis of global magnitude.

Responding to this problem, a number of environmentally conscious designers have been promoting high-fashion reusable totes. In 2007, Anya Hindmarch developed a stylish canvas tote embroidered with the phrase “I’m not a plastic bag.” The limited edition \$15 shoulder bag was in such high demand that people lined up in front of the department stores where they were offered in hopes of obtaining one before they ran out. Anita Ahuja, also known as the “bag lady,” is the head of the profit/not-for-profit Conserve, an organization that takes used plastic grocery bags and other trash and recycles them into new, stylish, and low-priced handbags. Based in Delhi, India, Ahuja provides gainful employment to garbage pickers, who not only give her material for her bags but also provide a service by cleaning up the streets of Delhi. Ahuja’s products are sold in stores in the United Kingdom, France, and the United States in chains such as Whole Foods. Anita donates some of her profits to charities, such as starting a school for the children of the ragpickers she employs, and she is trying to get her footing in the world of Parisian fashion.

Haute couture designers are also concerned with running eco-responsible businesses. Stella McCartney, the British designer and daughter of Paul McCartney, is a vegetarian and has been involved in promoting organics for years. Recently, she created a canvas shopping bag, retail \$495, as a part of an organic clothing line sold in her shops. Celebrities such as Reese Witherspoon and Alicia Silverstone have been photographed carrying the Stella McCartney tote, spurring sales. Hermès, the brand famous for its silk scarves, has joined the high-fashion totes scene by adding a \$960 tote to its line. A Louis Vuitton canvas tote retails for an astounding \$1,740. These high-end, fashionable bags are providing the inspiration and driving the sales of lower priced versions by making canvas grocery bags fashionable, while contributing to the effort to reduce global plastic bag consumption. Designers like Anya Hindmarch and Louis Vuitton are doing their part to lend an air of exclusivity and desirability to being eco-friendly—making it cool for everyone to carry reusable shopping bags.³⁷

Discussion Questions

1. What kinds of consumers are the designers discussed targeting?
2. What might be some good marketing strategies to further encourage the use of reusable bags?
3. What other green fashion movements could benefit from the promotional efforts of these canvas bag designers?

relationship between personality and buying behavior has been inconclusive, some marketers believe that the type of car or clothing a person buys reflects his or her personality.

Social Variables of Buying Behavior

Social factors include **social roles**, which are a set of expectations for individuals based on some position they occupy. A person may have many roles: mother, wife, student, executive. Each of these roles can influence buying behavior. Consider a woman choosing an automobile. Her father advises her to buy a safe, gasoline-efficient car, such as a Volvo. Her teenaged daughter wants her to buy a cool car, such as a Pontiac GTO; her young son wants her to buy a Ford Explorer to take on camping trips. Some of her colleagues at work say she should buy a hybrid Prius to help the environment. Thus, in choosing which car to buy, the woman’s buying behavior may be affected by the opinions and experiences of her family and friends and by her roles as mother, daughter, and employee.

Other social factors include reference groups, social classes, and culture.

- **Reference groups** include families, professional groups, civic organizations, and other groups with whom buyers identify and whose values

social roles

a set of expectations for individuals based on some position they occupy

reference groups

groups with whom buyers identify and whose values or attitudes they adopt

or attitudes they adopt. A person may use a reference group as a point of comparison or a source of information. A person new to a community may ask other group members to recommend a family doctor, for example.

- **Social classes** are determined by ranking people into higher or lower positions of respect. Criteria vary from one society to another. People within a particular social class may develop common patterns of behavior. People in the upper-middle class, for example, might buy a Lexus or a Cadillac as a symbol of their social class.
- **Culture** is the integrated, accepted pattern of human behavior, including thought, speech, beliefs, actions, and artifacts. Culture determines what people wear and eat and where they live and travel. Many Hispanic Texans and New Mexicans, for example, buy *masa trigo*, the dough used to prepare flour tortillas, which are basic to Southwestern and Mexican cuisine.

social classes

a ranking of people into higher or lower positions of respect

culture

the integrated, accepted pattern of human behavior, including thought, speech, beliefs, actions, and artifacts

Understanding Buying Behavior

Although marketers try to understand buying behavior, it is extremely difficult to explain exactly why a buyer purchases a particular product. The tools and techniques for analyzing consumers are not exact. Marketers may not be able to determine accurately what is highly satisfying to buyers, but they know that trying to understand consumer wants and needs is the best way to satisfy them. In an attempt to better understand consumer behavior, Procter & Gamble sent video crews into about 80 households around the world. The company, maker of Tide, Crest, Pampers, and many other consumer products, hoped to gain insights into the lifestyles and habits of young couples, families with children, and empty nesters. Participants were taped over a four-day period and were paid about \$200–\$250 a day. The behaviors caught on tape may lead the company to develop new products or change existing ones to better meet consumers' needs and give the company a competitive advantage over its rivals.³⁸

The Marketing Environment

A number of external forces directly or indirectly influence the development of marketing strategies; the following political, legal, regulatory, social, competitive, economic, and technological forces comprise the marketing environment.

- *Political, legal, and regulatory forces*—laws and regulators' interpretation of laws; law enforcement and regulatory activities; regulatory bodies, legislators and legislation, and political actions of interest groups. Specific laws, for example, require that advertisements be truthful and that all health claims be documented.
- *Social forces*—the public's opinions and attitudes toward issues such as living standards, ethics, the environment, lifestyles, and quality of life. For example, social concerns have led marketers to design and market safer toys for children.
- *Competitive and economic forces*—competitive relationships, unemployment, purchasing power, and general economic conditions (prosperity, recession, depression, recovery, product shortages, and inflation).
- *Technological forces*—computers and other technological advances that improve distribution, promotion, and new-product development.

Marketing requires creativity and consumer focus because environmental forces can change quickly and dramatically. Changes can arise from social concerns and economic forces such as price increases, product shortages, and altering levels of demand for commodities. Recently, the concern about climate change, global warming, and the impact of carbon emissions on our environment has developed social concerns leading businesses to rethink marketing strategies. Possibly the most important concern is to make businesses, consumers, and governments consider carbon emissions and the effect their purchases have. Escalating fossil fuel use in economies such as China and India has placed strong upward pressure on oil prices. China's fast development has made it the planet's largest contributor to greenhouse gases. As Figure 12.4 indicates, the public believes the government, individuals, and businesses are all responsible for leading the way in green practices. The result has been government initiatives such as tax credits for hybrid cars and increased usage of reusable bags over plastic ones, and more products are available that are easy to recycle and that consume less energy. The average American generates about five tons of greenhouse gases annually. Many people are disturbed by this statistic and have resolved to take actions that reduce their energy usage and their impact on the environment through the use of carpooling, driving hybrid cars, using Energy Star products, and even washing their clothes in cold water instead of hot. In addition to fueling the demand for low-energy products, these developments are also accelerating the development of renewable energy such as solar and wind.³⁹

Because such environmental forces are interconnected, changes in one may cause changes in others. Consider that because of evidence linking children's consumption of soft drinks and fast foods to health issues such as obesity, diabetes, and osteoporosis, marketers of such products have experienced negative publicity and calls for legislation regulating the sale of soft drinks in public schools.

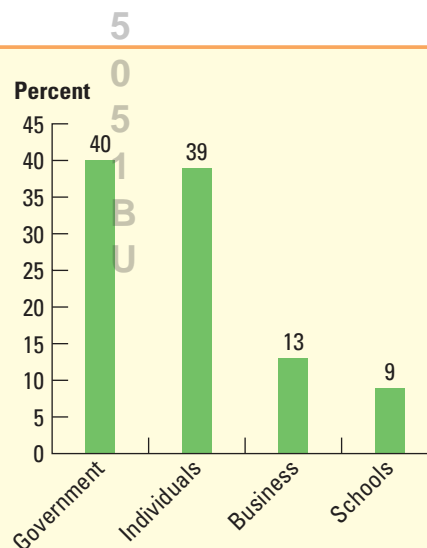
Although the forces in the marketing environment are sometimes called uncontrollable, they are not totally so. A marketing manager can influence some environmental variables. For example, businesses can lobby legislators to dissuade them from passing unfavorable legislation. Figure 12.5 shows the variables in the marketing environment that affect the marketing mix and the buyer.

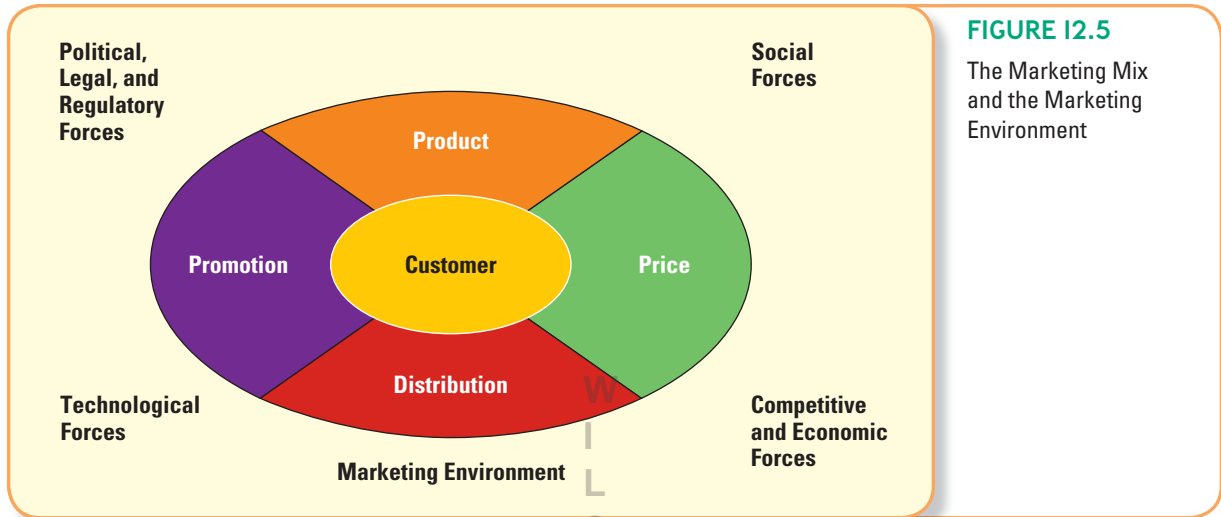
FIGURE 12.4

**Who Should Enforce
"Green" Practices?**

When asked who should be in charge of enforcing environmentally sound practices in the United States, respondents said:

Source: "Leading the Way in Green Practices," *USA Today Snapshots*®, June 3, 2008, p. A1.



**FIGURE 12.5**

The Marketing Mix and the Marketing Environment

So You Want a Job in Marketing

You probably did not think as a child how great it would be to grow up and become a marketer. That's because often marketing is associated with sales jobs, but opportunities in marketing, public relations, product management, advertising, e-marketing, and customer relationship management and beyond represent almost one-third of all jobs in today's business world. To enter any job in the marketing field, you must balance an awareness of customer needs with business knowledge while mixing in creativity and the ability to obtain useful information to make smart business decisions.

Marketing starts with understanding the customer. Marketing research is a vital aspect in marketing decision making and presents many job opportunities. Market researchers survey customers to determine their habits, preferences, and aspirations. Activities include concept testing, product testing, package testing, test-market research, and new-product research. Salaries vary, depending on the nature and level of the position as well as the type, size, and location of the firm. An entry-level market analyst may make between \$24,000 and \$50,000, while a market research director may earn from \$75,000 to \$200,000 or more.

One of the most dynamic areas in marketing is direct marketing, where a seller solicits a response from a consumer using direct communications methods such as telephone, online communication, direct mail, or catalogs. Jobs in direct marketing include buyers, catalog managers,

research/mail-list managers, or order fulfillment managers. Most positions in direct marketing involve planning and market analysis. Some require the use of databases to sort and analyze customer information and sales history.

Use of the Internet for retail sales is growing, and the Internet continues to be very useful for business-to-business sales, so e-marketing offers many career opportunities, including customer relationship management (CRM). CRM helps companies market to customers through relationships, maintaining customer loyalty. Information technology plays a huge role in such marketing jobs, as you need to combine technical skills and marketing knowledge to effectively communicate with customers. Job titles include e-marketing manager, customer relationship manager, and e-services manager. A CRM customer service manager may receive a salary in the \$40,000 to \$45,000, and experienced individuals in charge of online product offerings may earn up to \$100,000.

A job in any of these marketing fields will require a strong sense of the current trends in business and marketing. Customer service is vital to many aspects of marketing, so the ability to work with customers and to communicate their needs and wants is important. Marketing is everywhere, from the corner grocery or local nonprofit organization to the largest multinational corporations, making it a shrewd choice for an ambitious and creative person. We will provide additional job opportunities in marketing in Chapter 13.

Review Your Understanding

Define marketing, and describe the exchange process.

Marketing is a group of activities designed to expedite transactions by creating, distributing, pricing, and promoting goods, services, and ideas. Marketing facilitates the exchange, the act of giving up one thing in return for something else. The central focus of marketing is to satisfy needs.

Specify the functions of marketing.

Marketing includes many varied and interrelated activities: buying, selling, transporting, storing, grading, financing, marketing research, and risk taking.

Explain the marketing concept and its implications for developing marketing strategies.

The marketing concept is the idea that an organization should try to satisfy customers' needs through coordinated activities that also allow it to achieve its goals. If a company does not implement the marketing concept by providing products that consumers need and want while achieving its own objectives, it will not survive.

Examine the development of a marketing strategy, including market segmentation and marketing mix.

A marketing strategy is a plan of action for creating a marketing mix (product, price, distribution, promotion) for a specific target market (a specific group of consumers on whose needs and wants a company focuses its marketing efforts). Some firms use a total-market approach, designating everyone as the target market. Most firms divide the total market into segments of people who have relatively

similar product needs. A company using a concentration approach develops one marketing strategy for a single market segment, whereas a multisegment approach aims marketing efforts at two or more segments, developing a different marketing strategy for each.

Investigate how marketers conduct marketing research and study buying behavior.

Carrying out the marketing concept is impossible unless marketers know what, where, when, and how consumers buy; marketing research into the factors that influence buying behavior helps marketers develop effective marketing strategies. Marketing research is a systematic, objective process of getting information about potential customers to guide marketing decisions. Buying behavior is the decision processes and actions of people who purchase and use products.

Summarize the environmental forces that influence marketing decisions.

There are several forces that influence marketing activities: political, legal, regulatory, social, competitive, economic, and technological.

Assess a company's marketing plans, and propose a solution for resolving its problem.

Based on the material in this chapter, you should be able to answer the questions posed in "Solve the Dilemma" on page 384 and help the business understand what went wrong and how to correct it.

Revisit the World of Business

1. Why can the bridal dress industry support such a broad range of different market segments?
2. How have low-end bridal gown brands marketed themselves?

- 5
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 - U
- If low-cost gowns are stylish, why are many brides still interested in buying the high-end gowns? What type of consumer are they?

Learn the Terms

attitude 377
 buying behavior 377
 concentration approach 371
 culture 379
 distribution 374
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 marketing concept 365
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Check Your Progress

1. What is marketing? How does it facilitate exchanges?
2. Name the functions of marketing. How does an organization use marketing activities to achieve its objectives?
3. What is the marketing concept? Why is it so important?
4. What is a marketing strategy?
5. What is market segmentation? Describe three target market strategies.
6. List the variables in the marketing mix. How is each used in a marketing strategy?
7. Why are marketing research and information systems important to an organization's planning and development of strategy?
8. Briefly describe the factors that influence buying behavior. How does understanding buying behavior help marketers?
9. Discuss the impact of technological forces and political and legal forces on the market.

