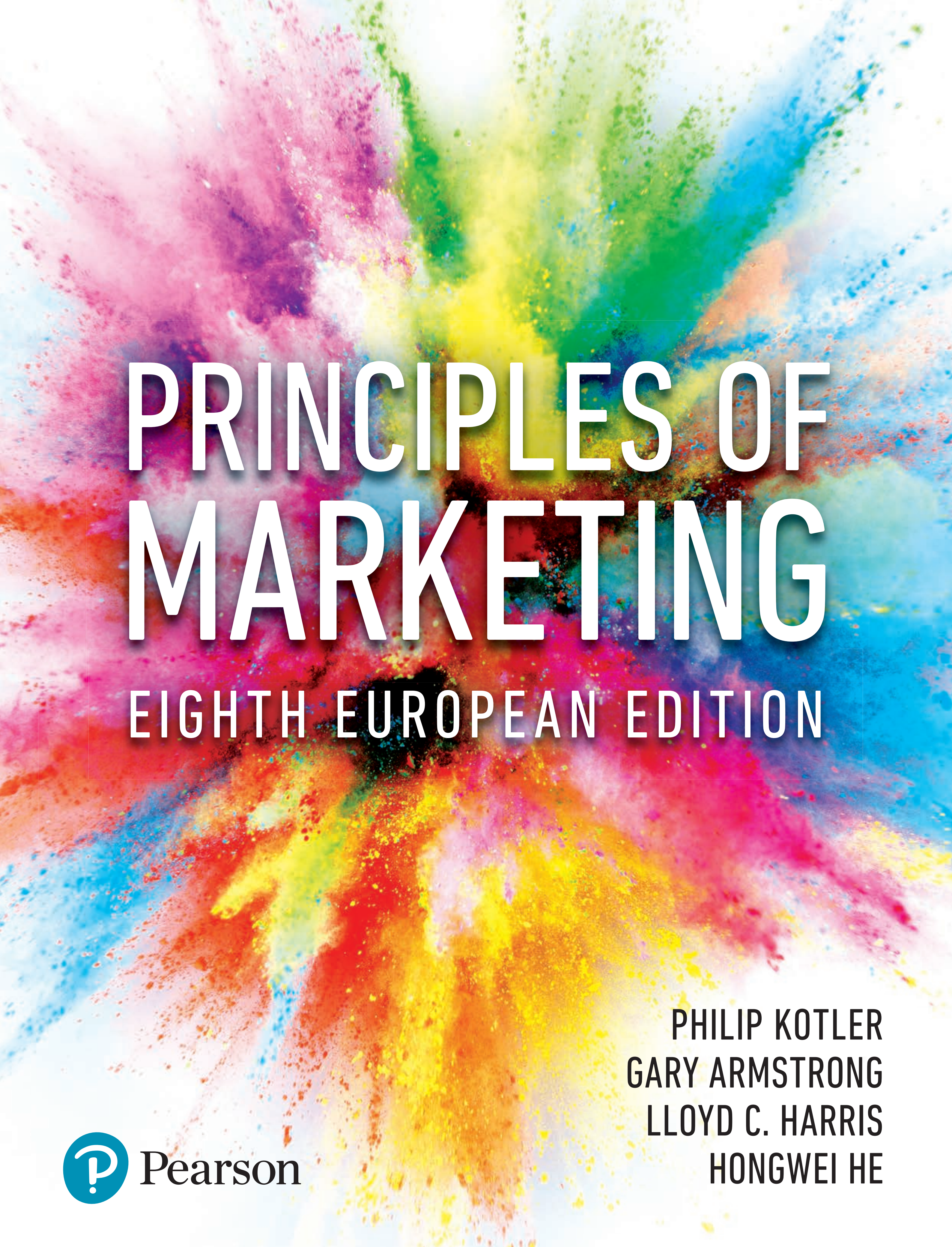

PRINCIPLES OF MARKETING

EIGHTH EUROPEAN EDITION

PHILIP KOTLER
GARY ARMSTRONG
LLOYD C. HARRIS
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Pearson

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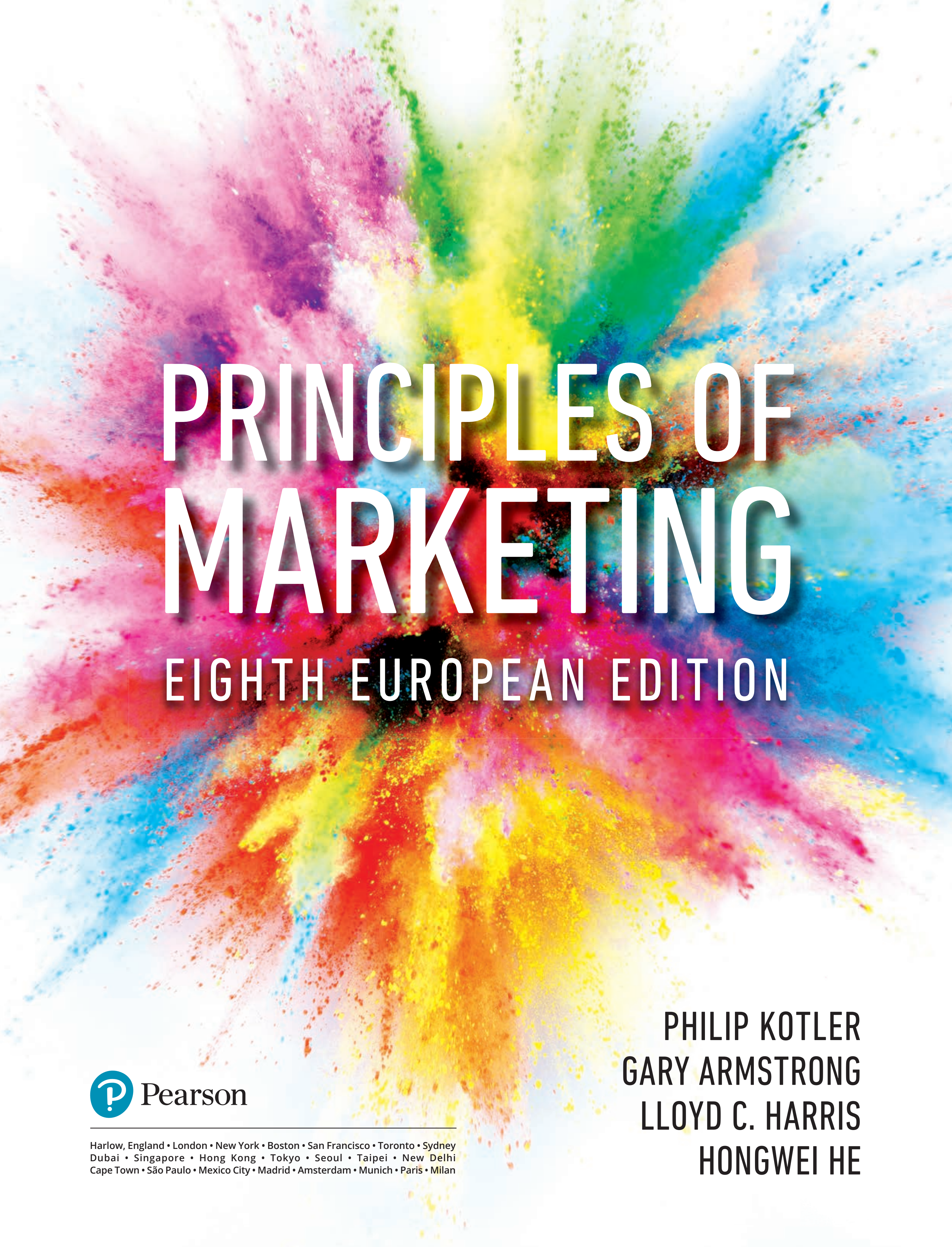

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For open-access **student resources** to complement this textbook and support your learning, please visit **www.pearsoned.co.uk/kotler**

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For password-protected online resources tailored to support the use of this textbook in teaching, please visit **www.pearsoned.co.uk/kotler**

Preface

These are exciting times in marketing. Recent surges in digital technologies have created a new, more engaging, more connected marketing world. Beyond traditional tried-and-true marketing concepts and practices, today's marketers have added a host of new-age tools for engaging consumers, building brands and creating customer value and relationships. In these digital times, sweeping advances in the 'Internet of Things' – from social and mobile media, connected digital devices and the new consumer empowerment to 'big data' and new marketing analytics – have profoundly affected both marketers and the consumers they serve.

All around the world – across five continents, more than 40 countries and 24 languages – students, professors and business professionals have long relied on *Principles of Marketing* as the most-trusted source for teaching and learning about the latest developments in basic marketing concepts and practices. More than ever, the eighth edition introduces new marketing students to the fascinating world of modern marketing in a complete and authoritative yet fresh, practical, and engaging way.

Once again, we've added substantial new content and pored over every page, table, figure, fact and example in order to make this the best text from which to learn about and teach marketing. The Eighth European Edition of *Principles of Marketing* remains the world standard in introductory marketing education.

Marketing: creating customer value and engagement in the digital and social age

Top marketers share a common goal: putting the consumer at the heart of marketing. Today's marketing is all about creating customer value and engagement in a fast-changing, increasingly digital and social marketplace.

Marketing starts with understanding consumer needs and wants, determining which target markets the organisation can serve best, and developing a compelling value proposition by which the organisation can attract and grow valued consumers. Then, more than just making a sale, today's marketers want to *engage* customers and build deep customer relationships that make their brands a meaningful part of consumers' conversations and lives.

In this digital age, to go along with their tried-and-true traditional marketing methods, marketers have a dazzling set of new online, mobile and social media tools for engaging customers anytime, any place to jointly shape brand conversations, experiences and community. If marketers do these things well, they will reap the rewards in terms of market share, profits and customer equity. In the Eighth European Edition of *Principles of Marketing*, you'll learn how *customer value* and *customer engagement* drive every good marketing strategy.

What's new in this edition?

We've thoroughly revised this new European edition of *Principles of Marketing* to reflect the major trends and forces that affect marketing in this digital age of customer value, engagement and relationships. Here are just some of the major and continuing changes you'll find in this edition.

- The new edition adds fresh coverage in both traditional marketing areas and on fast-changing and trending topics such as customer engagement marketing, mobile and social media, big data and the new marketing analytics, the Internet of Things, omni-channel marketing and retailing, customer co-creation and empowerment, real-time customer listening and marketing, building brand community, marketing content creation and native advertising, B-to-B social media and social selling, monetising social media, tiered and dynamic pricing, consumer privacy, sustainability, global marketing and much more.
- This new edition continues to build on its *customer engagement* framework – creating direct and continuous customer involvement in shaping brands, brand conversations, brand experiences and brand community. New coverage and fresh examples throughout the text address the latest customer engagement tools, practices and developments. See especially **Chapter 1** (refreshed sections on *Customer engagement and today's digital and social media* and *Consumer-generated marketing*); **Chapter 4** (big data and real-time research to gain deeper customer insights); **Chapter 5** (creating social influence and customer community through digital and social media marketing); **Chapter 9** (customer co-creation and customer-driven new-product development); **Chapter 13** (omni-channel retailing); **Chapters 14 and 15** (marketing content curation and native advertising); **Chapter 16**

(sales force social selling); and **Chapter 17** (direct digital, online, social media and mobile marketing).

- No area of marketing is changing faster than online, mobile, social media and other digital marketing technologies. Keeping up with digital concepts, technologies and practices has become a top priority and major challenge for today's marketers. The Eighth European Edition of *Principles of Marketing* provides thoroughly refreshed, up-to-date coverage of these explosive developments in every chapter – from online, mobile and social media engagement technologies discussed in **Chapters 1, 5, 14, 15 and 17** to 'real-time listening' and 'big data' research tools in **Chapter 4**, real-time dynamic pricing in **Chapter 11**, omni-channel retailing in **Chapter 13**, and social selling in **Chapter 16**. In **Chapter 1** a section on *The digital age: online, mobile and social media marketing* introduces the exciting new developments in digital and social media marketing. Then in **Chapter 17** a section on *Direct, online, social media and mobile marketing* digs more deeply into digital marketing tools such as online sites, social media, mobile ads and apps, online video, email, blogs and other digital platforms that engage consumers anywhere, anytime via their computers, smartphones, tablets, internet-ready TVs and other digital devices.
- The new edition continues to track fast-changing developments in marketing communications and the creation of marketing content. Marketers are no longer simply creating integrated marketing communications programmes; they are joining with customers and media to curate customer-driven marketing content in paid, owned, earned and shared media. You won't find fresher coverage of these important topics in any other marketing text.
- The Eighth European Edition of *Principles of Marketing* continues to improve on its innovative learning design. The text's active and integrative presentation includes learning enhancements such as annotated chapter-opening stories, a chapter-opening learning outcomes outline, and explanatory author comments on major chapter sections and figures. The chapter-opening layout helps to preview and position the chapter and its key concepts. Figures annotated with author comments help students to simplify and organise chapter material. New and substantially revised end-of-chapter features help to summarise important chapter concepts and highlight important themes, such as marketing ethics, financial marketing analysis, and online, mobile and social media marketing. This innovative learning design facilitates student understanding and eases learning.
- The new edition provides many new end-of-chapter company cases by which students can apply what they learn to actual company situations. It also features new video cases, with brief end-of-chapter summaries and discussion questions. The videos themselves can be viewed at **www.pearsoned.co.uk/kotler**. Finally, all of the chapter-opening stories and end-of-chapter features in this edition are either new or revised.
- New material throughout the new edition highlights the increasing importance of *sustainable marketing*. The discussion begins in **Chapter 1** and ends in **Chapter 20**, which pulls marketing together under a sustainable marketing framework. In between, frequent discussions and examples show how sustainable marketing calls for socially and environmentally responsible actions that meet both the immediate and the future needs of customers, companies and society as a whole.
- The new edition provides new discussions and examples of the growth in *global marketing.* As the world becomes a smaller, more competitive place, marketers face new global marketing challenges and opportunities, especially in fast-growing emerging markets such as China, India, Brazil, Africa and others. You'll find much new coverage of global marketing throughout the text, starting in **Chapter 1** and discussed fully in **Chapter 19**.

Five major customer value and engagement themes

The Eighth European Edition of *Principles of Marketing* builds on five major customer value and engagement themes:

1. **Creating value for customers in order to capture value from customers in return.** Today's marketers must be good at *creating customer value, engaging customers,* and *managing customer relationships*. Outstanding marketing companies understand the marketplace and customer needs, design value-creating marketing strategies, develop integrated marketing programmes that engage customers and deliver value and satisfaction, and build strong customer relationships and brand community. In return, they capture value from customers in the form of sales, profits and customer equity.

   This innovative *customer-value and engagement framework* is introduced at the start of **Chapter 1** in a five-step marketing process model, which details how marketing *creates* customer value and *captures* value in return. The framework is carefully developed in the first two chapters and then fully integrated throughout the remainder of the text.
2. **Customer engagement and today's digital and social media.** New digital and social media have taken today's marketing by storm, dramatically changing how companies and brands engage consumers and how consumers connect and influence each other's brand behaviours. The new edition introduces and thoroughly explores the contemporary concept of *customer engagement*

marketing and the exciting new digital and social media technologies that help brands to engage customers more deeply and interactively. It starts with two major **Chapter 1** sections: *Customer engagement and today's digital and social media* and *The digital age: online, mobile, and social media.* A refreshed **Chapter 17** on *Direct, online, social media and mobile marketing* summarises the latest developments in digital engagement and relationship-building tools. Everywhere in between, you'll find revised and expanded coverage of the exploding use of digital and social tools to create customer engagement and build brand community.