Get Involved

1. With some or all of your classmates, watch several hours of television, paying close attention to the commercials. Pick three commercials for products with which you are somewhat familiar. Based on the commercials, determine who the target market is.
2. Discuss the decision process and influences involved in purchasing a personal computer.

Can you surmise the marketing strategy for each of the three?

Build Your Skills



THE MARKETING MIX

Background:

You've learned the four variables—product, promotion, price, and distribution—that the marketer can select to achieve specific goals within a dynamic marketing environment. This exercise will give you an opportunity to analyze the marketing strategies of some well-known companies to determine which of the variables received the most emphasis to help the company achieve its goals.

Task:

In groups of three to five students, discuss the examples below and decide which variable received the most emphasis.

- A. Product
 - B. Distribution
 - C. Promotion
 - D. Price
1. Starbucks Coffee began selling bagged premium specialty coffee through an agreement with Kraft Foods to gain access to more than 30,000 supermarkets.
 2. America Online (AOL) offers 24-hour, 9-cents-per-minute long-distance telephone service for AOL Internet customers who will provide their credit card number and receive bills and information about their account online.
 3. With 150,000 advance orders, Apple Computer launched the iMac computer with a \$100 million advertising budget to obtain first-time computer buyers who could get Internet access by just plugging in the computer.
 4. After more than 35 years on the market, WD-40 is in about 80 percent of U.S. households—more than any other branded product. Although WD-40 is promoted as a product that can stop squeaks, protect metal, loosen rusted parts, and free sticky mechanisms, the WD-40 Company has received letters from customers who have sprayed the product on bait to attract fish, on pets to cure mange, and even on people to cure arthritis. Despite more than 200 proposals to expand the WD-40 product line and ideas to change the packaging and labeling, the company stands firmly behind its one highly successful and respected original product.
 5. Southwest Airlines makes flying fun. Flight attendants try to entertain passengers, and the airline has an impeccable customer

service record. Employees play a key role and take classes that emphasize that having fun translates into great customer service.

- _____ 6. Hewlett Packard offered a \$100 rebate on a \$799 HP LaserJet printer when purchased with an HP LaserJet toner cartridge. To receive the rebate, the buyer had to return a mail-in certificate to certify the purchase. A one-page ad with

a coupon was used in *USA Today* stating, "We're taking \$100 off the top."

- _____ 7. Denny's, the largest full-service family restaurant chain in the United States, serves more than 1 million customers a day. The restaurants offer the Grand Slam Breakfast for about \$3, lunch basket specials for \$4–\$6, and a dinner of prime rib for about \$7.

Solve the Dilemma



WILL IT GO?

Ventura Motors makes midsize and luxury automobiles in the United States. Best selling models include its basic four-door sedans (priced from \$20,000 to \$25,000) and two-door and four-door luxury automobiles (priced from \$40,000 to \$55,000). The success of two-seat sports cars like the Mazda RX-8 started the company evaluating the market for a two-seat sports car priced midway between the moderate and luxury market. Research found that there was indeed significant demand and that Ventura needed to act quickly to take advantage of this market opportunity.

Ventura took the platform of the car from a popular model in its moderate line, borrowing the internal design from its luxury line. The car was designed, engineered, and produced in just over two years, but the coordination needed to bring the design together resulted in higher than anticipated costs. The price for this two-seat car, the Olympus, was set at \$32,000. Dealers were anxious to take

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delivery on the car, and salespeople were well trained on techniques to sell this new model.

However, initial sales have been slow, and company executives are surprised and concerned. The Olympus was introduced relatively quickly, made available at all Ventura dealers, priced midway between luxury and moderate models, and advertised heavily since its introduction.

Discussion Questions

1. What do you think were the main concerns with the Olympus two-door sports coupe? Is there a market for a two-seat, \$32,000 sports car when the RX-8 sells for significantly less?
2. Evaluate the role of the marketing mix in the Olympus introduction.
3. What are some of the marketing strategies auto manufacturers use to stimulate sales of certain makes of automobiles?

Build Your Business Plan



CUSTOMER-DRIVEN MARKETING

The first step is to develop a marketing strategy for your product or service. Who will be the target market you will specifically try to reach? What group(s) of people has the need, ability and willingness to purchase this product? How will you segment customers within your target market? Segmenting by demographic and geographic variables are often the easiest segmentation strategies to attempt. Remember that you would like to have the customers in your segment be as homogeneous and accessible as possible. You might target several segments if you feel your product or service has broad appeal.

The second step in your marketing strategy is to develop the marketing mix for your product or service.

Whether you are dealing with an established product or you are creating your own product or service, you need to think about what is the differential advantage your product offers. What makes it unique? How should it be priced? Should the product be priced below, above, or at the market? How will you distribute the product? And last but certainly not least, you need to think about the promotional strategy for your product.

What about the uncontrollable variables you need to be aware of? Is your product something that can constantly be technologically advanced? Is your product a luxury that will not be considered by consumers when the economy is in a downturn?

See for Yourself Videocase



WILL LUXURY HOTELS FEEL THE PINCH OF A SLOW ECONOMY?

In times of economic uncertainty, many businesses are forced to make unpleasant changes, accept losses, or even close their doors. The year 2007 marked the beginning of an economic downturn that, by 2008, had many talking about a recession. Many companies struggled with the new economic realities, but the luxury hotel sector continued to flourish.

There are many luxury hotel chains located throughout the United States, but the Ritz-Carlton and the Four Seasons are two of the most well known. The Ritz-Carlton first opened in Boston in 1927. At the time, it revolutionized the luxury hotel market through offerings such as a private bath in each room, fresh flowers in public areas, à la carte dining, waiters in white ties and aprons, and hotel staff in morning suits. Today, the Ritz boasts locations around the world in the United States, Canada, Mexico, the Caribbean, South America, Asia-Pacific, Europe, and the Middle East. The Ritz-Carlton's motto, and the image it seeks to project, has always been "We are Ladies and Gentlemen serving Ladies and Gentlemen." The Four Seasons is a younger luxury chain. Founded in 1960, the chain also has a global presence with hotels throughout the Americas, Asia-Pacific, Europe, the Middle East, and Africa. The company describes the luxury of a Four Seasons hotel as "a true home away from home for those who know and appreciate the best." Prices at these hotels range from around \$300 per night to thousands per night.

As the U.S. economy has slowed, many sectors of the hotel industry have seen occupancies plateau or decline due to increasingly price-sensitive consumers. However, as mentioned previously, the luxury hotel sector has enjoyed continued success. Part of the reason for this phenomenon has to do with target markets. Luxury goods and services companies market to a select group of people with sufficient wealth so as to be relatively immune to economic recessions. Simply put, customers of the Ritz and the Four Seasons have enough money that they do not feel recessions as much as the average person.

The continued strength of the luxury hotel sector may also be partially due to its small size. There are fewer than

80,000 luxury hotel rooms throughout the United States, a small number when you consider that the city of Chicago alone has 102,000 hotel rooms. The equation all comes down to the basic economics of supply and demand. Demand for luxury hotel rooms has far outstripped supply as more Americans enter higher income brackets. Because, at least in the short term, the number of luxury rooms is fixed and more people are requesting them, the hotel industry can name its price. The only conceivable way the luxury hotel business could lose out is if it expands too rapidly or if demand suddenly and without warning bottoms out. Helping to ensure that demand will not taper off are international customers. As the U.S. economy weakens, luxury offerings in this country have started to look like a comparatively good deal to many Europeans, for example, who then choose to travel in the United States more frequently.

Market Metrix, a data compilation and analysis company for the hospitality industry, warns of raising prices too high or too fast, lest the move inadvertently drive off some customers. They suggest that hotels should throw their energy instead into service recovery and loyalty programs. In spite of these words of warning, the luxury hotel market shows no sign of slowing down, even as individual hotels begin to raise their rates.⁴⁰

Discussion Questions

1. Why are luxury hotels doing better than the hotel industry as a whole?
2. What could be some potential threats to future revenue growth for the Ritz-Carlton or the Four Seasons?
3. What is the target market for luxury hotels, and what would be some effective marketing strategies for this group?

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chapter | 3

CHAPTER OUTLINE

Introduction

The Marketing Mix

Product Strategy

Developing New Products

Classifying Products

Product Line and Product Mix

Product Life Cycle

Identifying Products

Pricing Strategy

Pricing Objectives

Specific Pricing Strategies

Distribution Strategy

Marketing Channels

Intensity of Marketing Coverage

Physical Distribution

Importance of Distribution in a Marketing Strategy

Promotion Strategy

The Promotion Mix

Promotion Strategies: To Push or To Pull

Objectives of Promotion

Promotional Positioning

Dimensions of Marketing Strategy

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OBJECTIVES

After reading this chapter, you will be able to:

- Describe the role of product in the marketing mix, including how products are developed, classified, and identified.
- Define price, and discuss its importance in the marketing mix, including various pricing strategies a firm might employ.
- Identify factors affecting distribution decisions, such as marketing channels and intensity of market coverage.
- Specify the activities involved in promotion, as well as promotional strategies and promotional positioning.
- Evaluate an organization's marketing strategy plans.



Concord Music Has a Flair for Marketing

Thanks to the ability to download music from the Internet onto your iPod, CD sales are in a sharp decline, and many record labels are suffering as a result. However, one record label surviving in spite of the current environment is Concord Music Group (CMG). The company was formed in 2004 as the result of a merger between Concord Records and Fantasy Records. In 2005, Telarc Records was added to the roster. Each of these companies could boast major music milestones and critical acclaim on its own. Together, they have become one of the largest and fastest growing independent music companies worldwide.

A savvy flair for marketing has propelled Concord toward success. Television great Norman Lear (producer of such famous classics as *All in the Family* and *One Day at a Time*) and business partner Hal Gaba purchased Concord Records in 1999 and continue to guide Concord Music Group in innovative marketing plans. In 2007, for example, the company quietly supported a PBS documentary featuring the Stax record label known for showcasing Otis Redding, Isaac Hayes, and other soul music greats. Although few people made the connection between the documentary and CMG, the company had a good reason for supporting the film: it owns the Stax recordings. The popular documentary increased Concord's sales while reviving interest in some classic tunes.

In 2004, Gaba suggested that Concord team up with Starbucks to release a Ray Charles album that then became a major hit. Following this success, Lear and Gaba helped Concord become part of a joint venture with Starbucks: the Hear Music label partnership. Through Hear Music, the partners release albums from both little known and established artists. Paul McCartney signed

continued

to the Hear Music label to release his latest album to great success, selling 75 percent more copies in the first week than his previous release for a major record label. While 45 percent of McCartney's album sales occurred inside Starbucks locations, the rest were marketed and promoted by Concord at various locations outside the coffee chain. Joni Mitchell, who hadn't released an album of new compositions since 1998, signed on with Hear Music, and her album debuted at number 14 on the Billboard 200.

Contributing to Concord's success in turbulent times is its partnership with Starbucks, which offers the benefits of shared risk and low-cost marketing. However, the company also benefits by finding niche markets for most of its products. Unlike major labels, which must sell at least one hundred thousand copies of a given CD in order to profit, Concord makes money as products continue to sell in small increments over time. Whatever your musical tastes, Concord may just have a hand in producing the music that you love, which is just the way they like it, since they love the music too.¹

Introduction

Getting just the right mix of product, price, promotion, and distribution is critical if a business is to satisfy its target customers and achieve its own objectives (implement the marketing concept).

In Chapter 12, we introduced the concept of marketing and the various activities important in developing a marketing strategy. In this chapter, we'll take a closer look at the four dimensions of the marketing mix—product, price, distribution, and promotion—used to develop the marketing strategy. The focus of these marketing mix elements is a marketing strategy that builds customer relationships and satisfaction.

The Marketing Mix

The key to developing a marketing strategy is maintaining the right marketing mix that satisfies the target market and creates long-term relationships with customers.

To develop meaningful customer relationships, marketers have to develop and manage the dimensions of the marketing mix to give their firm an advantage over competitors. Successful companies offer at least one dimension of value that surpasses all competitors in the marketplace in meeting customer expectations.

However, this does not mean that a company can ignore the other dimensions of the marketing mix; it must maintain acceptable, and if possible distinguishable, differences in the other dimensions as well.

Did You Know? Domino's Pizza delivery drivers cover 9 million miles a week delivering 400 million pizzas a year.²

Wal-Mart, for example, emphasizes price (“Save money, live better”). Procter & Gamble is well known for its promotion of top consumer brands such as Tide, Cheer, Crest, Ivory, Head & Shoulders, and Folgers. Domino’s Pizza is recognized for its superiority in distribution after developing the largest home delivery pizza company in the world and its innovative new product introductions.

Product Strategy

As mentioned previously, the term *product* refers to goods, services, and ideas. Because the product is often the most visible of the marketing mix dimensions, managing product decisions is crucial. In this section, we’ll consider product development, classification, mix, life cycle, and identification.

Developing New Products

Each year thousands of products are introduced, but few of them succeed. In early 2008, drug company Pfizer’s Animal Health Group released Slentrol, a weight-loss drug for dogs. The drug controls a dog’s appetite and blocks fat. The drug is meant as a weight-loss tool for dogs with a medical condition or an owner who cannot resist feeding too much or cannot give the dog more exercise.³ Before introducing a new product, a business must follow a multistep process: idea development, the screening of new ideas, business analysis, product development, test marketing, and commercialization. A firm can take considerable time to get a product ready for the market: It took more than 20 years for the first photocopier, for example. First announced as a concept car in January 2007, the General Motors Volt will be radically different from any car on the road today when it is launched in 2010. It is an extended-range electric vehicle with a 161-horsepower engine and power to go from 0 to 60 miles per hour in 8.5 seconds.⁴

Idea Development. New ideas can come from marketing research, engineers, and outside sources such as advertising agencies and management consultants. Microsoft has a separate division—Microsoft Research—where scientists devise technology of the future. The division has more than 700 full-time employees who work in a universitylike research atmosphere. Research teams then present their ideas to Microsoft engineers who are developing specific products. As we said in Chapter 12, ideas sometimes come from customers, too. Other sources are brainstorming and intracompany incentives or rewards for good ideas. New ideas can even create a company. Las Vegas–based Shuffle Master, for example, grew out of entrepreneur Mark Breeding’s idea for a card-shuffling machine. The Shuffle Master has more than 26,000 shuffling units in casinos around the world.⁵

New Idea Screening. The next step in developing a new product is idea screening. In this phase, a marketing manager should look at the organization’s resources and objectives and assess the firm’s ability to produce and market the product. Important aspects to be considered at this stage are consumer desires, the competition, technological changes, social trends, and political, economic, and environmental



While he was attending Yale in 1966, Fred Smith, the founder of Federal Express, wrote a paper about his idea for the business. However, his professor said the concept would never fly. After watching how the U.S. military’s logistics worked while serving in Vietnam, Smith later got FedEx off the ground.

considerations. Basically, there are two reasons new products succeed: They are able to meet a need or solve a problem better than products already available or they add variety to the product selection currently on the market. Bringing together a team of knowledgeable people including design, engineering, marketing and customers is a great way to screen ideas. Using the Internet to encourage collaboration is the next sea of innovation for marketers to screen ideas.⁶ After many ideas were screened, Heinz Ketchup introduced Heinz kid-targeted Silly Squirts with three cool drawing nozzles to keep kids amused and entertained at dinner. In addition, Easy Squeeze upside-down bottles added to convenience.⁷ Most new-product ideas are rejected during screening because they seem inappropriate or impractical for the organization.