3. **Building and managing strong, value-creating brands.** Well-positioned brands with strong brand equity provide the basis upon which to build customer value and profitable customer relationships. Today's marketers must position their brands powerfully and manage them well to create valued brand experiences. The new edition provides a deep focus on brands, anchored by a **Chapter 8** section on *Branding strategy: building strong brands*.
4. **Measuring and managing return on marketing.** Especially in uneven economic times, marketing managers must ensure that their marketing budgets are being well spent. In the past, many marketers spent freely on big, expensive marketing programmes, often without thinking carefully about the financial returns on their spending. But all that has changed rapidly. 'Marketing accountability' – measuring and managing marketing return on investment – has now become an important part of strategic marketing decision making. This emphasis on marketing accountability is addressed in **Chapter 2**, in **Appendix 2** (*Marketing by Numbers*), and throughout the eighth edition.
5. **Sustainable marketing around the globe.** As technological developments make the world an increasingly smaller and more fragile place, marketers must be good at marketing their brands globally and in sustainable ways. New material throughout the new edition emphasises the concepts of global marketing and sustainable marketing – meeting the present needs of consumers and businesses while also preserving or enhancing the ability of future generations to meet their needs. The eighth edition integrates global marketing and sustainability topics throughout the text. It then provides focused coverage on each topic in **Chapters 19 and 20**, respectively.

Learning aids that create value and engagement

A wealth of chapter-opening, within-chapter and end-of-chapter learning devices help students to learn, link and apply major concepts:

- *Integrated chapter-opening preview sections.* The active and integrative chapter-opening spread in each chapter starts with a *Chapter preview,* which briefly previews chapter concepts, links them with previous chapter concepts and introduces the chapter-opening story. This leads to a *Learning outcomes* outline that provides a helpful preview of chapter contents and learning objectives, complete with page numbers. Finally, a chapter-opening vignette – an engaging, deeply developed, illustrated and annotated marketing story that introduces the chapter material and sparks student interest.
- *Author comments and figure annotations.* Each figure contains author comments that ease student understanding and help organise major text sections.
- Sections at the end of each chapter summarise key chapter concepts and provide questions and exercises by which students can review and apply what they've learned. The *Learning outcomes review* and *Navigating the key terms* sections review major chapter concepts and link them to learning outcomes. They also provide a helpful listing of chapter key terms by order of appearance with page numbers that facilitate easy reference. A *Discussion and critical thinking* section provides discussion questions and critical-thinking exercises that help students to keep track of and apply what they've learned in the chapter.
- *Mini cases and applications.* Brief *Online, mobile and social media marketing; Marketing ethics;* and *Marketing by numbers* sections at the end of each chapter provide short applications cases that facilitate discussion of current issues and company situations in areas such as mobile and social marketing, ethics and financial marketing analysis. End-of-chapter *Company case* sections provide all-new or revised company cases that help students to apply major marketing concepts to real company and brand situations.
- *Marketing plan appendix.* **Appendix 1** contains a sample marketing plan that helps students to apply important marketing planning concepts.
- *Marketing by numbers appendix.* An innovative **Appendix 2** provides students with a comprehensive introduction to the marketing financial analysis that helps to guide, assess and support marketing decisions. An exercise at the end of each chapter lets students apply analytical and financial thinking to relevant chapter concepts and links the chapter to the *Marketing by numbers* appendix.

More than ever before, the Eighth European Edition of *Principles of Marketing* creates value and engagement for you – it gives you all you need to know about marketing in an effective and enjoyable total learning package!

A total teaching and learning package

A successful marketing course requires more than a well-written book. Today's classroom requires a dedicated teacher, well-prepared students and a fully integrated teaching system. A total package of teaching and learning supplements extends this edition's emphasis on creating value and engagement for both the student and instructor. The following aids support the Eighth European Edition of *Principles of Marketing*.

Instructor resources

At the Instructor Resource Centre, **www.pearsoned.co.uk/kotler**, instructors can easily register to gain access to a variety of instructor resources available with this text in downloadable format.

The following supplements are available with this text:

- Instructor's Resource Manual
- PowerPoint Presentation
- Student companion website containing the videos referred to in the end-of-chapter video case section

A note on the authors

Long-term users of this text will note that the authorship of this edition has changed from the seventh edition. My previous co-author of the European Edition – Nigel F. Piercy – sadly quietly and peacefully passed away (he must be really annoyed – he would have much preferred to sign out with a tremendous, earth-shattering bang!). Nigel was fun. He enjoyed scandalising people, poking fun at the pompous (I was a frequent and all too easy target) and generally causing mischief and mayhem. When he wanted he could charm the birds from the trees and when he didn't he could pop an ego with one searing look (most often through dirty glasses). He was the best writer I know and a simply brilliant lecturer. Others will write of his long list of achievements, victories and prizes – I would say he didn't care about them but that would be untrue – such things were a way of keeping score. I, however, will just remember most his cleverness, his wit, his sardonic grimace and his ironically raised eyebrows!

Lloyd C. Harris

About the authors

Philip Kotler is S.C. Johnson & Son Distinguished Professor of International Marketing at the Kellogg School of Management, Northwestern University. He received his master's degree at the University of Chicago and his PhD at M.I.T., both in economics. Dr Kotler is the author of *Marketing Management* (Pearson), now in its seventeenth edition and the most widely used marketing textbook in graduate schools of business worldwide. He has authored more than 50 other successful books and has published more than 150 articles in leading journals. He is the only three-time winner of the coveted Alpha Kappa Psi award for the best annual article in the *Journal of Marketing*.

Professor Kotler was named the first recipient of four major awards: the *Distinguished Marketing Educator of the Year Award* and the *William L. Wilkie 'Marketing for a Better World' Award*, both given by the American Marketing Association; the *Philip Kotler Award for Excellence in Health Care Marketing* presented by the Academy for Health Care Services Marketing; and the *Sheth Foundation Medal for Exceptional Contribution to Marketing Scholarship and Practice*. He is a charter member of the Marketing Hall of Fame, was voted the first Leader in Marketing Thought by the American Marketing Association, and was named the Founder of Modern Marketing Management in the *Handbook of Management Thinking*. His numerous other major honours include the Sales and Marketing Executives International *Marketing Educator of the Year Award*; the European Association of Marketing Consultants and Trainers *Marketing Excellence Award*; the *Charles Coolidge Parlin Marketing Research Award*; and the *Paul D. Converse Award*, given by the American Marketing Association to honour 'outstanding contributions to science in marketing'. A recent *Forbes* survey ranks Professor Kotler in the top 10 of the world's most influential business thinkers. And in a recent *Financial Times* poll of 1,000 senior executives across the world, Professor Kotler was ranked as the fourth 'most influential business writer/guru' of the twenty-first century.

Dr Kotler has served as chairman of the College on Marketing of the Institute of Management Sciences, a director of the American Marketing Association and a trustee of the Marketing Science Institute. He has consulted with many major US and international companies in the areas of marketing strategy and planning, marketing organisation and international marketing.

He has travelled and lectured extensively throughout Europe, Asia and South America, advising companies and governments about global marketing practices and opportunities.

Gary Armstrong is Crist W. Blackwell Distinguished Professor Emeritus of Undergraduate Education in the Kenan-Flagler Business School at the University of North Carolina at Chapel Hill. He holds undergraduate and master's degrees in business from Wayne State University in Detroit, and he received his PhD in marketing from Northwestern University. Dr Armstrong has contributed numerous articles to leading business journals. As a consultant and researcher, he has worked with many companies on marketing research, sales management and marketing strategy.

But Professor Armstrong's first love has always been teaching. His long-held Blackwell Distinguished Professorship is the only permanent endowed professorship for distinguished undergraduate teaching at the University of North Carolina at Chapel Hill. He has been very active in the teaching and administration of Kenan-Flagler's undergraduate programme. His administrative posts have included Chair of Marketing, Associate Director of the Undergraduate Business Program, Director of the Business Honors Program and many others. Through the years, he has worked closely with business student groups and has received several UNC campus-wide and Business School teaching awards. He is the only repeat recipient of the school's highly regarded Award for Excellence in Undergraduate Teaching, which he received three times. Most recently, Professor Armstrong received the UNC Board of Governors Award for Excellence in Teaching, the highest teaching honour bestowed by the sixteen-campus University of North Carolina system.