Business Analysis. Business analysis is a basic assessment of a product's compatibility in the marketplace and its potential profitability. Both the size of the market and competing products are often studied at this point. The most important question relates to market demand: How will the product affect the firm's sales, costs, and profits?

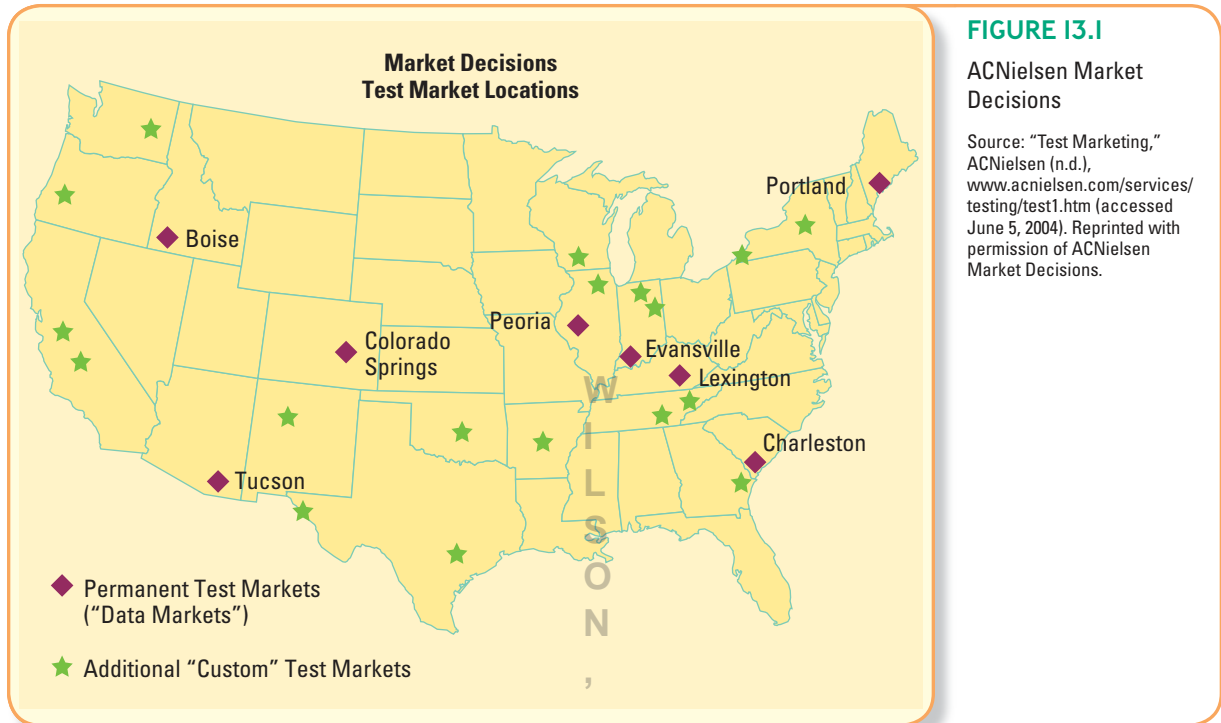
Product Development. If a product survives the first three steps, it is developed into a prototype that should reveal the intangible attributes it possesses as perceived by the consumer. Product development is often expensive, and few product ideas make it to this stage. New product research and development costs vary. Adding a new color to an existing item may cost \$100,000 to \$200,000, but launching a completely new product can cost millions of dollars. The Coca-Cola Co. reduced the time and cost of product development research by 50 percent when it created an online panel of 100 teenagers and asked them how to remake its Powerade sports drink.⁸ During product development, various elements of the marketing mix must be developed for testing. Copyrights, tentative advertising copy, packaging, labeling, and descriptions of a target market are integrated to develop an overall marketing strategy.

test marketing
a trial minilaunch of a product in limited areas that represent the potential market

Test Marketing. **Test marketing** is a trial minilaunch of a product in limited areas that represent the potential market. It allows a complete test of the marketing strategy in a natural environment, giving the organization an opportunity to discover weaknesses and eliminate them before the product is fully launched. Consider Seasons 52, the latest concept restaurant developed by Darden Restaurants Inc., the world's largest casual dining company. Seasons 52 boasts a seasonally inspired menu with the freshest goods available served in a casual atmosphere. Seasons 52 targets those who are striving to live fit, active lives and are concerned about the quality and nutrition of their food. All menu items at Seasons 52 have fewer than 475 calories, significantly lower than competing restaurants, are nutritionally balanced, and are not fried. Darden is test marketing this restaurant concept in Florida and Georgia to experiment with variations in menu, advertising, and pricing and to measure the extent of brand awareness, brand switching, and repeat purchases resulting from these alterations in this concept restaurant.⁹ ACNielsen assists companies in test-marketing their products. Figure 13.1 shows the permanent sites as well as custom locations for test marketing.

commercialization
the full introduction of a complete marketing strategy and the launch of the product for commercial success

Commercialization. **Commercialization** is the full introduction of a complete marketing strategy and the launch of the product for commercial success. During commercialization, the firm gears up for full-scale production, distribution, and promotion. After Baskin-Robbins' sales of a new soft-serve ice cream did well

**FIGURE 13.1****ACNielsen Market Decisions**

Source: "Test Marketing," ACNielsen (n.d.), www.acnielsen.com/services/testing/test1.htm (accessed June 5, 2004). Reprinted with permission of ACNielsen Market Decisions.

in test markets, the company planned its largest new-product roll-out in decades. Soft-serve ice cream is a risky move by the company, long branding itself on the hand-scooped variety, but soft serve represents one of ice cream's few growth areas. In summer 2008, soft-serve vanilla ice cream was in about half of Baskin Robbins' domestic stores, expanding to all 2,400 U.S. stores by spring of 2009.¹⁰

Classifying Products

Products are usually classified as either consumer products or industrial products. **Consumer products** are for household or family use; they are not intended for any purpose other than daily living. They can be further classified as convenience products, shopping products, and specialty products on the basis of consumers' buying behavior and intentions.

consumer products
products intended for
household or family use

- *Convenience products*, such as eggs, milk, bread, and newspapers, are bought frequently, without a lengthy search, and often for immediate consumption. Consumers spend virtually no time planning where to purchase these products and usually accept whatever brand is available.
- *Shopping products*, such as furniture, audio equipment, clothing, and sporting goods, are purchased after the consumer has compared competitive products and "shopped around." Price, product features, quality, style, service, and image all influence the decision to buy.
- *Specialty products*, such as ethnic foods, designer clothing and shoes, art, and antiques, require even greater research and shopping effort. Consumers know what they want and go out of their way to find it; they are not willing to accept a substitute.

business products
products that are used
directly or indirectly
in the operation or
manufacturing
processes of
businesses

Business products are used directly or indirectly in the operation or manufacturing processes of businesses. They are usually purchased for the operation of an organization or the production of other products; thus, their purchase is tied to specific goals and objectives. They too can be further classified:

- *Raw materials* are natural products taken from the earth, oceans, and recycled solid waste. Iron ore, bauxite, lumber, cotton, and fruits and vegetables are examples.
- *Major equipment* covers large, expensive items used in production. Examples include earth-moving equipment, stamping machines, and robotic equipment used on auto assembly lines.
- *Accessory equipment* includes items used for production, office, or management purposes, which usually do not become part of the final product. Computers, fax machines, calculators, and hand tools are examples.
- *Component parts* are finished items, ready to be assembled into the company's final products. Tires, window glass, batteries, and spark plugs are component parts of automobiles.
- *Processed materials* are things used directly in production or management operations but not readily identifiable as component parts. Varnish, for example, is a processed material for a furniture manufacturer.
- *Supplies* include materials that make production, management, and other operations possible, such as paper, pencils, paint, cleaning supplies, and so on.
- *Industrial services* include financial, legal, marketing research, security, janitorial, and exterminating services. Purchasers decide whether to provide these services internally or to acquire them from an outside supplier.

product line
a group of closely
related products that
are treated as a unit
because of similar
marketing strategy,
production, or end-use
considerations

Product Line and Product Mix

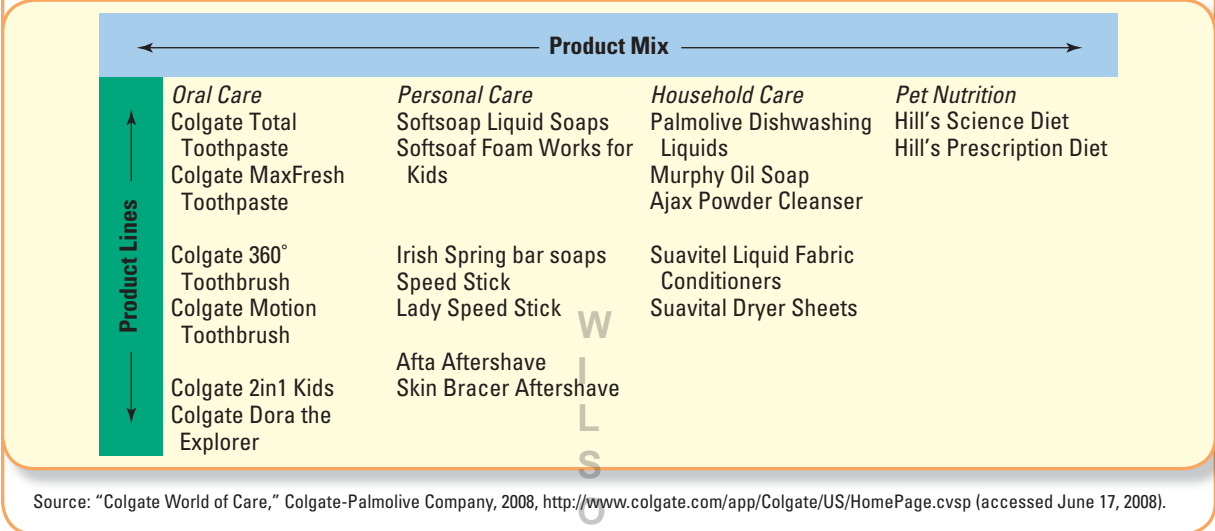
Product relationships within an organization are of key importance. A **product line** is a group of closely related products that are treated as a unit because of similar marketing strategy. At Colgate-Palmolive, for example, the oral-care product line includes Colgate toothpaste, toothbrushes, and dental floss. A **product mix** is all the products offered by an organization. Figure 13.2 displays a sampling of the product mix and product lines of the Colgate-Palmolive Company.

product mix
all the products offered
by an organization

Product Life Cycle

Like people, products are born, grow, mature, and eventually die. Some products have very long lives. Ivory Soap was introduced in 1879 and is still popular. In contrast, a new computer chip is usually outdated within a year because of technological breakthroughs and rapid changes in the computer industry. There are four stages in the life cycle of a product: introduction, growth, maturity, and decline (Figure 13.3). The stage a product is in helps determine marketing strategy. While pickup trucks have historically sold very well in the United States, sales have reached the maturity stage, declining after a peak in 2004. The percentage of new vehicles sold reveals more car sales than truck sales. As oil prices increase, consumers are looking for better gas mileage and the demand for fuel-efficient cars is on the rise. Figure 13.4 shows sales numbers of hybrid vehicles. Hybrid vehicles have been in the introductory stage, filling only around 3 percent of market share, but with continued demand are now passing into a strong growth stage.¹¹

FIGURE 13.2 Colgate-Palmolive's Product Mix and Product Lines



In the *introductory stage*, consumer awareness and acceptance of the product are limited, sales are zero, and profits are negative. Profits are negative because the firm has spent money on research, development, and marketing to launch the product. During the introductory stage, marketers focus on making consumers aware of the product and its benefits. When Procter & Gamble introduced the Tide Stainbrush to reach the 70 percent of consumers who pretreat stains when doing laundry, it

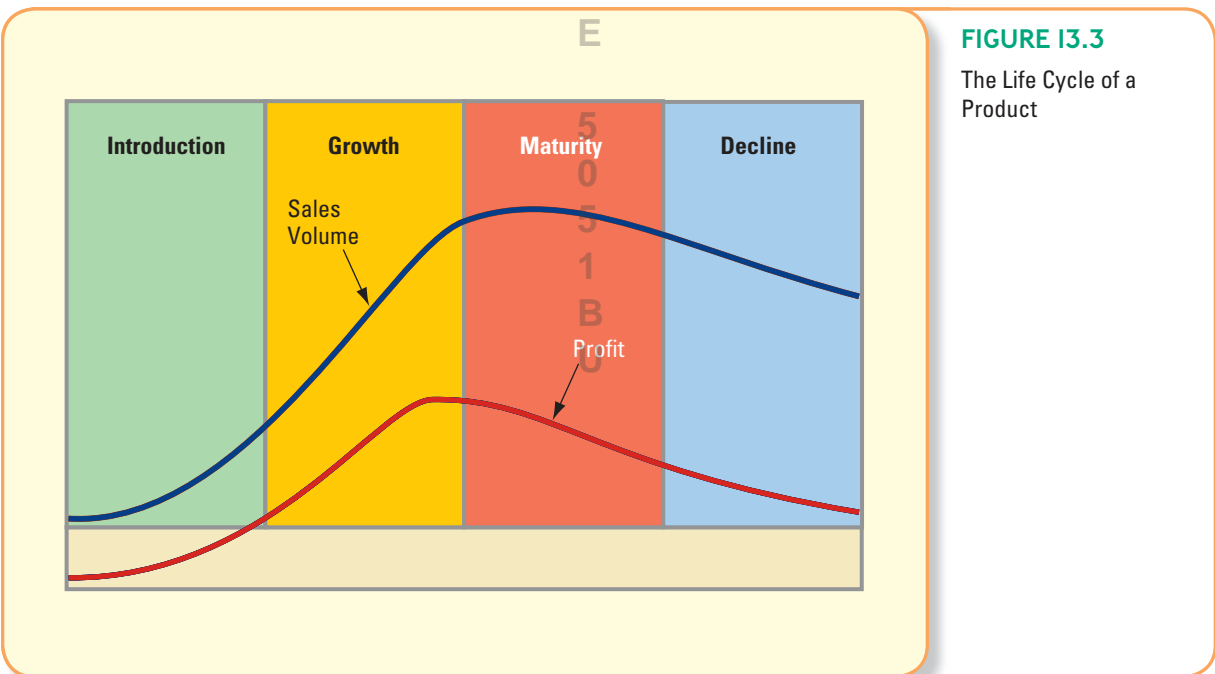
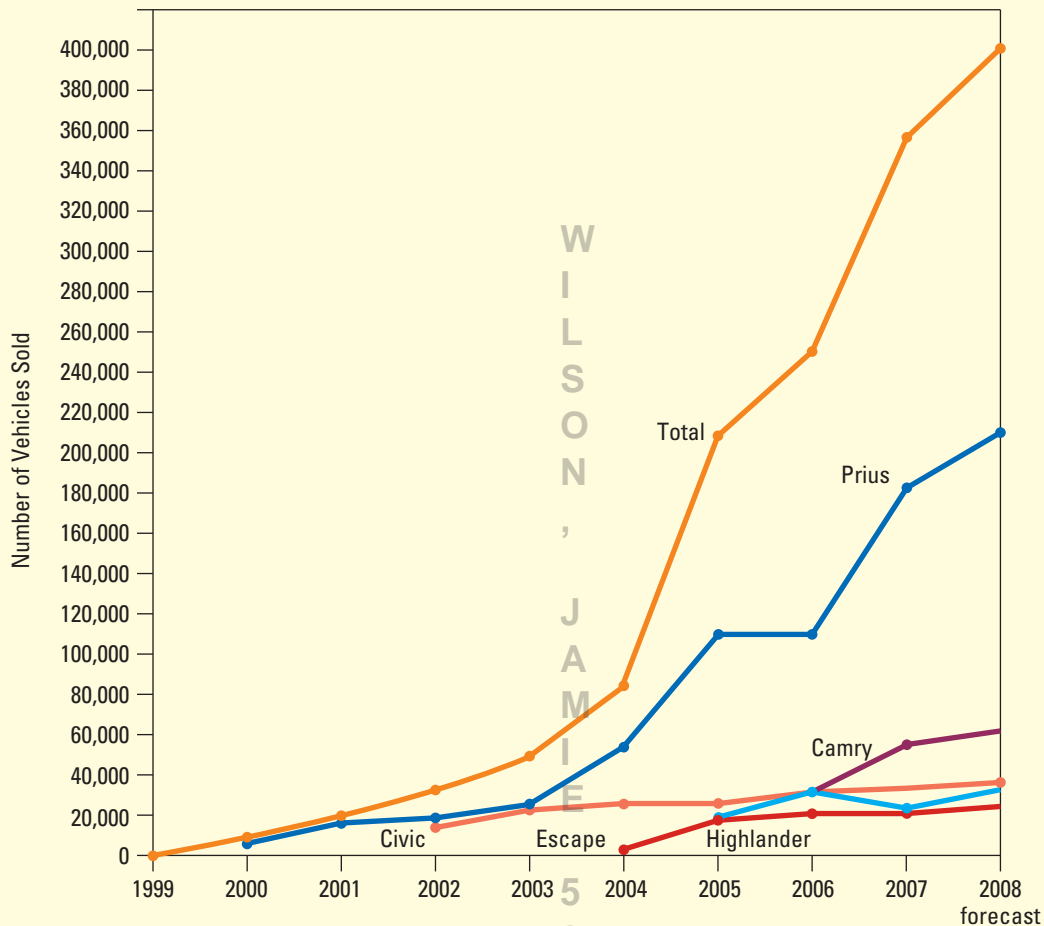