Lloyd C. Harris is the Head of the Marketing Department and Professor of Marketing at Birmingham Business School, University of Birmingham. After working in retail and service organisations, he received his PhD in Marketing from Cardiff University and his Higher Doctorate (DSc) from the University of Warwick. His research results have been disseminated via a range of marketing strategy, HRM and general management journals. He has written widely in these fields and has published over 100 pieces. He is particularly proud of papers that have been published in the *Journal of Retailing*, *Journal of the Academy of Marketing Science*, *Journal of Management Studies*, *Human Resource Management*, *Organization Studies* and the *Annals of Tourism Research*. He has consulted and run programmes for many leading private and public organisations, especially focusing on retailing and service organisations.

Hongwei He is Professor of Marketing at Alliance Manchester Business School, The University of Manchester, and an Associate Editor for *Journal of Business Research*. He has also served as an Associate Editor for *Group & Organization Management* in the past. Professor He's main research areas are business ethics and corporate social responsibility, branding, consumer psychology, organisational behaviour and leadership. Professor He has co-edited several special issues and has published widely in leading academic journals. Professor He has supervised numerous projects for multinational corporations and non-profit and governmental organisations, such as the Behavioural Insights Team of the Cabinet Office and Department for Business, Innovation and Skills (UK Government).

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Part One

Defining marketing and the marketing process

Chapter One

Marketing: creating customer value and engagement

Chapter preview

This first chapter introduces you to the basic concepts of marketing. We start with the question: What is marketing? Simply put, marketing is engaging customers and managing profitable customer relationships. The aim of marketing is to create value for customers in order to capture value from customers in return. Next we discuss the five steps in the marketing process – from understanding customer needs, to designing customer value-driven marketing strategies and integrated marketing programmes, to building customer relationships and capturing value for the firm. Finally, we discuss the major trends and forces affecting marketing in this new age of digital, mobile and social media. Understanding these basic concepts and forming your own ideas about what they really mean to you will provide a solid foundation for all that follows.

Let's start with a good story about marketing in action at Pegasus Airlines, one of Europe's leading low-cost airlines. Pegasus's outstanding success stems from much more than just flying passengers around Turkey. It's based on a customer-focused marketing strategy by which Pegasus creates customer value for its customers.

Learning outcomes

- **Objective 1** You will be able to define marketing and outline the steps in the marketing process.
  What is marketing? (pp. 5–7)
- **Objective 2** You will be able to explain the importance of understanding the marketplace and customers and identify the five core marketplace concepts.
  Understanding the marketplace and customer needs (pp. 7–10)
- **Objective 3** You will be able to identify the key elements of a customer value-driven marketing strategy and discuss the marketing management orientations that guide marketing strategy.
  Designing a customer value-driven marketing strategy and plan (pp. 10–14)
- **Objective 4** You will be able to discuss customer relationship management and identify strategies for creating value *for* customers and capturing value *from* customers in return.
  Building customer relationships (pp. 14–20)
- **Objective 5** You will be able to describe the major trends and forces that are changing the marketing landscape in this age of relationships.
  The changing marketing landscape (pp. 23–27)

Pegasus Airlines: delighting a new type of travelling customer

Until 1982, Turkish Airlines was the only airline company operating in Turkey, and it had no domestic competitors. Following deregulation and reduction of government controls across the airline industry, 29 airlines were established, with 22 finding themselves bankrupted a few years later, demonstrating the strong level of both internal and external competition and how the airline industry is affected by economic instability. Over the past 20 years, Turkey has experienced a number of financial crises, as well as political turmoil. Pegasus was created in 1989 as a charter airline partnered with Aer Lingus to create all-inclusive holidays. In 1994, the company was sold to a Turkish investment fund and in 2005 was re-sold to Ali Sabanci (of Sabanci Holding, an influential family-owned business in Turkey), who changed the airline from a charter airline to a low-cost airline. In 2008, Pegasus carried a total 4.4 million passengers in Turkey, more than any other private airline. However, by 2018 passenger traffic had exploded to around 29 million passengers carried. As of 2019, Pegasus has a fleet of 83 Boeing and Airbus planes. Its major competitors – other than the national carrier, Turkish Airlines – are Onur Air, Fly Air, Sun Express and Atlasjet. Instead of operating from Istanbul's main airport, which is overcrowded, Pegasus Airlines flies from Istanbul's second main hub, Sabiha Gökçen International Airport. Its on-time departure rate is around 85 per cent, which is well above the European average of 81 per cent, demonstrating the importance the company attaches to customer service. In 2017, Pegasus was awarded the title 'The Best Low-Cost Airline' and has been named the cheapest European low-cost airline numerous times.

What is the secret to the airline's success? Quite simply, it involves making sure Pegasus is continually developing to meet passenger expectations and priorities. Pegasus has put in place a yield management strategy for ticket pricing, using the strategy of Southwest Airlines of North America as an example. Supply and demand, as well as time, are taken into account in the ticket pricing strategy; for example, if customers book early (60 days) they receive further savings while those who book later pay the maximum current fare offered by competitors. The system is complemented by an electronic ticket policy whereby passengers receive their information via email and SMS. Pegasus has also developed a credit/loyalty card (the Pegasus Plus Card), which offers customers a range of benefits including insurance rate reductions. Although airlines can't often control flight delays, Pegasus has developed a specific customer satisfaction guarantee policy that provides customers with (i) in the case of a delay greater than 3 hours, a refund of the ticket and (ii) in the case of a delay greater than 5 hours, a refund and a free ticket. Pegasus also offers a customer service experience at the airport. It provides exclusive allotments for the first 72 hours of parking with a valet parking option, VIP and Business Class lounges, car rental and many hotel partners where customers can get some discount. Unlike many airlines, a one-class interior configuration is operated, but passengers can pay a small extra premium to choose their seats. This is complemented by the Pegasus Flying Café, which offers a range of refreshments and catering options for a small additional charge, allowing customers to pre-order and reserve their inflight meals. Pegasus offers further customer service options, including a 10 per cent discount to passengers on international flights who order their in-flight meals 48 hours in advance. An in-plane bulletin is also available, with a mix of offers and features on certain destinations. This bulletin is free for customers but generates income via advertising. These services are supported by Pegasus's own flight crew training centre and maintenance organisation, Pegasus Technic. Both are fully licensed and are used to train new staff members. The company

Pegasus Airlines – customer focused value creators.
Source: bodrumsurf/Shutterstock

regularly receives awards and recognition for, among other things, its management strategy; initiatives in website development; and its marketing strategy, which employs a new approach to advertising that includes viral marketing, flash campaigns and mobile campaigns. This strategy has succeeded in making Pegasus the most searched airline in Turkey on Google.

Although the tangible amenities that Pegasus offers are likely to delight most travellers, General Manager Sertaç Haybat, recognises that these practices are not nearly enough to provide a sustainable competitive advantage and that Pegasus must always present its customers with the most economical flight opportunities. Here the importance of the crew training centre remains crucial. Haybat emphasises that a culture that breeds trust is the most crucial factor. It's this personal culture that gives Pegasus's customer service an edge. Indeed, taking care of customers starts as early as a customer's first encounter with the Pegasus brand and website. Pegasus's employees work as a team with their goal being a common understanding of the airline's long-term objective to provide a democratic environment in which everyone shares their ideas freely. Training, as well as continuous development, is provided to ensure regular career progression and high levels of motivation through a solid performance system and regular personal feedback. Early in the process, Pegasus selects the people who best exhibit these values while directing the right person to the right department at the right time. The last tenet of Pegasus's customer-service strategy lies in the regularly scheduled and innovative destinations it offers. Not only does Pegasus share planes with Pegasus Asia and Izair, but it also has charter and scheduled services to around 120 airports in Europe and Asia. Pegasus operates regular flights to Georgia and Lebanon, providing additional destinations outside of Europe, thus maximising Turkey's short flight opportunities. This prompted speculation in the media about the changing preference of air travellers where low-cost companies are seen as a sustainable substitute to middle- and high-cost traditional carriers.