FIGURE 13.4 U.S. Hybrid Vehicle Sales, 1999–2008


Source: "April 2008 Dashboard: Hybrids Sales Defy Recession," *HybridCars.com*, May 13, 2008, <http://www.hybridcars.com/market-dashboard/april-2008-hybrids-defy-recession.html> (accessed June 25, 2008).

employed press releases as well as television and magazine advertising to make consumers aware of the new product.¹² Sales accelerate as the product enters the growth stage of the life cycle.

In the *growth stage*, sales increase rapidly and profits peak, then start to decline. One reason profits start to decline during the growth stage is that new companies enter the market, driving prices down and increasing marketing expenses. Consider Apple's iPod, the most popular digital music player with more than 70 percent of the music player market. Since its launch, more than 150 million songs have been downloaded from its iTunes music store, and it is currently selling and renting more

than 50,000 movies per day. Its iTunes music store surpassed Best Buy and Wal-Mart to become the biggest music retailer in the United States. iTunes has more than 20 million unique visitors a month.¹³ During the growth stage, the firm tries to strengthen its position in the market by emphasizing the product's benefits and identifying market segments that want these benefits.

Sales continue to increase at the beginning of the *maturity stage*, but then the sales curve peaks and starts to decline while profits continue to decline. This stage is characterized by severe competition and heavy expenditures. In the highly competitive snack food industry, Quaker is converting mature products to single serve lower-calorie treats. Its 100-calorie packs were a smash success for Quaker and competitor Kraft, so now rivals across the industry are introducing 90-, 80-, even 60-calorie versions of mature products in hopes of maintaining sales.¹⁴

During the *decline stage*, sales continue to fall rapidly. Profits also decline and may even become losses as prices are cut and necessary marketing expenditures are made. As profits drop, firms may eliminate certain models or items. To reduce expenses and squeeze out any remaining profits, marketing expenditures may be cut back, even though such cutbacks accelerate the sales decline. Finally, plans must be made for phasing out the product and introducing new ones to take its place. Unfortunately for Mattel, the 50-year-old Barbie Doll has seen her status and sales slide as she has been replaced on retail shelves with edgier products such as Bratz. Barbie became vulnerable from competition not only from Bratz but American Girl and the growth of toy sales in stores such as Wal-Mart and Target when they choose to allocate shelf space to products they considered more profitable.¹⁵



After more than 45 years of strong sales, Mattel's Barbie doll is finally seeing her product life cycle wane. Today, edgier dolls, such as the Bratz dolls shown here, are giving Barbie a run for her money.

Identifying Products

Branding, packaging, and labeling can be used to identify or distinguish one product from others. As a result, they are key marketing activities that help position a product appropriately for its target market.

Branding. **Branding** is the process of naming and identifying products. A *brand* is a name, term, symbol, design, or combination that identifies a product and distinguishes it from other products. Consider that Google, iPod, and TiVo are brand names that are used to identify entire product categories, much like Xerox has become synonymous with photocopying and Kleenex with tissues. Protecting a brand name is important in maintaining a brand identity. The world's 10 most valuable brands are shown in Table 13.1. The brand name is the part of the brand that can be spoken and consists of letters, words, and numbers—such as WD-40 lubricant. A *brand mark* is the part of the brand that is a distinctive design, such as the silver star on the hood of a Mercedes or McDonald's golden arches logo. A **trademark** is a brand that is registered with the U.S. Patent and Trademark Office and is thus legally protected from use by any other firm.

Two major categories of brands are manufacturer brands and private distributor brands. **Manufacturer brands** are brands initiated and owned by the

branding
the process of naming and identifying products

trademark
a brand that is registered with the U.S. Patent and Trademark Office and is thus legally protected from use by any other firm

manufacturer brands
brands initiated and owned by the manufacturer to identify products from the point of production to the point of purchase

TABLE 13.1

The 10 Most Valuable Brands in the World

Rank	Brand	Brand Value (\$ Billions)	Brand Value Change
1.	Google	86.1	30%
2.	GR (General Electric)	71.4	15
3.	Microsoft	70.9	29
4.	Coca-Cola	58.2	17
5.	China Mobile	57.2	39
6.	IBM	55.3	65
7.	Apple	55.2	123
8.	McDonald's	49.5	49
9.	Nokia	43.9	39
10.	Marlboro	37.3	-5

Source: "100 Most Powerful Brands," Millward Brown Optimor, <http://www.millwardbrown.com/Sites/optimor/Media/Pdfs/en/BrandZ/BrandZ-2008-Report.pdf> (accessed June 25, 2008).

private distributor brands
brands, which may cost less than manufacturer brands, that are owned and controlled by a wholesaler or retailer

generic products
products with no brand name that often come in simple packages and carry only their generic name

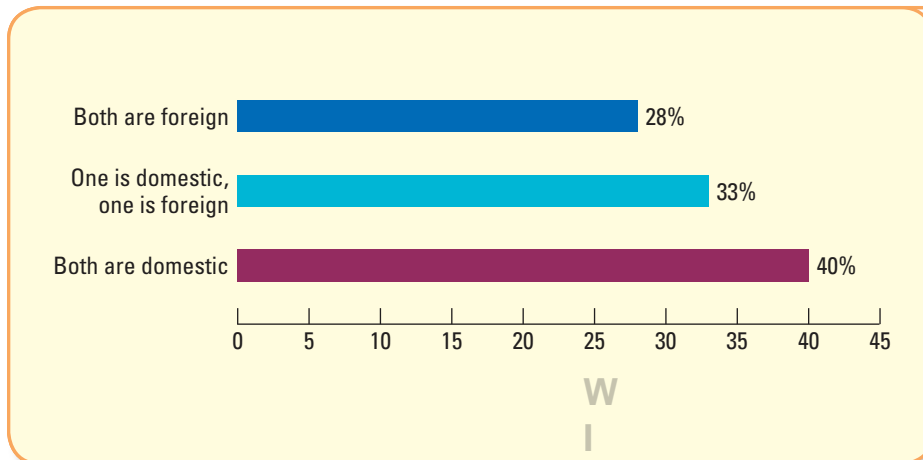
packaging
the external container that holds and describes the product

manufacturer to identify products from the point of production to the point of purchase. Kellogg's, Sony, and Texaco are examples. **Private distributor brands**, which may be less expensive than manufacturer brands, are owned and controlled by a wholesaler or retailer, such as Kenmore appliances (Sears) and Sam's grocery products (Wal-Mart and Sam's Wholesale Club). The names of private brands do not usually identify their manufacturer. While private-label brands were once considered cheaper and poor quality, such as Wal-Marts Ol'Roy dog food, many private-label brands are increasing quality and image and competing with national brands. Target hired architect Michael Graves to design its private-label products including kitchen appliances such as blenders and coffee pots. Martha Stewart designed a line of home fashions for K-Mart. Other firms such as JCPenney and Wal-Mart are also following the trend.¹⁶ Manufacturer brands are fighting hard against private distributor brands.

Another type of brand that has developed is **generic products**—products with no brand name at all. They often come in plain simple packages that carry only the generic name of the product—peanut butter, tomato juice, aspirin, dog food, and so on. They appeal to consumers who may be willing to sacrifice quality or product consistency to get a lower price.

Companies use two basic approaches to branding multiple products. In one, a company gives each product within its complete product mix its own brand name. Warner-Lambert, for example, sells many well-known consumer products—Dentyne, Chiclets, Listerine, Halls, Roloids, and Trident—each individually branded. This branding policy ensures that the name of one product does not affect the names of others, and different brands can be targeted at different segments of the same market, increasing the company's market share (its percentage of the sales for the total market for a product). Another approach to branding is to develop a family of brands with each of the firm's products carrying the same name or at least part of the name. Gillette, Sara Lee, and IBM use this approach. Finally, consumers may react differently to domestic versus foreign brands. Figure 13.5 provides a snapshot of foreign versus domestic automobile ownership.

Packaging. The **packaging**, or external container that holds and describes the product, influences consumers' attitudes and their buying decisions. A survey of

**FIGURE 13.5**

Domestic versus Foreign Brands among Drivers Who Own Two Cars

Note: Total exceeds 100 due to rounding.

Source: "Domestic vs. Foreign Brands," *USA Today Snapshots*, March 25, 2008, p. B1.

over 1,200 consumers found that 40 percent are willing to try a new product based on its packaging.¹⁷ It is estimated that consumers' eyes linger only 2.5 seconds on each product on an average shopping trip; therefore, product packaging should be designed to attract and hold consumers' attention.

A package can perform several functions including protection, economy, convenience, and promotion. Beverage manufacturers have been redesigning their bottles to make them more convenient for consumers and to promote them to certain markets. Scientists videotaped people drinking from different types of bottles and made plaster casts of their hands. They found that the average gulp is 6.44 ounces and that half the population would rather suck liquid through a pop-up top than drink it. Since the early 1990s, soft drinks in 20-ounce plastic bottles revitalized U.S. sales for Coca-Cola and PepsiCo by getting Americans to drink larger servings. Recent concerns about health and the desire for lower-priced options have led both companies to test a variety of smaller bottle sizes to win back lost customers.¹⁸

Labeling. **Labeling**, the presentation of important information on the package, is closely associated with packaging. The content of labeling, often required by law, may include ingredients or content, nutrition facts (calories, fat, etc.), care instructions, suggestions for use (such as recipes), the manufacturer's address and toll-free number, Web site, and other useful information. This information can have a strong impact on sales. The labels of many products, particularly food and drugs, must carry warnings, instructions, certifications, or manufacturers' identifications.

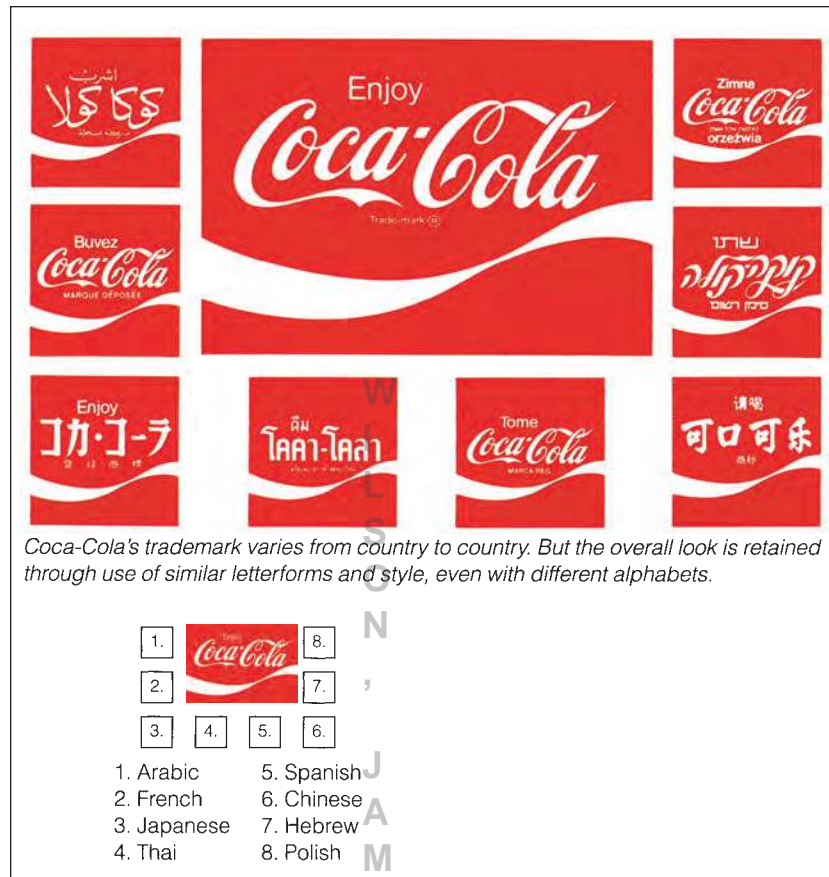
Product Quality. **Quality** reflects the degree to which a good, service, or idea meets the demands and requirements of customers. Quality products are often referred to as reliable, durable, easily maintained, easily used, a good value, or a trusted brand name. The level of quality is the amount of quality that a product possesses, and the consistency of quality depends on the product maintaining the same level of quality over time.

Quality of service is difficult to gauge because it depends on customers' perceptions of how well the service meets or exceeds their expectations. In other words, service quality is judged by consumers, not the service providers. A bank may define service quality as employing friendly and knowledgeable employees, but the bank's customers may be more concerned with waiting time, ATM access, security, and statement accuracy. Similarly, an airline traveler considers on-time arrival,

labeling
the presentation of important information on a package

quality
the degree to which a good, service, or idea meets the demands and requirements of customers

Coca-Cola is the most valuable brand in the world.



on-board food service, and satisfaction with the ticketing and boarding process. The University of Michigan Business School's National Quality Research Center annually surveys customers of more than 200 companies and provides quarterly results for selected industries. The latest results showed that overall customer satisfaction rose to 75.2 (out of a possible 100), with increases in some industries balancing drops in others. Customer satisfaction with the airline industry dropped to its lowest point since 2001, while wireless telephone service stayed at an all-time high for the second year in a row. Table 13.2 shows the top 10 airlines in the Airline Quality Rankings. AirTran took the top ranking while U.S. Airways had the largest decline in performance and fell to number 11.¹⁹

The quality of services provided by businesses on the Internet can be gauged by consumers on such sites as ConsumerReports.org and BBBOnline. The subscription service offered by ConsumerReports.org provides consumers with a view of e-commerce sites' business, security, and privacy policies. BBBOnline is dedicated to promoting responsibility online. The Web Credibility Project focuses on how health, travel, advocacy, news, and shopping sites disclose business relationships with the companies and products they cover or sell, especially when such relationships pose a potential conflict of interest.²⁰ Quality can be associated with where the product is made. For example, "Made in U.S.A." labeling can be perceived as a different value and quality. As Table 13.3 indicates, there are differences in the perception of quality

Top 10 Largest Airlines' Quality Ratings

1.	AirTran
2.	JetBlue
3.	Southwest
4.	Northwest
5.	Frontier
6.	Continental
7.	Alaska
8.	United
9.	American
10.	Delta

TABLE 13.2

Customer Satisfaction with Airlines

Source: Joe Kleinsasser, "AirTran Takes Top AQR Spot; Industry Score Falls To New Low," *This Is Wichita State*, April 16, 2008, <http://www.wichita.edu/thisis/wsnews/news/?nid=182> (accessed June 26, 2008).

and value between the U.S. consumers and Europeans when comparing products made in the United States, Japan, Korea and China.²¹

Pricing Strategy

Previously, we defined price as the value placed on an object exchanged between a buyer and a seller. Buyers' interest in price stems from their expectations about the usefulness of a product or the satisfaction they may derive from it. Because buyers have limited resources, they must allocate those resources to obtain the products they most desire. They must decide whether the benefits gained in an exchange are worth the buying power sacrificed. Almost anything of value can be assessed by a price. Many factors may influence the evaluation of value, including time constraints, price levels, perceived quality, and motivations to use available information about prices.²² Indeed, consumers vary in their response to price: Some focus solely on the lowest price, while others consider quality or the prestige associated with a product and its price. Some types of consumers are increasingly "trading up" to more status-conscious products, such as automobiles, home appliances, restaurants, and even pet food, yet remain price-conscious for other products such as cleaning and grocery goods. In setting prices, marketers must consider not just a company's cost to produce a product or service, but the perceived value of that item in the marketplace.²³ This trend has benefited marketers such as Starbucks, Sub-Zero, BMW, and Petco—which can charge premium prices for high-quality,

TABLE 13.3 Perceived Quality and Value of Products Based on Country of Origin*

	Made in U.S.A		Made in Japan		Made in Korea		Made in China	
	Value	Quality	Value	Quality	Value	Quality	Value	Quality
U.S. adults	4.0	4.2	3.2	3.2	2.6	2.4	2.8	2.4
Western Europeans	3.3	3.4	3.5	3.5	2.8	2.4	2.9	2.4

*On a scale of 1 (low) to 5 (high).

Source: "American Demographics 2006 Consumer Perception Survey," *Advertising Age*, January 2, 2006, p. 9. Data by Synovate.

prestige products—as well as Sam’s Clubs and Costco—which offer basic household products at everyday low prices.²⁴

Price is a key element in the marketing mix because it relates directly to the generation of revenue and profits. In large part, the ability to set a price depends on the supply of and demand for a product. For most products, the quantity demanded goes up as the price goes down, and as the price goes up, the quantity demanded goes down. Changes in buyers’ needs, variations in the effectiveness of other marketing mix variables, the presence of substitutes, and dynamic environmental factors can influence demand. New demand has greatly increased prices for industrial-grade diamonds as jewelers have turned to the impure gems, typically used for drill bits and saws, as a fashion statement. Even diamond giant De Beers has turned to the fashion, with its Talisman collection of flawed-diamond jewelry priced up to \$675,000 and making up a quarter of all De Beers jewelry sales in the United States.²⁵

Price is probably the most flexible variable in the marketing mix. Although it may take years to develop a product, establish channels of distribution, and design and implement promotion, a product’s price may be set and changed in a few minutes. Under certain circumstances, of course, the price may not be so flexible, especially if government regulations prevent dealers from controlling prices. Of course, price also depends on the cost to manufacture a good or provide a service or idea. A firm may temporarily sell products below cost to match competition, to generate cash flow, or even to increase market share, but in the long run it cannot survive by selling its products below cost.

Pricing Objectives

Pricing objectives specify the role of price in an organization’s marketing mix and strategy. They usually are influenced not only by marketing mix decisions but also by finance, accounting, and production factors. Maximizing profits and sales, boosting market share, maintaining the status quo, and survival are four common pricing objectives.

Specific Pricing Strategies

Pricing strategies provide guidelines for achieving the company’s pricing objectives and overall marketing strategy. They specify how price will be used as a variable in the marketing mix. Significant pricing strategies relate to the pricing of new products, psychological pricing, and price discounting.

Pricing New Products. Setting the price for a new product is critical: The right price leads to profitability; the wrong price may kill the product. In general, there are two basic strategies to setting the base price for a new product. **Price skimming** is charging the highest possible price that buyers who want the product will pay. The Porsche Cayenne S V8, for example, has a starting price of \$57,900, considerably higher than other sport utility vehicles.²⁶ This strategy allows the company to generate much-needed revenue to help offset the costs of research and development. Conversely, a **penetration price** is a low price designed to help a product enter the market and gain market share rapidly. For example, when Industrias Añaños introduced Kola Real to capitalize on limited supplies of Coca-Cola and Pepsi Cola in Peru, it set an ultralow penetration price to appeal to the poor who predominate in the region. Kola Real quickly secured one-fifth of the Peruvian market and has since made significant gains in Ecuador, Venezuela, and Mexico, forcing larger soft-drink

price skimming
charging the highest possible price that buyers who want the product will pay

penetration price
a low price designed to help a product enter the market and gain market share rapidly



Going Green

Levi's Blue Jeans Go Green

Levi Strauss & Co. has long been known for its 501s and affordable prices. Recently, the company delved into the premium denim market, dominated by brands such as Earl Jeans, Seven for All Mankind, Citizens for Humanity, and True Religion, by launching its Premium collection. Now, in an attempt to break into yet another hot market, Levi's is going green.

According to the research group Mintel, about 35 million people in the United States regularly purchase "green" products. Consumers are increasingly willing to pay more for earth-friendly products and services. As a result, companies are going to great lengths to prove that they are part of the green movement. Many are switching to earth-friendly packaging or new production methods that conserve energy. Levi's is producing 100 percent organic cotton jeans.

These new jeans, priced at \$250 a pop, are made with 100 percent organic cotton, natural dyes, tags composed of recycled paper and soy ink, and recycled rivets. The company is also releasing less expensive lines composed partly of organic and recycled materials.

Although many of us might be willing to switch to green jeans, we may wonder at the price and find it prohibitive. Why is going green sometimes so expensive? In the case of Levi's jeans, it's the organic cotton. The demand for organic cotton is currently much greater than the supply, making it expensive. For cotton to be certified organic, it cannot be genetically modified and must be pesticide and fungicide free. In 2005, more than 50 percent of cotton in the United States was genetically modified. Many companies are turning to farmers overseas, but certification for these farmers can be a challenge. As of 2007, certified organic cotton composed less

than 1 percent of the world's cotton supply. For now, Levi's can only produce a limited number of green jeans, hence the high price.

However, the very issue that drives up prices can be used as a marketing strategy to gain customers. Many people are willing to pay more to support farmers committed to harvesting through organic methods. In fact, at the 2007 Cannes Lions International Advertising Festival, "eco-marketing" was an extremely popular topic. Consumers are excited about green products and services and companies are spending big bucks to promote their stances on going green. According to TNS Media Intelligence, marketers spent \$18 million on green-focused television advertising in a three-month time span.

While going green may seem to some like a current fad, indicators point to a prolonged increase in demand for such products. According to the Organic Trade Association, U.S. organic retail sales have grown between 20 to 24 percent annually since 1990. It seems that companies can only benefit from a continued investment in eco-friendly items, and Levi's appears committed to incorporating organic cotton and other eco-friendly materials into its product lines.²⁷

Discussion Questions:

1. Why can companies charge a premium price for green products?
2. What else might Levi's do to increase its offering of moderately priced green products?
3. How much more would you be willing to pay for environmentally friendly clothing such as Levi's new green jeans?

marketers to cut prices.²⁸ Penetration pricing is less flexible than price skimming; it is more difficult to raise a penetration price than to lower a skimming price. Penetration pricing is used most often when marketers suspect that competitors will enter the market shortly after the product has been introduced.

Psychological Pricing. **Psychological pricing** encourages purchases based on emotional rather than rational responses to the price. For example, the assumption behind *even/odd pricing* is that people will buy more of a product for \$9.99 than \$10 because it seems to be a bargain at the odd price. The assumption behind *symbolic/prestige pricing* is that high prices connote high quality. Thus the prices of certain fragrances are set artificially high to give the impression of superior quality. Some over-the-counter drugs are priced high because consumers associate a drug's price with potency.

Price Discounting. Temporary price reductions, or **discounts**, are often employed to boost sales. Although there are many types, quantity, seasonal, and promotional discounts are among the most widely used. Quantity discounts reflect the economies of purchasing in large volume. Seasonal discounts to buyers who

psychological pricing encouraging purchases based on emotional rather than rational responses to the price

discounts temporary price reductions, often employed to boost sales



Destination CEO Nordstrom

From humble beginnings in the 1800s, John Nordstrom founded what is today the gold standard for legendary customer service. Nordstrom started modestly as a shoe store, but expanded rapidly to what is, today, a well-known department store giant. For generations, with one exception in the 1990s, the CEO's office has been occupied by a member of the Nordstrom family. Today, Blake Nordstrom, the great grandson of the founder, leads the company as its CEO.

Blake Nordstrom began his career with the company in the shoe department when his father was president and CEO of the firm. Nordstrom has remained true to the founder's values with the exception of a near disastrous change in strategy. The failed marketing approach was designed to appeal to a younger market segment but in the process, lost its way. The company apparently forgot about its core customer base. With the replacement of the CEO, again with a family member, the company was able to get back on track.

Nordstrom is well known for its corporate culture that is based on the philosophy of the inverted pyramid. Unlike other traditional corporations, Nordstrom stands the traditional

corporate pyramid on its head. Customers occupy the broadest and most important element in the pyramid, followed by employees, with shareholders last. The philosophy suggests that if customers are satisfied and employees are empowered to do whatever it takes to delight customers, shareholders will benefit significantly. This approach has served Nordstrom well through several generations.

Today, under the leadership of Blake Nordstrom, the company has regained its footing; has computerized inventory control systems; and has the ability to track customer preferences, colors, sizes, and so on, so that customers are continuously satisfied.

Discussion Questions

1. How does the failed Nordstrom marketing strategy in the 1990s demonstrate the importance of branding?
2. How does technology help Nordstrom to achieve success in its distribution systems?
3. What differentiates Nordstrom from its competitors?

purchase goods or services out of season help even out production capacity. Promotional discounts attempt to improve sales by advertising price reductions on selected products to increase customer interest. Often promotional pricing is geared to increased profits. Taco Bell, with its reputation for value, has been labeled the "best-positioned U.S. brand" to do well in a recession economy as consumers look for cheaper fast-food options. Taco Bell plans to capitalize on this by adding a "Why pay more?" menu of 11 items priced below \$1.²⁹ McDonald's, however, is having trouble balancing its own "dollar menu" with profits. Franchises cite rising commodity costs and an increase in minimum wage with sharply cutting their profit margins on dollar menu items. As consumers increasingly turn to these lower-priced options, McDonald's owner/operators are finding it difficult to keep up.³⁰

Distribution Strategy

The best products in the world will not be successful unless companies make them available where and when customers want to buy them. In this section, we will explore dimensions of distribution strategy, including the channels through which products are distributed, the intensity of market coverage, and the physical handling of products during distribution.

marketing channel
a group of organizations that moves products from their producer to customers; also called a channel of distribution

Marketing Channels

A **marketing channel**, or channel of distribution, is a group of organizations that moves products from their producer to customers. Marketing channels make products available to buyers when and where they desire to purchase

TABLE 13.4 General Merchandise Retailers

Type of Retailer	Description	Examples
Department store	Large organization offering wide product mix and organized into separate departments	Macy's, JCPenney, Sears
Discount store	Self-service, general merchandise store offering brand name and private brand products at low prices	Wal-Mart, Target
Supermarket	Self-service store offering complete line of food products and some nonfood products	Kroger, Albertson's, Winn-Dixie
Superstore	Giant outlet offering all food and nonfood products found in supermarkets, as well as most routinely purchased products	Wal-Mart Supercenters
Hypermarket	Combination supermarket and discount store, larger than a superstore	Carrefour
Warehouse club	Large-scale, members-only establishments combining cash-and-carry wholesaling with discount retailing	Sam's Club, Costco
Warehouse showroom	Facility in a large, low-cost building with large on-premises inventories and minimum service	Ikea
Catalog showroom	Type of warehouse showroom where consumers shop from a catalog and products are stored out of buyers' reach and provided in manufacturer's carton	Service Merchandise

Source: William M. Pride and O. C. Ferrell, *Marketing: Concepts and Strategies*, 2008, p. 428. Copyright 2008 by Houghton Mifflin Company. Reprinted with permission.

them. Organizations that bridge the gap between a product's manufacturer and the ultimate consumer are called *middlemen*, or intermediaries. They create time, place, and ownership utility. Two intermediary organizations are retailers and wholesalers.

Retailers buy products from manufacturers (or other intermediaries) and sell them to consumers for home and household use rather than for resale or for use in producing other products. Toys 'R' Us, for example, buys products from Mattel and other manufacturers and resells them to consumers. Retailing usually occurs in a store, but the Internet, vending machines, mail-order catalogs, and entertainment, such as going to a Chicago Bulls basketball game, also provide opportunities for retailing. With more than 215 million Americans accessing the Internet, online sales were more than \$174.5 billion in 2007. By bringing together an assortment of products from competing producers, retailers create utility. Retailers arrange for products to be moved from producers to a convenient retail establishment (place utility). They maintain hours of operation for their retail stores to make merchandise available when consumers want it (time utility). They also assume the risk of ownership of inventories (ownership utility). Table 13.4 describes various types of general merchandise retailers.

Today, there are too many stores competing for too few customers, and, as a result, competition between similar retailers has never been more intense. In addition, retailers face challenges such as shoplifting, as indicated in Table 13.5. Further, competition between different types of stores is changing the nature of retailing. Supermarkets compete with specialty food stores, wholesale clubs, and discount stores. Department stores compete with nearly every other type of store

retailers
intermediaries who buy products from manufacturers (or other intermediaries) and sell them to consumers for home and household use rather than for resale or for use in producing other products

TABLE 13.5

Statistics on Shoplifting in the U.S.

Shoplifters in the United States	27 million (1 in 11 people)
Amount retailers lose per year	More than \$13 billion (more than \$35 million per day)
Percent of shoplifters who are adults	75%
Percent of adult shoplifters that started in their teens	55%
Habitual shoplifters steal on average	About 1.6 times per week

Source: "Shoplifting Statistics," National Association for Shoplifting Prevention, <http://www.shopliftingprevention.org/WhatNASPOffers/NRC/PublicEducStats.htm> (accessed June 19, 2008).

including specialty stores, off-price chains, category killers, discount stores, and online retailers. Many traditional retailers, such as Wal-Mart and Macy's, have created online shopping sites to retain customers and compete with online-only retailers. One of the best-known online-only, or cyber, merchants is Amazon.com. Amazon offers millions of products from which to choose, all from the privacy and convenience of the purchaser's home. In some cases, Web merchants offer wide selections, ultra-convenience, superior service, knowledge, and the best products. More detail on the Internet's effect on marketing was presented in Chapter 4.

wholesalers
intermediaries who buy from producers or from other wholesalers and sell to retailers

Wholesalers are intermediaries who buy from producers or from other wholesalers and sell to retailers. They usually do not sell in significant quantities to ultimate consumers. Wholesalers perform the functions listed in Table 13.6.