Customers are the most important aspect of any service industry. Since the global recession, many airlines have seen a drop in passenger numbers, and it is a challenge to achieve and sustain profitability. In the case of Turkey, other factors provide further opportunities for the airline industry. On the one hand, the economy is growing at a faster rate than the rest of Europe, and on the other hand, as is the case in many emerging countries and in traditional industrial areas of developed economies, a substantial expatriate population exists. New migrants or integrated second- or third-generation migrants usually provide opportunities for travel due to cultural affinities and understanding. Regular holidays or business-related trips 'home' can create a good foundation in terms of overall capacity planning. In terms of weekly seat capacity, Pegasus currently ranks in the top 30 among European airlines. While most airline customers are loyal because of frequent flyer programmes, in the case of Pegasus and Turkey in general, further affinities can be developed and sustained, including a certain sense of nationalist pride or nostalgia. History can also provide potential future markets. Countries such as Azerbaijan, Turkmenistan, Uzbekistan and others around the Black Sea region are long-term trading partners of Turkey and have been growing rapidly since the breakup of the USSR in 1991. This potential is also opening up opportunities with countries in the Middle East, which have large, young markets both in terms of tourism and business. However, Pegasus customers want more in terms of social network relationships with the brand and, therefore, Pegasus aims to keep up with its customers even when they are not flying. For example, Pegasus has a Facebook page complete with a game entitling customers to win free tickets. The company also has a Twitter account, through which it offers customers special competitions. Furthermore, in association with Vodafone, a special campaign was developed called 'mobile phone fly', whereby consumers accumulated for each SMS an award of 5 per cent toward a Pegasus ticket discount, emulating the 'shop and miles' strategy of traditional airlines. Over time, Pegasus hopes to create a sustainable relationship with its customers while leveraging the possibilities of social networks and other digital technologies. Pegasus's strong word of mouth has also been important in the airline's success and is reflected in the words of customers on a special website titled 'Pegasus listens to you'. Sections of the website encourage customers to generate ideas for service improvement, to debate generic questions and topics relating to the airline's management and services, and to encourage customers to report problems they have encountered. Since its formation in 2005, Pegasus has shown that a low-cost airline can deliver low fares, excellent service and steady profits. It has demonstrated that even in the airline business, entry barriers can be lowered and a powerful brand can be created. Pegasus embodies success in four marketing cornerstones: (i) it ensures successful service through safety, training and its devoted employees, (ii) it employs creative communication with its customers, (iii) it offers great destinations and easy access to international hubs, and (iv) it uses efficient management techniques, delivering low prices with a high-quality service experience. To be successful in the low-cost airline industry, great attention needs to be paid to customers' changing travel patterns and needs. Booking flights, post-purchase evaluation through regular customer relationship management, and intangible value created by a variety of details make Pegasus a formidable brand in the low-cost airline industry.[1]

Today's successful companies have one thing in common: Like Pegasus, they are strongly customer focused and heavily committed to marketing. These companies share a passion for satisfying customer needs in well-defined target markets. They motivate everyone in the organisation to help build lasting customer relationships based on creating value.

Customer relationships and value are especially important today. Facing dramatic technological advances and deep economic, social and environmental challenges, today's customers are reassessing how they engage with brands. New digital, mobile and social media developments have revolutionised how consumers shop and interact, in turn calling for new marketing strategies and tactics. It's now more important than ever to build strong customer engagement, relationships and advocacy based on real and enduring customer value.

We'll discuss the exciting new challenges facing both customers and marketers later in the chapter. But first, let's introduce the basics of marketing.

What is marketing?

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

Author comment

Pause here and think about how you'd answer this question before studying marketing. Then see how your answer changes as you read the chapter.

For example, Dyson's underlying philosophy of taking everyday products that don't work particularly well and making them more efficient, more effective and simply better has rocketed Dyson to (well-deserved) global success. Facebook has attracted more than 1.5 billion active web and mobile users worldwide by helping them to 'connect and share with the people in their lives.' While Virgin Atlantic fulfils its motto to 'embrace the fun spirit and let it fly' through being hugely attractive and responsive to customer needs, wants and demands. Similarly, Coca-Cola has earned an impressive 49 per cent global share of the carbonated beverage market – more than twice Pepsi's share – by fulfilling its 'Taste the Feeling' motto with products that provide 'a simple pleasure that makes everyday moments more special'.[2]

Sound marketing is critical to the success of every organisation. Large for-profit firms, such as Unilever, Nestlé, Shell and Santander use marketing. But so do not-for-profit organisations, such as colleges, hospitals, museums, symphony orchestras and even churches.

You already know a lot about marketing – it's all around you. Marketing comes to you in the good old traditional forms: You see it in the abundance of products at your nearby shopping centre and the ads that fill your TV screen, spice up your magazines or stuff your mailbox. But in recent years, marketers have assembled a host of new marketing approaches, everything from imaginative websites and smartphone apps to blogs, online videos and social media. These new approaches do more than just blast out messages to the masses. They reach you directly, personally and interactively. Today's marketers want to become a part of your life and enrich your experiences with their brands. They want to help you *live* their brands.

At home, at school, where you work and where you play, you see marketing in almost everything you do. Yet there is much more to marketing than meets the consumer's casual eye. Behind it all is a massive network of people, technologies and activities competing for your attention and purchases. This book will give you a complete introduction to the basic concepts and practices of today's marketing. In this chapter, we begin by defining marketing and the marketing process.

Marketing defined

What *is* marketing? Many people think of marketing as only selling and advertising. We are bombarded every day with TV commercials, catalogues, spiels from salespeople and online pitches. However, selling and advertising are only the tip of the marketing iceberg.

Today, marketing must be understood not in the old sense of making a sale – 'telling and selling' – but in the new sense of *satisfying customer needs*. If the marketer engages consumers effectively, understands their needs, develops products that provide superior customer value, and prices, distributes and promotes them well, these products will sell easily. In fact, according to management guru Peter Drucker, 'The aim of marketing is to make selling unnecessary.'[3] Selling and advertising are only part of a larger *marketing mix* – a set of marketing tools that work together to engage customers, satisfy customer needs and build customer relationships.

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

Marketing The process by which companies engage customers, build strong customer relationships, and create customer value in order to capture value from customers in return.

The marketing process

Figure 1.1 presents a simple, five-step model of the marketing process for creating and capturing customer value. In the first four steps, companies work to understand consumers, create customer value and build strong customer relationships. In the final step, companies reap the rewards of creating superior customer value. By creating value *for* consumers, they in turn capture value *from* consumers in the form of sales, profits and long-term customer equity.

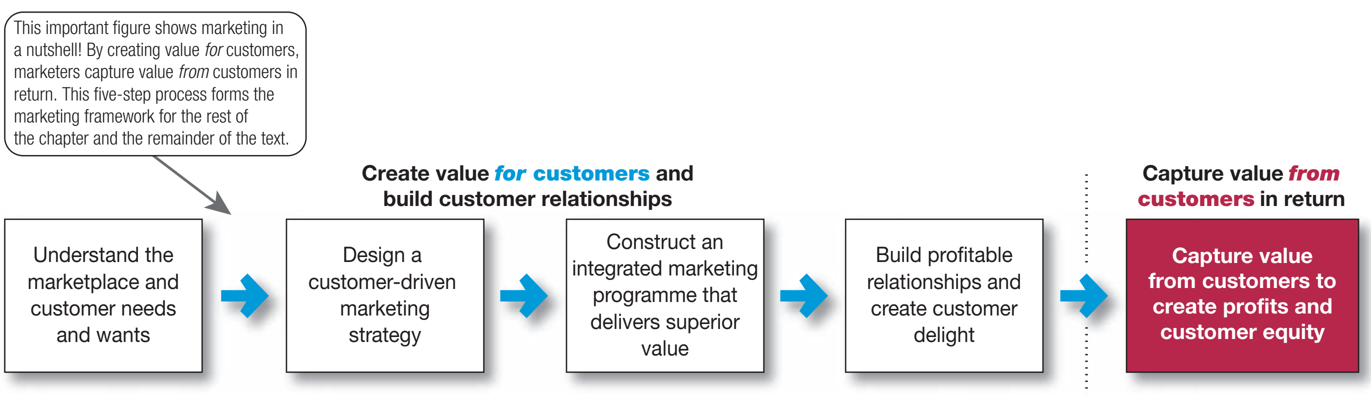


Figure 1.1 The marketing process: creating and capturing customer value

In this chapter and the next, we will examine the steps of this simple model of marketing. In this chapter, we review each step but focus more on the customer relationship steps – understanding customers, engaging and building relationships with customers, and capturing value from customers. In Chapter 2, we look more deeply into the second and third steps – designing value-creating marketing strategies and constructing marketing programmes.

Understanding the marketplace and customer needs

Author comment
Marketing is all about creating value for customers. So, as the first step in the marketing process, the company must fully understand customers and the marketplace.

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

Customer needs, wants and demands

Needs States of felt deprivation.

The most basic concept underlying marketing is that of human needs. Human **needs** are states of felt deprivation. They include basic *physical* needs for food, clothing, warmth and safety; *social* needs for belonging and affection; and *individual* needs for knowledge and self-expression. Marketers did not create these needs; they are a basic part of the human make-up.

Wants The form human needs take as they are shaped by culture and individual personality.

Wants are the form human needs take as they are shaped by culture and individual personality. If you'll excuse the stereotypes – used for illustrative purposes only – a German consumer *needs* food but *wants* a sauerkraut, sausage and beer. An American *needs* food but *wants* a Big Mac, fries and a soft drink. A trite example of a person in Papua New Guinea, *needs* food but *wants* taro, rice, yams and pork. Wants are shaped by one's society and are described in terms of objects that will satisfy those needs. When backed by buying power, wants become **demands**. Given their wants and resources, people demand products and services with benefits that add up to the most value and satisfaction.

Demands Human wants that are backed by buying power.

Companies go to great lengths to learn about and understand customer needs, wants and demands. They conduct consumer research, analyse mountains of customer data, and observe customers as they shop and interact, offline and online. People at all levels of the company – including top management – stay close to customers. For example, James Averdiek, Founder and MC of extraordinarily amazing Gü Chocolate Puds, argues that a core tenet of any successful business is getting close to your customers by finding out what they are doing and taking part in it.[5] At P&G, executives from the chief executive officer down spend time with customers in their homes and on shopping trips. P&G brand managers routinely spend a week or two living on the budget of low-end consumers to gain insights into what they can do to improve customers' lives.

Market offerings – products, services and experiences

Market offerings Some combination of products, services, information or experiences offered to a market to satisfy a need or want.

Consumers' needs and wants are fulfilled through **market offerings** – some combination of products, services, information or experiences offered to a market to satisfy a need or a want. Market offerings are not limited to physical *products*. They also include *services* – activities or benefits offered for sale that are essentially intangible and do not result in the ownership of anything. Examples include banking, airline, hotel, retailing and home repair services.

More broadly, market offerings also include other entities, such as *persons*, *places*, *organisations*, *information* and *ideas*. For example, Fáilte Ireland have begun a campaign to promote 'Ireland's Hidden Heartlands', Ireland's latest tourism experience. This new campaign was created following research with thousands of customers from the UK, Ireland, the USA, Germany and France. In past campaigns, Tourism Ireland has invited tourists to 'Jump Into' Ireland's Wild

Tourism Ireland stresses the breadth of experiences visitors to beautiful Ireland can embrace.

Source: James Caldwell/Alamy Stock Photo

Marketing myopia
The mistake of paying more attention to the specific products a company offers than to the benefits and experiences produced by these products.

Atlantic Way; at 2400km the longest defined coastal drive in the world. These campaigns are tailored to different markets with slightly different campaigns for the UK, North America, mainland Europe and developing markets such as Australia and Asia. The results of this and other campaigns have seen overseas visits to Ireland jump by around 12 per cent from mainland Europe and the USA, while arrivals from the UK have increased by 2.4 per cent despite the falls in the pound and Brexit fears.[6]

Many sellers make the mistake of paying more attention to the specific products they offer than to the benefits and experiences produced by these products. These sellers suffer from **marketing myopia**. They are so taken with their products that they focus only on existing wants and lose sight of underlying customer needs.[7] They forget that a product is only a tool to solve a consumer problem. A manufacturer of quarter-inch drill bits may think that the customer needs a drill bit. But what the customer *really* needs is a quarter-inch hole. These sellers will have trouble if a new product comes along that serves the customer's need better or less expensively. The customer will have the same *need* but will *want* the new product.

Smart marketers look beyond the attributes of the products and services they sell. By orchestrating several services and products, they create *brand experiences* for consumers. For example, you don't just watch a Wimbledon tennis tournament; you immerse yourself in the historical home of tennis. Similarly, Ferrari recognises that their cars are much more than just a combustion engine, a collection of wires and electrical components. To the owners of a Ferrari car, their Ferrari is an expression of their status, taste and style.

Similarly, for L'École Van Cleef & Arpels, Paris, France, jewellery isn't something you just buy and wear. In 2012, Van Cleef & Arpels, certainly one of the finest global jewellery design houses, developed an inspiring initiative for those interested in the secret art and world of jewellery. Michelle Greenwald notes that 'guests can take a variety of 4-hour classes given in French and English around three themes: Art History, *Savoir-Faire* (know how) and the Universe of Gemstones. They learn jewellery and watch history, how to analyse quality, design and craftsmanship, and they're guided through the process of creating fine works. Course examples include The Story of Talisman Jewels, From French jewellery to Japanese lacquer, and Recognizing Gemstones.' This, says Michelle Greenwald writing in *Forbes*, is smart experience marketing as 'it reinforces Van Cleef's quality perception and makes this luxury brand more accessible, customers value experiences more than ever and spread them virally, once customers better understand all the quality and craftsmanship in high-end jewellery pieces, they're likely to better understand the value and through these programs, Van Cleef & Arpels reaches new audiences'.[8]

Customer value and satisfaction

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

Marketers must be careful to set the right level of expectations. If they set expectations too low, they may satisfy those who buy but fail to attract enough buyers. If they set expectations too high, buyers will be disappointed. Customer value and customer satisfaction are key building blocks for developing and managing customer relationships. We will revisit these core concepts later in the chapter.

Exchanges and relationships

Marketing occurs when people decide to satisfy their needs and wants through exchange relationships. **Exchange** is the act of obtaining a desired object from someone by offering something in return. In the broadest sense, the marketer tries to bring about a response to some market offering. The response may be more than simply buying or trading products and services. A political candidate, for instance, wants votes; a church wants membership and participation; an orchestra wants an audience; and a social action group wants idea acceptance.

Exchange The act of obtaining a desired object from someone by offering something in return.

Marketing consists of actions taken to create, maintain and grow desirable exchange *relationships* with target audiences involving a product, service, idea or other object. Companies want to build strong relationships by consistently delivering superior customer value. We will expand on the important concept of managing customer relationships later in the chapter.

Markets

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

Market The set of all actual and potential buyers of a product or service.

Marketing means managing markets to bring about profitable customer relationships. However, creating these relationships takes work. Sellers must search for and engage buyers, identify their needs, design good market offerings, set prices for them, promote them, and store and deliver them. Activities such as consumer research, product development, communication, distribution, pricing and service are core marketing activities.

Although we normally think of marketing as being carried out by sellers, buyers also carry out marketing. Consumers market when they search for products, interact with companies to obtain information and make their purchases. In fact, today's digital technologies, from online sites and smartphone apps to the explosion of social media, have empowered consumers and made marketing a truly two-way affair. Thus, in addition to customer relationship management, today's marketers must also deal effectively with *customer-managed relationships*. Marketers are no longer asking only 'How can we influence our customers?' but also 'How can our customers influence us?' and even 'How can our customers influence each other?'