Wholesalers are extremely important because of the marketing activities they perform, particularly for consumer products. Although it is true that wholesalers can be eliminated, their functions must be passed on to some other entity, such as the

TABLE 13.6 Major Wholesaling Functions

Supply chain management	Creating long-term partnerships among channel members
Promotion	Providing a sales force, advertising, sales promotion, and publicity
Warehousing, shipping, and product handling	Receiving, storing, and stockkeeping Packaging Shipping outgoing orders Materials handling Arranging and making local and long distance shipments
Inventory control and data processing	Processing orders Controlling physical inventory Recording transactions Tracking sales data for financial analysis
Risk taking	Assuming responsibility for theft, product obsolescence, and excess inventories
Financing and budgeting	Extending credit Making capital investments Forecasting cash flow
Marketing research and information systems	Providing information about market Conducting research studies Managing computer networks to facilitate exchanges and relationships

Source: William M. Pride and O. C. Ferrell, *Marketing: Concepts and Strategies*, 2008, p. 389. Copyright 2008 by Houghton Mifflin Company. Reprinted with permission.

producer, another intermediary, or even the customer. Wholesalers help consumers and retailers by buying in large quantities, then selling to retailers in smaller quantities. By stocking an assortment of products, wholesalers match products to demand.

Supply Chain Management. In an effort to improve distribution channel relationships among manufacturers and other channel intermediaries, supply chain management creates alliances between channel members. In Chapter 9, we defined supply chain management as connecting and integrating all parties or members of the distribution system in order to satisfy customers. It involves long-term partnerships among marketing channel members working together to reduce costs, waste, and unnecessary movement in the entire marketing channel in order to satisfy customers.³¹ It goes beyond traditional channel members (producers, wholesalers, retailers, customers) to include *all* organizations involved in moving products from the producer to the ultimate customer. In a survey of business managers, a disruption in the supply chain was viewed as the number-one crisis that could decrease revenue.³²

The focus shifts from one of selling to the next level in the channel to one of selling products *through* the channel to a satisfied ultimate customer. Information, once provided on a guarded, “as needed” basis, is now open, honest, and ongoing. Perhaps most importantly, the points of contact in the relationship expand from one-on-one at the salesperson–buyer level to multiple interfaces at all levels and in all functional areas of the various organizations.

Channels for Consumer Products. Typical marketing channels for consumer products are shown in Figure 13.6. In Channel A, the product moves from the

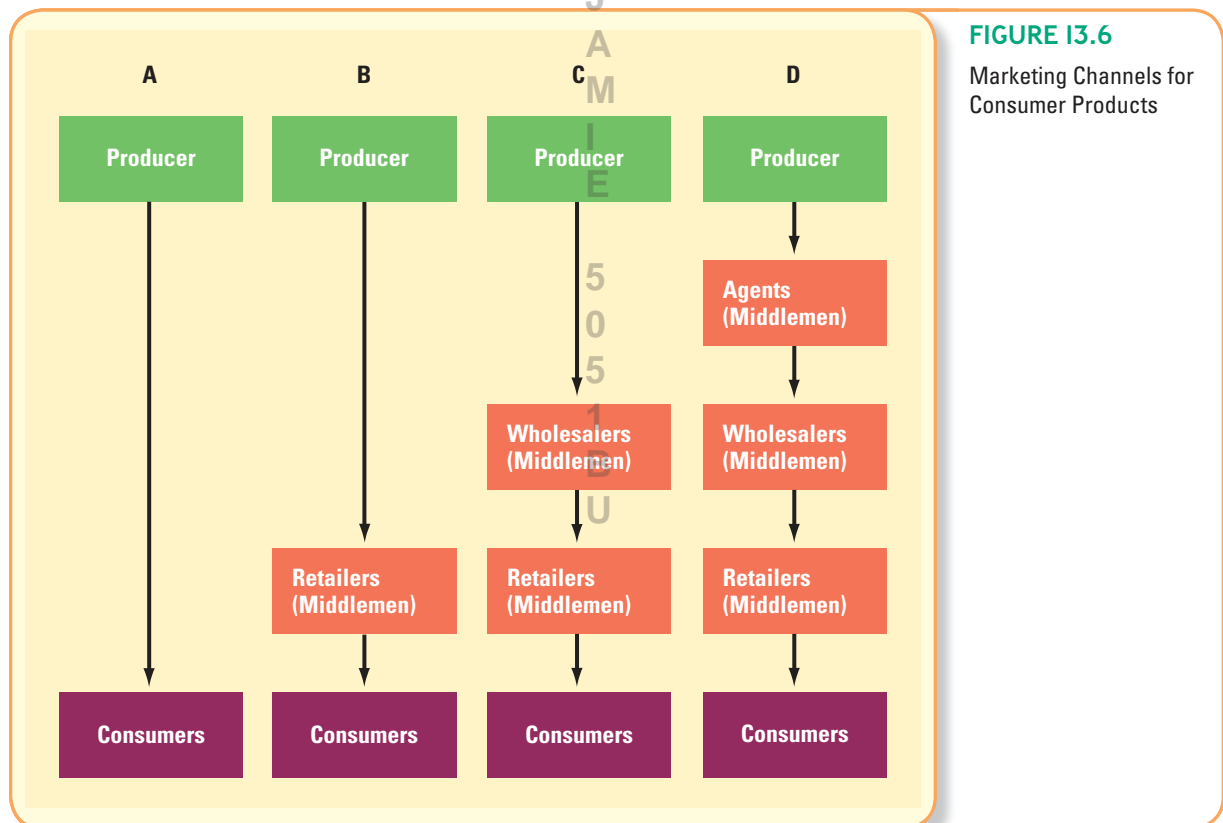


FIGURE 13.6

Marketing Channels for Consumer Products

producer directly to the consumer. Farmers who sell their fruit and vegetables to consumers at roadside stands use a direct-from-producer-to-consumer marketing channel.

In Channel B, the product goes from producer to retailer to consumer. This type of channel is used for products such as college textbooks, automobiles, and appliances. In Channel C, the product is handled by a wholesaler and a retailer before it reaches the consumer. Producer-to-wholesaler-to-retailer-to-consumer marketing channels distribute a wide range of products including refrigerators, televisions, soft drinks, cigarettes, clocks, watches, and office products. In Channel D, the product goes to an agent, a wholesaler, and a retailer before going to the consumer. This long channel of distribution is especially useful for convenience products. Candy and some produce are often sold by agents who bring buyers and sellers together.

Services are usually distributed through direct marketing channels because they are generally produced *and* consumed simultaneously. For example, you cannot take a haircut home for later use. Many services require the customer's presence and participation: The sick patient must visit the physician to receive treatment; the child must be at the day care center to receive care; the tourist must be present to sightsee and consume tourism services.

Channels for Business Products. In contrast to consumer goods, more than half of all business products, especially expensive equipment or technically complex products, are sold through direct marketing channels. Business customers like to communicate directly with producers of such products to gain the technical assistance and personal assurances that only the producer can offer. For this reason, business buyers prefer to purchase expensive and highly complex mainframe computers directly from IBM, Cray, and other mainframe producers. Other business products may be distributed through channels employing wholesaling intermediaries such as industrial distributors and/or manufacturer's agents.

Intensity of Market Coverage

A major distribution decision is how widely to distribute a product—that is, how many and what type of outlets should carry it. The intensity of market coverage depends on buyer behavior, as well as the nature of the target market and the competition. Wholesalers and retailers provide various intensities of market coverage and must be selected carefully to ensure success. Market coverage may be intensive, selective, or exclusive.

Intensive distribution makes a product available in as many outlets as possible. Because availability is important to purchasers of convenience products such as bread, milk, gasoline, soft drinks, and chewing gum, a nearby location with a minimum of time spent searching and waiting in line is most important to the consumer. To saturate markets intensively, wholesalers and many varied retailers try to make the product available at every location where a consumer might desire to purchase it. Zoom Systems provides robotic vending machines for products beyond candy and drinks. Zoom has several hundred machines in airports and hotels across the United States, some selling items such as Apple iPods, Neutrogena hair and skin products, and Sony products. The vending machines accept credit cards and allow sales to occur in places where storefronts would be impossible.³³

Selective distribution uses only a small number of all available outlets to expose products. It is used most often for products that consumers buy only after shopping and comparing price, quality, and style. Many products sold on a selective

intensive distribution
a form of market coverage whereby a product is made available in as many outlets as possible

selective distribution
a form of market coverage whereby only a small number of all available outlets are used to expose products

basis require salesperson assistance, technical advice, warranties, or repair service to maintain consumer satisfaction. Typical products include automobiles, major appliances, clothes, and furniture.

Exclusive distribution exists when a manufacturer gives an intermediary the sole right to sell a product in a defined geographic territory. Such exclusivity provides an incentive for a dealer to handle a product that has a limited market. Exclusive distribution is the opposite of intensive distribution in that products are purchased and consumed over a long period of time, and service or information is required to develop a satisfactory sales relationship. Products distributed on an exclusive basis include high-quality musical instruments, yachts, airplanes, and high-fashion leather goods.

Physical Distribution

Physical distribution includes all the activities necessary to move products from producers to customers—inventory control, transportation, warehousing, and materials handling. Physical distribution creates time and place utility by making products available when they are wanted, with adequate service and at minimum cost. Both goods and services require physical distribution. Many physical distribution activities are part of supply chain management, which we discussed in Chapter 9; we'll take a brief look at a few more now.

Transportation. **Transportation**, the shipment of products to buyers, creates time and place utility for products, and thus is a key element in the flow of goods and services from producer to consumer. The five major modes of transportation used to move products between cities in the United States are railways, motor vehicles, inland waterways, pipelines, and airways.

Railroads offer the least expensive transportation for many products. Heavy commodities, foodstuffs, raw materials, and coal are examples of products carried by railroads. Trucks have greater flexibility than railroads because they can reach more locations. Trucks handle freight quickly and economically, offer door-to-door service, and are more flexible in their packaging requirements than are ships or airplanes. Air transport offers speed and a high degree of dependability but is the most expensive means of transportation; shipping is the least expensive and slowest form. Pipelines are used to transport petroleum, natural gas, semiliquid coal, wood chips, and certain chemicals. Many products can be moved most efficiently by using more than one mode of transportation.

Factors affecting the selection of a mode of transportation include cost, capability to handle the product, reliability, and availability, and, as suggested, selecting transportation modes requires trade-offs. Unique characteristics of the product and consumer desires often determine the mode selected.

Warehousing. **Warehousing** is the design and operation of facilities to receive, store, and ship products. A warehouse facility receives, identifies, sorts, and dispatches goods to storage; stores them; recalls, selects, or picks goods; assembles the shipment; and finally, dispatches the shipment.

Companies often own and operate their own private warehouses that store, handle, and move their own products. They can also rent storage and related physical distribution services from public warehouses. Regardless of whether a private or a public warehouse is used, warehousing is important because it makes products available for shipment to match demand at different geographic locations.

exclusive distribution
the awarding by a manufacturer of an intermediary of the sole right to sell a product in a defined geographic territory

physical distribution
all the activities necessary to move products from producers to customers—inventory control, transportation, warehousing, and materials handling

transportation
the shipment of products to buyers

warehousing
the design and operation of facilities to receive, store, and ship products



Entrepreneurship in Action

Kombucha Tea Tastes Different!

G. T. Dave

Business: Millennium Products

Founded: 1995

Success: Dave has gone from selling Kombucha door to door from his mom's van to selling it to stores nationwide.

In 1995, when G. T. Dave was still a teenager, Dave's mother was diagnosed with breast cancer. While searching for alternatives to help combat the cancer, she discovered Kombucha tea—a substance that she and her son credit to some degree with her recovery. Although Dave was young, he was determined to share Kombucha with others. He began by brewing Kombucha at home. Kombucha is an ancient Chinese beverage, named by the Chinese as the Tea of Immortality and the elixir of life, which has been used for thousands of years. It is a living culture of beneficial microorganisms. Kombucha is cultured (similar to the fermentation process) for 30 days. During this time, nutrients such as active enzymes, viable probiotics, amino acids, antioxidants, and polyphenols grow

in the culture. The end result resembles (and is often referred to as) a mushroom—a light brown, tough, gelatinous disk. It is actually a living thing that regenerates. Therefore, the new cultures produced in each batch can be used to create future batches. Dave's Kombucha still originates from the cultures he first made. People drink Kombucha for many health-related reasons such as to aid the liver, the blood, and the digestive system. Dave began distributing his Kombucha locally door to door, but he now sells his products to stores nationwide. Although his business has grown, he continues to create Kombucha in small batches that are 100 percent organic. Kombucha can be brewed at home, but, for many, the home-brewing process can be a turn-off. The taste is also a problem—it varies based on the batch and is something between apple cider and vinegar. This is where Dave comes in. He brews the tea and adds different fruit juices to create more palatable tastes. People throughout the United States and worldwide swear by this unique beverage.³⁴

materials handling
the physical handling
and movement of
products in warehousing
and transportation

Materials Handling. **Materials handling** is the physical handling and movement of products in warehousing and transportation. Handling processes may vary significantly due to product characteristics. Efficient materials-handling procedures increase a warehouse's useful capacity and improve customer service. Well-coordinated loading and movement systems increase efficiency and reduce costs.

Importance of Distribution in a Marketing Strategy

Distribution decisions are among the least flexible marketing mix decisions. Products can be changed over time; prices can be changed quickly; and promotion is usually changed regularly. But distribution decisions often commit resources and establish contractual relationships that are difficult if not impossible to change. As a company attempts to expand into new markets, it may require a complete change in distribution. Moreover, if a firm does not manage its marketing channel in the most efficient manner and provide the best service, then a new competitor will evolve to create a more effective distribution system.

Promotion Strategy

The role of promotion is to communicate with individuals, groups, and organizations to facilitate an exchange directly or indirectly. It encourages marketing exchanges by attempting to persuade individuals, groups, and organizations to accept goods, services, and ideas. Promotion is used not only to sell products but also to influence opinions and attitudes toward an organization, person, or cause. The state of Texas, for example, has successfully used promotion to educate people about the costs of highway litter and thereby reduce littering. Most people probably equate promotion with advertising, but it also includes personal selling, publicity, and sales promotion. The role that these elements play in a marketing strategy is extremely important.

The Promotion Mix

Advertising, personal selling, publicity, and sales promotion are collectively known as the promotion mix because a strong promotion program results from the careful selection and blending of these elements. The process of coordinating the promotion mix elements and synchronizing promotion as a unified effort is called **integrated marketing communications**. When planning promotional activities, an integrated marketing communications approach results in the desired message for customers. Different elements of the promotion mix are coordinated to play their appropriate roles in delivery of the message on a consistent basis.

Advertising. Perhaps the best-known form of promotion, **advertising** is a paid form of nonpersonal communication transmitted through a mass medium, such as television commercials, magazine advertisements or online ads. Even Google, one of the most powerful brands in the world, has begun advertising. Google has turned to outdoor advertising on buses, trains, and ballparks in San Francisco and Chicago to promote its Google Maps feature.³⁵ Commercials featuring celebrities, customers, or unique creations (the Energizer Bunny, for example) serve to grab viewers' attention and pique their interest in a product. Table 13.7 shows companies that spent more than \$1 billion on ads in the United States in one year.

An **advertising campaign** involves designing a series of advertisements and placing them in various media to reach a particular target audience. The basic content and form of an advertising campaign are a function of several factors. A product's features, uses, and benefits affect the content of the campaign message and individual ads. Characteristics of the people in the target audience—gender, age, education, race, income, occupation, lifestyle, and other attributes—influence both content and form. When Procter & Gamble promotes Crest toothpaste to children, the company emphasizes daily brushing and cavity control, whereas it promotes tartar control and whiter teeth when marketing to adults. To communicate effectively, advertisers use words, symbols, and illustrations that are meaningful, familiar, and attractive to people in the target audience.

An advertising campaign's objectives and platform also affect the content and form of its messages. If a firm's advertising objectives involve large sales increases, the message may include hard-hitting, high-impact language and symbols. When

integrated marketing communications
coordinating the promotion mix elements and synchronizing promotion as a unified effort

advertising
a paid form of nonpersonal communication transmitted through a mass medium, such as television commercials or magazine advertisements

advertising campaign
designing a series of advertisements and placing them in various media to reach a particular target market

Organization	Advertising Expenditure (\$ Millions)
1. Procter & Gamble Co.	\$ 4,898.0
2. AT&T	3,344.7
3. General Motors Corp.	3,296.1
4. Time Warner	3,088.8
5. Verizon Communications	2,821.8
6. Ford Motor Co.	2,576.8
7. GlaxoSmithKline	2,444.2
8. Walt Disney Co.	2,320.0
9. Johnson & Johnson	2,290.5
10. Unilever	2,098.3

TABLE 13.7

Top 10 Leading National Advertisers

Source: "Datacenter: Marketer Profiles Yearbook, 50 Leading National Advertisers" *Advertising Age*, December 31, 2007, <http://adage.com/images/random/datacenter/2007/annual08yearbook.pdf> (accessed June 19, 2008).

campaign objectives aim at increasing brand awareness, the message may use much repetition of the brand name and words and illustrations associated with it. Thus, the advertising platform is the foundation on which campaign messages are built.

Advertising media are the vehicles or forms of communication used to reach a desired audience. Print media include newspapers, magazines, direct mail, and billboards, and electronic media include television, radio, and cyber ads. Newspapers, television, and direct mail are the most widely used advertising media.

Choice of media obviously influences the content and form of the message. Effective outdoor displays and short broadcast spot announcements require concise, simple messages. Magazine and newspaper advertisements can include considerable detail and long explanations. Because several kinds of media offer geographic selectivity, a precise message can be tailored to a particular geographic section of the target audience. For example, a company advertising in *Time* might decide to use one message in the New England region and another in the rest of the nation. A company may also choose to advertise in only one region. Such geographic selectivity lets a firm use the same message in different regions at different times.

The use of online advertising is increasing. However, advertisers are demanding more for their ad dollars and proof that they are working. Certain types of ads are more popular than pop-up ads and banner ads that consumers find annoying. One technique is to blur the lines between television and online advertising. TV commercials may point viewers to a Web site for more information, where short “advertainment” films continue the marketing message. When godaddy.com’s 2008 Super Bowl commercial was rejected by Fox for being too racy, it left the racy version on its Web site. The TV commercial that aired showed people watching the original commercial featuring racecar driver Danica Patrick online.³⁶ To reach a younger demographic, BMW created a 30-minute online mockumentary film featuring a fictional town in Bavaria attempting to catapult a BMW car across the Atlantic using a giant ramp. The humorous take created strong buzz on the Web and led to articles in *The Wall Street Journal* and on CNN.com.³⁷

Infomercials—typically 30-minute blocks of radio or television air time featuring a celebrity or upbeat host talking about and demonstrating a product—have evolved as an advertising method. Toll-free numbers and Web site addresses are usually provided so consumers can conveniently purchase the product or obtain additional information. Although many consumers and companies have negative feelings about infomercials, apparently they get results.

personal selling
direct, two-way
communication with
buyers and potential
buyers

Personal Selling. **Personal selling** is direct, two-way communication with buyers and potential buyers. For many products—especially large, expensive ones with specialized uses, such as cars, appliances, and houses—interaction between a salesperson and the customer is probably the most important promotional tool.

Personal selling is the most flexible of the promotional methods because it gives marketers the greatest opportunity to communicate specific information that might trigger a purchase. Only personal selling can zero in on a prospect and attempt to persuade that person to make a purchase. Although personal selling has a lot of advantages, it is one of the most costly forms of promotion. A sales call on an industrial customer can cost as much as \$200 or \$300.

There are three distinct categories of salespersons: order takers (for example, retail sales clerks and route salespeople), creative salespersons (for example, automobile,



The Louisville Zoo advertises on this billboard to increase attendance.

furniture, and insurance salespeople), and support salespersons (for example, customer educators and goodwill builders who usually do not take orders). For most of these salespeople, personal selling is a six-step process:

1. *Prospecting*: Identifying potential buyers of the product.
2. *Approaching*: Using a referral or calling on a customer without prior notice to determine interest in the product.
3. *Presenting*: Getting the prospect's attention with a product demonstration.
4. *Handling objections*: Countering reasons for not buying the product.
5. *Closing*: Asking the prospect to buy the product.
6. *Following up*: Checking customer satisfaction with the purchased product.

Publicity. **Publicity** is nonpersonal communication transmitted through the mass media but not paid for directly by the firm. A firm does not pay the media cost for publicity and is not identified as the originator of the message; instead, the message is presented in news story form. Obviously, a company can benefit from publicity by releasing to news sources newsworthy messages about the firm and its involvement with the public. Many companies have *public relations* departments to try to gain favorable publicity and minimize negative publicity for the firm.

Although advertising and publicity are both carried by the mass media, they differ in several major ways. Advertising messages tend to be informative, persuasive, or both; publicity is mainly informative. Advertising is often designed to have an immediate impact or to provide specific information to persuade a person to act; publicity describes what a firm is doing, what products it is launching, or other newsworthy information, but seldom calls for action. When advertising is used, the organization must pay for media time and select the media that will best reach target audiences. The mass media willingly carry publicity because they believe it has general public interest. Advertising can be repeated a number of times; most publicity appears in the mass media once and is not repeated.

Advertising, personal selling, and sales promotion are especially useful for influencing an exchange directly. Publicity is extremely important when communication focuses on a company's activities and products and is directed at interest groups, current and potential investors, regulatory agencies, and society in general.

publicity
nonpersonal
communication
transmitted through the
mass media but not paid
for directly by the firm

A variation of traditional advertising is buzz marketing, in which marketers attempt to create a trend or acceptance of a product. Companies seek out trendsetters in communities and get them to “talk up” a brand to their friends, family, co-workers, and others. Toyota, for example, parked its new Scions outside of raves and coffee shops, and offered hip-hop magazine writers the chance for tests drives in order to get the “buzz” going about the new car.³⁸ Other marketers using the buzz technique include Hebrew National (“mom squads” grilled the company’s hot dogs), and Chrysler (its retro PT Cruiser was planted in rental fleets). The idea behind buzz marketing is that an accepted member of a particular social group will be more credible than any form of paid communication.³⁹ The concept works best as part of an integrated marketing communication program that also includes traditional advertising, personal selling, sales promotion, and publicity.

A related concept is viral marketing, which describes the concept of getting Internet users to pass on ads and promotions to others. For example, Ebrick offered special discounts to its shoppers and encouraged them to forward the deals to their friends and family.⁴⁰

sales promotion
direct inducements
offering added value or
some other incentive
for buyers to enter into
an exchange

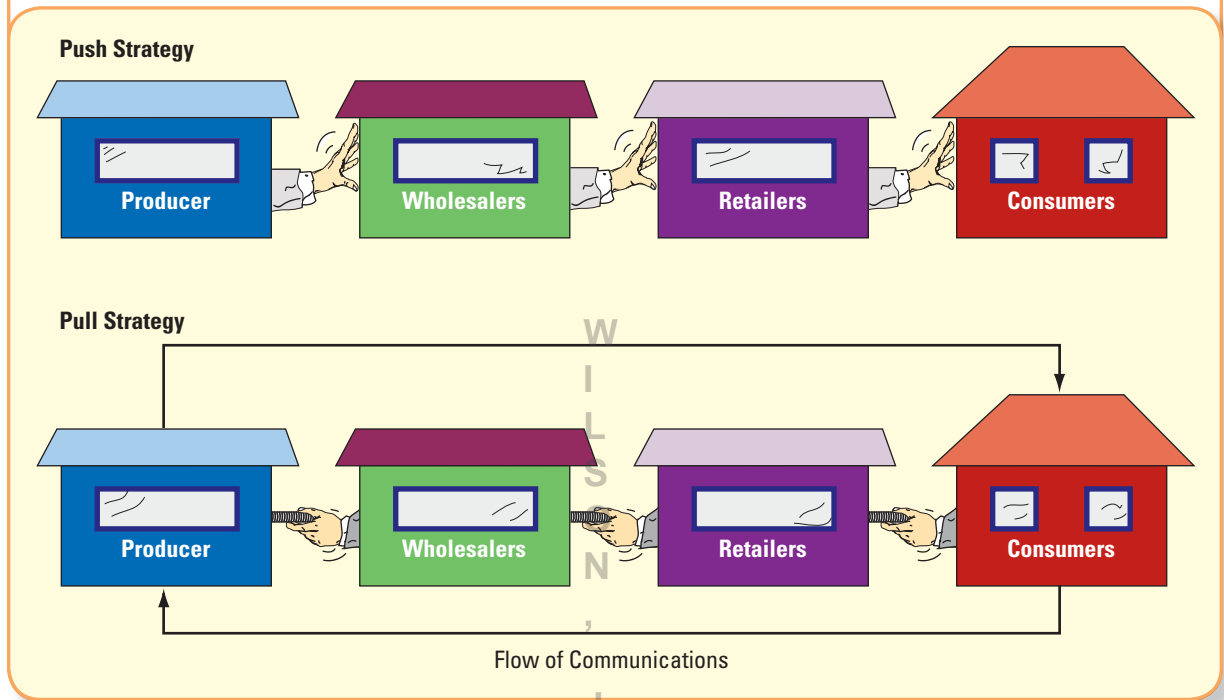
Sales Promotion. **Sales promotion** involves direct inducements offering added value or some other incentive for buyers to enter into an exchange. Sales promotions are generally easier to measure and less expensive than advertising. The major tools of sales promotion are store displays, premiums, samples and demonstrations, coupons, contests and sweepstakes, refunds, and trade shows. More than \$331 billion dollars in potential consumer savings were distributed through coupons, with more than 2.6 billion coupons redeemed. Coupon inserts in newspapers made up about 89 percent of the distribution, with 92.5 percent of all coupons distributed via methods sent directly to the home (direct mail, newspaper, magazine, etc).⁴¹ While coupons can be a valuable tool in sales promotion, they cannot be relied upon to stand, but should be part of an overall promotion mix. Sales promotion stimulates customer purchasing and increases dealer effectiveness in selling products. It is used to enhance and supplement other forms of promotion. Test drives allow salespersons to demonstrate vehicles, which can help purchase decisions. Sampling a product may also encourage consumers to buy. PepsiCo, for example, used sampling to promote its Sierra Mist soft drink to reach more than 5 million potential consumers at well-traveled sites such as Times Square and Penn Station.⁴² In a given year, almost three-fourths of consumer product companies may use sampling.

push strategy
an attempt to motivate
intermediaries to push
the product down to
their customers

pull strategy
the use of promotion
to create consumer
demand for a product
so that consumers exert
pressure on marketing
channel members to
make it available

Promotion Strategies: To Push or To Pull

In developing a promotion mix, organizations must decide whether to fashion a mix that pushes or pulls the product (Figure 13.7). A **push strategy** attempts to motivate intermediaries to push the product down to their customers. When a push strategy is used, the company attempts to motivate wholesalers and retailers to make the product available to their customers. Sales personnel may be used to persuade intermediaries to offer the product, distribute promotional materials, and offer special promotional incentives for those who agree to carry the product. Chrysler manufacturing plants operate on a push system. They assemble cars according to forecasts of sales demand. Dealers then sell to buyers with the help of incentives and other promotions.⁴³ A **pull strategy** uses promotion to create consumer demand for a product so that consumers exert pressure on marketing channel members to

FIGURE 13.7 Push and Pull Strategies

make it available. For example, when the Coca-Cola Company launched its new hybrid energy soda VAULT, the company gave away samples throughout the United States via sampling teams in VAULT-branded International CXTs, the world's largest production pickup trucks. They distributed ice-cold VAULT at concerts and targeted retail outlets, sporting events, and other locations.⁴⁴ Such sampling prior to a product rollout encourages consumers to request the product from their favorite retailer.

A company can use either strategy, or it can use a variation or combination of the two. The exclusive use of advertising indicates a pull strategy. Personal selling to marketing channel members indicates a push strategy. The allocation of promotional resources to various marketing mix elements probably determines which strategy a marketer uses.

Objectives of Promotion

The marketing mix a company uses depends on its objectives. It is important to recognize that promotion is only one element of the marketing strategy and must be tied carefully to the goals of the firm, its overall marketing objectives, and the other elements of the marketing strategy. Firms use promotion for many reasons, but typical objectives are to stimulate demand, to stabilize sales, and to inform, remind, and reinforce customers.

Increasing demand for a product is probably the most typical promotional objective. Stimulating demand, often through advertising and sales promotion, is particularly important when a firm is using a pull strategy.

Another goal of promotion is to stabilize sales by maintaining the status quo—that is, the current sales level of the product. During periods of slack or decreasing sales, contests, prizes, vacations, and other sales promotions are sometimes offered to customers to maintain sales goals. Advertising is often used to stabilize sales by making customers aware of slack use periods. For example, auto manufacturers often provide rebates, free options, or lower-than-market interest rates to stabilize sales and thereby keep production lines moving during temporary slowdowns. A stable sales pattern allows the firm to run efficiently by maintaining a consistent level of production and storage and utilizing all its functions so that it is ready when sales increase.

An important role of any promotional program is to inform potential buyers about the organization and its products. A major portion of advertising in the United States, particularly in daily newspapers, is informational. Providing information about the availability, price, technology, and features of a product is very important in encouraging a buyer to move toward a purchase decision. Nearly all forms of promotion involve an attempt to help consumers learn more about a product and a company.

Promotion is also used to remind consumers that an established organization is still around and sells certain products that have uses and benefits. Often advertising reminds customers that they may need to use a product more frequently or in certain situations. Pennzoil, for example, has run television commercials reminding car owners that they need to change their oil every 3,000 miles to ensure proper performance of their cars.

Reinforcement promotion attempts to assure current users of the product that they have made the right choice and tells them how to get the most satisfaction from the product. Also, a company could release publicity statements through the news media about a new use for a product. Additionally, firms can have salespeople communicate with current and potential customers about the proper use and maintenance of a product—all in the hope of developing a repeat customer.

Promotional Positioning

promotional positioning
the use of promotion to
create and maintain an
image of a product in
buyers' minds

Promotional positioning uses promotion to create and maintain an image of a product in buyers' minds. It is a natural result of market segmentation. In both promotional positioning and market segmentation, the firm targets a given product or brand at a portion of the total market. A promotional strategy helps differentiate the product and make it appeal to a particular market segment. For example, to appeal to safety-conscious consumers, Volvo heavily promotes the safety and crashworthiness of Volvo automobiles in its advertising. Volkswagen has done the same thing with its edgy ads showing car crashes. Promotion can be used to change or reinforce an image. Effective promotion influences customers and persuades them to buy.

So You Want to Be a Marketing Manager

Many jobs in marketing are closely tied to the marketing mix functions: distribution, product, promotion, and price. Often the job titles could be sales manager, distribution or supply chain manager, advertising account executive, or store manager.

A distribution manager arranges for transportation of goods within firms and through marketing channels. Transportation can be costly, and time is always an important factor, so minimizing their effects is vital to the success of a firm. Distribution managers must choose one or a combination of transportation modes from a vast array of options, taking into account local, federal, and international regulations for different freight classifications; the weight, size, and fragility of products to be shipped; time schedules; and loss and damage ratios. Manufacturing firms are the largest employers of distribution managers.