Figure 1.2 shows the main elements in a marketing system. Marketing involves serving a market of final consumers in the face of competitors. The company and competitors research the market and interact with consumers to understand their needs. Then they create and exchange market offerings, messages and other marketing content with consumers, either directly or

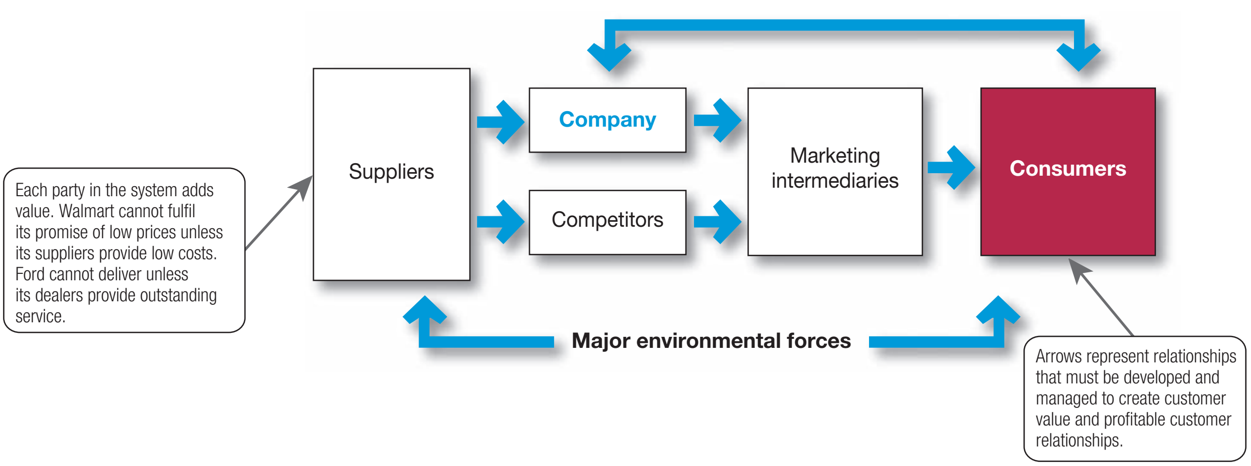


Figure 1.2 A modern marketing system

through marketing intermediaries. Each party in the system is affected by major environmental forces (demographic, economic, natural, technological, political and social/cultural).

Each party in the system adds value for the next level. The arrows represent relationships that must be developed and managed. Thus, a company's success at engaging customers and building profitable relationships depends not only on its own actions but also on how well the entire system serves the needs of final consumers. Lidl or Aldi cannot fulfil their promise of low prices unless its suppliers provide merchandise at low costs, while Peugeot or Citroen cannot deliver a high-quality car-ownership experience unless their dealers provide outstanding sales and service.

Author comment

Once a company fully understands its consumers and the marketplace, it must decide which customers it will serve and how it will bring them value.

Designing a customer value-driven marketing strategy and plan

Marketing management The art and science of choosing target markets and building profitable relationships with them.

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

To design a winning marketing strategy, the marketing manager must answer two important questions: *What customers will we serve (what's our target market)?* and *How can we serve these customers best (what's our value proposition)?* We will discuss these marketing strategy concepts briefly here and then look at them in more detail in Chapters 2 and 7.

Selecting customers to serve

The company must first decide *whom* it will serve. It does this by dividing the market into segments of customers (*market segmentation*) and selecting which segments it will go after (*target marketing*). Some people think of marketing management as finding as many customers as possible and increasing demand. But marketing managers know that they cannot serve all customers in every way. By trying to serve all customers, they may not serve any customers well. Instead, the company wants to select only customers that it can serve well and profitably. For example, La Perla (with headquarters in Italy) profitably targets affluent professionals; Aldi profitably targets families with more modest means.

Ultimately, marketing managers must decide which customers they want to target, and on the level, timing and nature of their demand. Simply put, marketing management is *customer management* and *demand management*.

BMW focus their value proposition on providing the 'ultimate driving machine'.
Source: Robert Convery/Alamy Stock Photo

Choosing a value proposition

The company must also decide how it will serve targeted customers – how it will *differentiate and position* itself in the marketplace. A brand's *value proposition* is the set of benefits or values it promises to deliver to consumers to satisfy their needs. Proximus, a telecommunication provider in Belgium, offers highly efficient service with personalised support. The diminutive Smart car suggests that you open your mind to the car that challenges the status quo, whereas Infiniti 'makes luxury affordable', and BMW promises 'the ultimate driving machine'. Facebook helps you 'connect and share with the people in your life', whereas YouTube 'provides a place for people to connect, inform, and inspire others across the globe'.

Such value propositions differentiate one brand from another. They answer the customer's question: 'Why should I buy your brand rather than a competitor's?' Companies must design strong value propositions that give them the greatest advantage in their target markets.

Marketing management orientations

Marketing management wants to design strategies that will engage target customers and build profitable relationships with them. But what *philosophy* should guide these marketing strategies? What weight should be given to the interests of customers, the organisation and society? Very often, these interests conflict.

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

The production concept

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

Production concept The idea that consumers will favour products that are available and highly affordable; therefore, the organisation should focus on improving production and distribution efficiency.

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

The product concept

The **product concept** holds that consumers will favour products that offer the most in quality, performance and innovative features. Under this concept, marketing strategy focuses on making continuous product improvements.

Product concept The idea that consumers will favour products that offer the most quality, performance and features; therefore, the organisation should devote its energy to making continuous product improvements.

Product quality and improvement are important parts of most marketing strategies. However, focusing *only* on the company's products can also lead to marketing myopia. For example, some manufacturers believe that if they can 'build a better mousetrap, the world will beat a path to their doors'. But they are often rudely shocked. Buyers may be looking for a better solution to a mouse problem but not necessarily for a better mousetrap. The better solution might be a chemical spray, an exterminating service, a house cat, or something else that suits their needs even better than a mousetrap. Furthermore, a better mousetrap will not sell unless the manufacturer designs, packages and prices it attractively; places it in convenient distribution channels; brings it to the attention of people who need it; and convinces buyers that it is a better product.

The selling concept

Many companies follow the **selling concept**, which holds that consumers will not buy enough of the firm's products unless it undertakes a large-scale selling and promotion effort. The selling concept is typically practised with unsought goods – those that buyers do not normally think of buying, such as life insurance or blood donations. These industries must be good at tracking down prospects and selling them on a product's benefits.

Selling concept The idea that consumers will not buy enough of the firm's products unless the firm undertakes a large-scale selling and promotion effort.

Such aggressive selling, however, carries high risks. It focuses on creating sales transactions rather than on building long-term, profitable customer relationships. The aim often is to sell what the company makes rather than to make what the market wants. It assumes that customers who are coaxed into buying the product will like it. Or, if they don't like it, they will possibly forget their disappointment and buy it again later. These are usually poor assumptions.

The marketing concept

Marketing concept
A philosophy in which achieving organisational goals depends on knowing the needs and wants of target markets and delivering the desired satisfactions better than competitors do.

The **marketing concept** holds that achieving organisational goals depends on knowing the needs and wants of target markets and delivering the desired satisfactions better than competitors do. Under the marketing concept, customer focus and value are the *paths* to sales and profits. Instead of a product-centred *make-and-sell* philosophy, the marketing concept is a customer-centred *sense-and-respond* philosophy. The job is not to find the right customers for your product but to find the right products for your customers.

Figure 1.3 contrasts the selling concept and the marketing concept. The selling concept takes an *inside-out* perspective. It starts with the factory, focuses on the company's existing products, and calls for heavy selling and promotion to obtain profitable sales. It focuses primarily on customer conquest – getting short-term sales with little concern about who buys or why.

In contrast, the marketing concept takes an *outside-in* perspective. For example, Liverpool Football Club has a Customer Experience Department whose role is exclusively focused on improving supporters' off-the-pitch experiences. The marketing concept starts with a well-defined market, focuses on customer needs, and integrates all the marketing activities that affect customers. In turn, it yields profits by creating relationships with the right customers based on customer value and satisfaction.