A product manager is responsible for the success or failure of a product line. This requires a general knowledge of advertising, transportation modes, inventory control, selling and sales management, promotion, marketing research, packaging, and pricing. Frequently, several years of selling and sales management experience are prerequisites for such a position as well as college training in business administration. Being a product manager can be rewarding both financially and psychologically.

Some of the most creative roles in the business world are in the area of advertising. Advertising pervades our daily lives, as businesses and other organizations try to grab our attention and tell us about what they have to offer. Copywriters, artists, and account executives in advertising must have creativity, imagination, artistic talent, and expertise in expression and persuasion. Advertising is an area of business in which a wide variety of educational backgrounds may be useful, from degrees in advertising itself, to journalism or liberal arts degrees. Common entry-level positions in an advertising agency are found in the

traffic department, account service (account coordinator), or the media department (media assistant). Advertising jobs are also available in many manufacturing or retail firms, nonprofit organizations, banks, professional associations, utility companies, and other arenas outside of an advertising agency.

Although a career in retailing may begin in sales, there is much more to retailing than simply selling. Many retail personnel occupy management positions, focusing on selecting and ordering merchandise, promotional activities, inventory control, customer credit operations, accounting, personnel, and store security. Many specific examples of retailing jobs can be found in large department stores. A section manager coordinates inventory and promotions and interacts with buyers, salespeople, and consumers. The buyer's job is fast-paced, often involving much travel and pressure. Buyers must be open-minded and foresighted in their hunt for new, potentially successful items. Regional managers coordinate the activities of several retail stores within a specific geographic area, usually monitoring and supporting sales, promotions, and general procedures. Retail management can be exciting and challenging. Growth in retailing is expected to accompany the growth in population and is likely to create substantial opportunities in the coming years.

While a career in marketing can be very rewarding, marketers today agree that the job is getting tougher. Many advertising and marketing executives say the job has gotten much more demanding in the past 10 years, viewing their number-one challenge as balancing work and personal obligations. Other challenges include staying current on industry trends or technologies, keeping motivated/inspired on the job, and measuring success. If you are up to the challenge, you may find that a career in marketing is just right for you to utilize your business knowledge while exercising your creative side as well.

Review Your Understanding

Describe the role of product in the marketing mix, including how products are developed, classified, and identified.

Products (goods, services, ideas) are among a firm's most visible contacts with consumers and must meet consumers' needs and expectations to ensure success. New-product development is a multistep process: idea development, the screening of new ideas, business analysis, product development, test marketing, and commercialization. Products are usually classified as either consumer or business products. Consumer products can be further classified as convenience, shopping, or specialty products. The business product classifications are raw materials, major equipment, accessory equipment, component parts, processed materials, supplies, and industrial services. Products also can be classified by the stage of the product life cycle (introduction, growth, maturity, and decline). Identifying products includes branding (the process of naming and identifying products); packaging (the product's container); and labeling (information, such as content and warnings, on the package).

Define price, and discuss its importance in the marketing mix, including various pricing strategies a firm might employ.

Price is the value placed on an object exchanged between a buyer and a seller. It is probably the most flexible variable of the marketing mix. Pricing objectives include survival, maximization of profits and sales volume, and maintaining the status quo. When a firm introduces a new product, it may use price skimming or penetration pricing. Psychological pricing and price discounting are other strategies.

Identify factors affecting distribution decisions, such as marketing channels and intensity of market coverage.

Making products available to customers is facilitated by middlemen, or intermediaries, who bridge the gap between

the producer of the product and its ultimate user. A marketing channel is a group of marketing organizations that directs the flow of products from producers to consumers. Market coverage relates to the number and variety of outlets that make products available to customers; it may be intensive, selective, or exclusive. Physical distribution is all the activities necessary to move products from producers to consumers, including inventory planning and control, transportation, warehousing, and materials handling.

Specify the activities involved in promotion, as well as promotional strategies and promotional positioning.

Promotion encourages marketing exchanges by persuading individuals, groups, and organizations to accept goods, services, and ideas. The promotion mix includes advertising (a paid form of nonpersonal communication transmitted through a mass medium), personal selling (direct, two-way communication with buyers and potential buyers), publicity (nonpersonal communication transmitted through the mass media but not paid for directly by the firm), and sales promotion (direct inducements offering added value or some other incentive for buyers to enter into an exchange). A push strategy attempts to motivate intermediaries to push the product down to their customers, whereas a pull strategy tries to create consumer demand for a product so that consumers exert pressure on marketing channel members to make the product available. Typical promotion objectives are to stimulate demand, stabilize sales, and inform, remind, and reinforce customers. Promotional positioning is the use of promotion to create and maintain in the buyer's mind an image of a product.

Evaluate an organization's marketing strategy plans.

Based on the material in this chapter, you should be able to answer the questions posed in "Solve the Dilemma" on page 418 and evaluate the company's marketing strategy plans, including its target market and marketing mix.

Revisit the World of Business

1. How has Concord used marketing to achieve success?
2. Why do you think Paul McCartney released his album through Concord's joint venture label Hear Music at Starbucks?
3. Why would Concord permit free downloads of songs?

Learn the Terms

advertising 409	manufacturer brands 395	publicity 411
advertising campaign 409	marketing channel 402	pull strategy 412
branding 395	materials handling 408	push strategy 412
business products 392	packaging 396	quality 397
commercialization 390	penetration price 400	retailers 403
consumer products 391	personal selling 410	sales promotion 412
discounts 401	physical distribution 407	selective distribution 406
exclusive distribution 407	price skimming 400	test marketing 390
generic products 396	private distributor brands 396	trademark 395
integrated marketing communications 409	product line 392	transportation 407
intensive distribution 406	product mix 392	warehousing 407
labeling 397	promotional positioning 414	wholesalers 404
	psychological pricing 401	

Check Your Progress

1. What steps do companies generally take to develop and introduce a new product?
2. What is the product life cycle? How does a product's life cycle stage affect its marketing strategy?
3. Which marketing mix variable is probably the most flexible? Why?
4. Distinguish between the two ways to set the base price for a new product.
5. What is probably the least flexible marketing mix variable? Why?
6. Describe the typical marketing channels for consumer products.
7. What activities are involved in physical distribution? What functions does a warehouse perform?
8. How do publicity and advertising differ? How are they related?
9. What does the personal selling process involve? Briefly discuss the process.
10. List the circumstances in which the push and pull promotional strategies are used.

Get Involved

1. Pick three products you use every day (either in school, at work, or for pleasure—perhaps one of each). Determine what phase of the product life cycle each is in. Evaluate the marketer's strategy (product, price, promotion, and distribution) for the product and whether it is appropriate for the life-cycle stage.
2. Design a distribution channel for a manufacturer of stuffed toys.
3. Pick a nearby store, and briefly describe the kinds of sales promotion used and their effectiveness.

Build Your Skills



ANALYZING MOTEL 6'S MARKETING STRATEGY

Background:

Made famous through the well-known radio and TV commercials spoken in the distinctive “down-home” voice of Tom Bodett, the Dallas-based Motel 6 chain of

budget motels is probably familiar to you. Based on the information provided here and any personal knowledge you may have about the company, you will analyze the marketing strategy of Motel 6.

Task:

Read the following paragraphs, then complete the questions that follow.

Motel 6 was established in 1962 with the original name emphasizing its low-cost, no-frills approach. Rooms at that time were \$6 per night. Today, Motel 6 has more than 760 units, and the average nightly cost is \$34. Motel 6 is the largest company-owned and operated lodging chain in the United States. Customers receive HBO, ESPN, free morning coffee, and free local phone calls, and most units have pools and some business services. Motel 6 has made a name for itself by offering clean, comfortable rooms at the lowest prices of any national motel chain and by standardizing both its product offering and its operating policies and procedures. The company's national spokesperson, Tom Bodett, is featured in radio and television commercials that use humorous stories to show why it makes sense to stay at Motel 6 rather than a pricey hotel.

In appealing to pleasure travelers on a budget as well as business travelers looking to get the most for their dollar, one commercial makes the point that all hotel and motel rooms look the same at night when the lights are out—when customers are getting what they came for, a good night's sleep. Motel 6 location sites are selected based on whether they provide convenient access to the highway system and whether they are close to areas

such as shopping centers, tourist attractions, or business districts.

1. In SELECTING A TARGET MARKET, which approach is Motel 6 using to segment markets?
 - a. concentration approach
 - b. multisegment approach
2. In DEVELOPING A MARKETING MIX, identify in the second column of the table what the current strategy is and then identify any changes you think Motel 6 should consider for carrying it successfully through the next five years.

Marketing Mix Variable	Current Strategy	5-Year Strategy
a. Product		
b. Price		
c. Distribution		
d. Promotion		

Solve the Dilemma



BETTER HEALTH WITH SNACKS

Deluxe Chips is one of the leading companies in the salty-snack industry, with almost one-fourth of the \$10 billion market. Its Deluxos tortilla chips are the number-one selling brand in North America, and its Ridgerunner potato chip is also a market share leader. Deluxe Chips wants to stay on top of the market by changing marketing strategies to match changing consumer needs and preferences. Promoting specific brands to market segments with the appropriate price and distribution channel is helping Deluxe Chips succeed.

As many middle-aged consumers modify their snacking habits, Deluxe Chips is considering a new product line of light snack foods with less fat and cholesterol and targeted at the 35- to 50-year-old consumer who enjoys snacking but wants to be more health conscious. Marketing research

suggests that the product will succeed as long as it tastes good and that consumers may be willing to pay more for it. Large expenditures on advertising may be necessary to overcome the competition. However, it may be possible to analyze customer profiles and retail store characteristics and then match the right product with the right neighborhood. Store-specific micromarketing would allow Deluxe Chips to spend its promotional dollars more efficiently.

Discussion Questions

1. Design a marketing strategy for the new product line.
2. Critique your marketing strategy in terms of its strengths and weaknesses.
3. What are your suggestions for implementation of the marketing strategy?

Build Your Business Plan



DIMENSIONS OF MARKETING STRATEGY

If you think your product/business is truly new to or unique to the market, you need to substantiate your claim. After a thorough exploration on the Web, you want to make sure there has not been a similar business/service recently launched in your community. Check with your Chamber of Commerce or Economic Development Office that might be able to provide you with a history of recent business failures. If you are not confident about the ability or willingness of customers to try your new product or service, collecting your own primary data to ascertain demand is highly advisable.

The decision of where to initially set your prices is a critical one. If there are currently similar products in the market, you need to be aware of the competitors' prices before you determine yours. If your product/service is new

to the market, you can price it high (market skimming strategy) as long as you realize that the high price will probably attract competitors to the market more quickly (they will think they can make the same product for less), which will force you to drop your prices sooner than you would like. Another strategy to consider is market penetration pricing, a strategy that sets price lower and discourages competition from entering the market as quickly. Whatever strategy you decide to use, don't forget to examine your product/service's elasticity.

At this time you need to start thinking about how to promote your product. Why do you feel your product/service is different or new to the market? How do you want to position your product/service so customers view it favorably? Remember this is all occurring *within the consumer's mind*.

See for Yourself Videocase



WAL-MART REVISES ITS MARKETING STRATEGY

In 2006, Wal-Mart had its most dismal performance of all time. Long known for its low price motto, the company began to falter as competitors closed the price gap by actively restructuring. Wal-Mart faced competition on many fronts, including grocery competitors Kroger and Safeway and clothing and housewares competition from the likes of Target and Costco. Its primary source of competition seemed to be Target, who figured out how to draw middle-income consumers in droves by creating a flourishing fashionable reputation. Further complicating the competitive landscape for Wal-Mart, a *BusinessWeek* price comparison between Wal-Mart and Target concluded that overall differences in price came down to mere pennies. Wal-Mart was now forced to compete against stores with better aesthetics and savvier marketing favored by affluent and middle-income consumers while, at the same time, retaining its loyal, low price–dedicated customers.

Target has become a master at “cheap-chic.” Consumers, especially those in the middle-income bracket, flock to Target for fashionable clothing, home accessories, and furniture. Wal-Mart decided to compete by offering its own line of cheap-chic clothing, even going so far as to run ads in *Vogue* and produce a fashion show in Times Square. The company's attempt ultimately crashed and burned. Wal-Mart underestimated demand for its “George” line of fashion basics and, with long production lead times, was unable to maintain stock of the most popular sizes.

At the same time, the company appeared to have demographic amnesia. For example, Wal-Mart's typical female shopper wears a size 14, yet the company was pushing trendy “skinny jeans” unlikely to be favored by this loyal consumer base. Analysts question whether moves aimed to gain the attention of Target's retail base might actually be turning off Wal-Mart's traditional price-conscious consumers.

As Wal-Mart stocks dropped from \$60 a share to the mid-\$40s, Wall Street analysts suggested that Wal-Mart, long known for rapid growth, should halt its speedy expansion in order to focus on improving the look and quality of its current stores. In response, H. Lee Scott, Wal-Mart's CEO, said that slowing down expansion would not lead to improved stores and remained unclear as to why Wal-Mart appeared unable to improve the quality of its existing stores. This is unfortunate, given that many affluent and middle-income consumers value store aesthetics as much as price. The question became: Is low price enough to keep Wal-Mart going? Scott claimed that the company planned to continue its current growth rate of about one store opening per day. Wall Street analysts saw this as a mistake, citing that Wal-Mart's prized Supercenters were not even bringing in enough money to make up for the costs of constructing them in the first place and that same-store sales were repeatedly low in many markets. Supercenters also end up, at times, located near traditional Wal-Mart stores, forcing the two to compete. Was Wal-Mart hurting itself by bullishly growing and focusing

on middle-income consumers unlikely to convert to its shabby existing stores?

Wal-Mart and Target, on many levels, cater to entirely different demographics. Target excels at household goods, fashionable clothing, and electronics, while Wal-Mart excels at low-cost groceries, pharmacy, and entertainment. In fact, grocery items make up 40 percent of Wal-Mart's business, an area in which most Target stores do not compete. To enhance this competitive advantage, Wal-Mart also added low-priced organic groceries to its repertoire. This puts it in competition with high-end supermarkets and specialty stores such as Whole Foods, but with a strong price advantage over these competitors.

As the United States entered an economic downturn, Wal-Mart's focus on price again reaped rewards for the company. Consumers previously supporting higher-margin grocery stores such as Kroger and Safeway began turning back to Wal-Mart for its lower prices. Target was negatively affected as people began saving money by buying less clothing, electronics, and furniture and focusing more on the basic necessities like food and medicines that are Wal-Mart's strong points. Wal-Mart began strong marketing campaigns over low-priced prescription medicines and its new green initiatives. Partially in response to middle-income

consumers, the company launched an aggressive green business initiative to reduce carbon emissions. Wal-Mart stock prices began to recover, and these new marketing strategies seemed to be working. However, it is impossible to truly compare Wal-Mart and Target until the economy evens out again. Will Wal-Mart continue to pursue Target's middle-income customers with fashionable clothing, organic food, and green initiatives, or will it return to its own price-conscious consumer base with rock-bottom grocery prices and low-cost prescription medicines? Will it listen to analysts or continue to expand? Only time will tell.⁴⁵

Discussion Questions

1. What role does marketing play in Wal-Mart's decisions to try to lure Target's middle-income customers?
2. How could better marketing have prevented such snafus as Wal-Mart selling skinny jeans and consistently running out of popular sizes of its new clothing line?
3. Why is it said that Wal-Mart and Target have different target markets?

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