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

In many cases, however, customers *don't* know what they want or even what is possible. As Henry Ford once remarked, 'If I'd asked people what they wanted, they would have said faster horses.'[9] For example, even 20 years ago, how many consumers would have thought to ask for now-commonplace products such as tablet computers, smartphones, digital cameras, 24-hour online buying, digital video and music streaming, and GPS systems in their cars and phones? Such situations call for *customer-driving* marketing – understanding customer needs even better

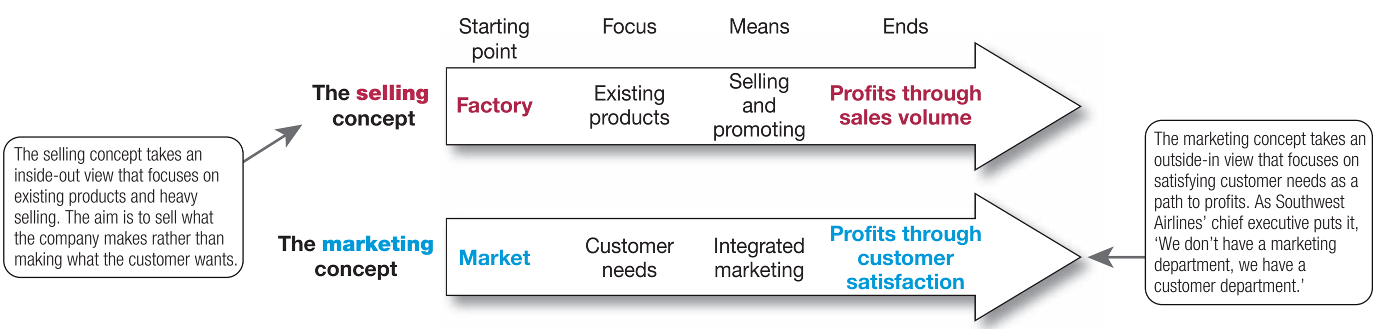


Figure 1.3 Selling and marketing concepts contrasted

than customers themselves do and creating products and services that meet both existing and latent needs, now and in the future. As an executive at 3M put it, 'Our goal is to lead customers where they want to go before *they* know where they want to go.'

The societal marketing concept

Societal marketing concept
The idea that a company's marketing decisions should consider consumers' wants, the company's requirements, and the long-term interests of consumers and society.

The **societal marketing concept** questions whether the pure marketing concept overlooks possible conflicts between consumer *short-run wants* and consumer *long-run welfare*. Is a firm that satisfies the immediate needs and wants of target markets always doing what's best for its consumers in the long run? The societal marketing concept holds that marketing strategy should deliver value to customers in a way that maintains or improves both the consumer's *and society's* well-being. It calls for *sustainable marketing*, socially and environmentally responsible marketing that meets the present needs of consumers and businesses while also preserving or enhancing the ability of future generations to meet their needs.

Even more broadly, many leading business and marketing thinkers are now preaching the concept of *shared value*, which recognises that societal needs, not just economic needs, define markets.[10] The concept of shared value focuses on creating economic value in a way that also creates value for society. A growing number of companies known for their hard-nosed approaches to business – such as BP, GlaxoSmithKline, Siemens, Google, IBM, Intel, Johnson & Johnson, Nestlé, Unilever, and Marks and Spencer – are rethinking the interactions between society and corporate performance. They are concerned not just with short-term economic gains but with the well-being of their customers, the depletion of natural resources vital to their businesses, the viability of key suppliers and the economic well-being of the communities in which they operate.

One prominent marketer calls this *Marketing 3.0*. 'Marketing 3.0 organizations are values-driven', he says. 'I'm not talking about being value-driven. I'm talking about 'values' plural, where values amount to caring about the state of the world.' Another marketer calls it *purpose-driven marketing*. 'The future of profit is purpose', he says.[11]

As Figure 1.4 shows, companies should balance three considerations in setting their marketing strategies: company profits, consumer wants *and* society's interests. British-based cosmetics retailer Lush operates this way:[12]

> Lush is known for 'Fresh Handmade Cosmetics' – premium beauty products made by hand from the freshest possible natural ingredients. It sells products with evocative names such as Flying Fox shower gel, Angels on Bareskin cleanser and Honey I Washed the Kids soap. But Lush does much more than just make and sell body care products for profit. It also dedicates itself to doing right by customers, employees, the environment and society. Its do-good mission is spelled out in a seven-point statement titled, 'A Lush Life: We Believe. . . '. For example, the company believes in inventing and making its own products from fresh organic fruits and vegetables using little or no preservatives or packaging. Lush has strict policy against animal testing and supports Fair Trade and Community Trade efforts. Each year, the company invests heavily in sustainable initiatives and support of grassroots charities. Lush takes care of its employees – 'We believe in happy people making happy soap . . . '. In fact, Lush seems to wish well to everyone, everywhere – 'We believe in long candlelit baths, sharing showers, massage, filling the world with perfume, and the right to make mistakes, lose everything, and start again.' Only in its final belief does Lush mention profits – 'We believe our products are good value, that we should make a profit, and that the customer is always right.' Thanks to its societal mission, Lush is thriving like fresh flowers in springtime. It now operates stores in 50 countries, with e-commerce sites in 27 countries. Its sales have nearly doubled in just the past three years, suggesting that doing good can benefit both the planet and the company.

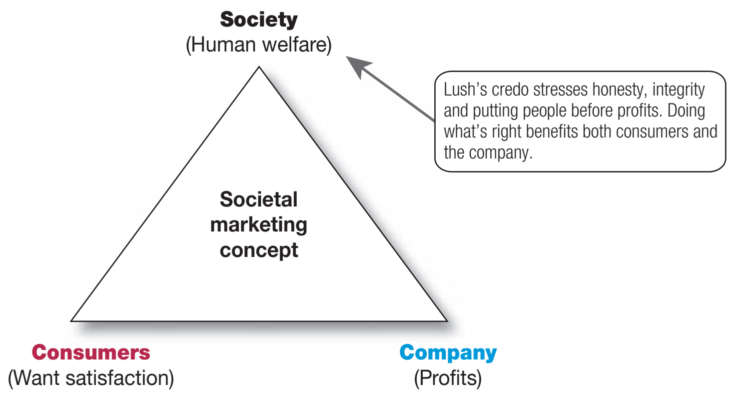


Figure 1.4 Three considerations underlying the societal marketing concept

Preparing an integrated marketing plan and programme

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

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

Author comment

Doing a good job with the first three steps in the marketing process sets the stage for step four, building and managing customer relationships.

Building customer relationships

The first three steps in the marketing process – understanding the marketplace and customer needs, designing a customer value-driven marketing strategy and constructing a marketing programme – all lead up to the fourth and most important step: engaging customers and managing profitable customer relationships. We first discuss the basics of customer relationship management. Then we examine how companies go about engaging customers on a deeper level in this age of digital and social marketing.

Customer relationship management

Customer relationship management (CRM) The overall process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction.

Customer relationship management is perhaps the most important concept of modern marketing. In the broadest sense, **customer relationship management (CRM)** is the overall process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction. It deals with all aspects of acquiring, engaging and growing customers.

Relationship building blocks: customer value and satisfaction.

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

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

Customer-perceived value
The customer's evaluation of the difference between all the benefits and all the costs of a marketing offer relative to those of competing offers.

To some consumers, value might mean sensible products at affordable prices. To other consumers, however, value might mean paying more to get more. For example, Renault electric car owners gain a number of benefits. The most obvious benefit is fuel efficiency (especially when oil prices are rising). However, by purchasing a Renault ZOE, the owners also may receive some status and image values. Driving a Renault ZOE makes owners feel and appear more environmentally responsible. When deciding whether to purchase a Renault electric car, customers will weigh these and other perceived values of owning the car against the money, effort and psychic costs of acquiring it.

Customer satisfaction depends on the product's perceived performance relative to a buyer's expectations. If the product's performance falls short of expectations, the customer is dissatisfied. If performance matches expectations, the customer is satisfied. If performance exceeds expectations, the customer is highly satisfied or delighted.

Customer satisfaction
The extent to which a product's perceived performance matches a buyer's expectations.

Outstanding marketing companies go out of their way to keep important customers satisfied. Most studies show that higher levels of customer satisfaction lead to greater customer loyalty, which in turn results in better company performance. Companies aim to delight customers by promising only what they can deliver and then delivering more than they promise. Delighted customers not only make repeat purchases but also become willing marketing partners and 'customer evangelists' who spread the word about their good experiences to others.

For companies interested in delighting customers, exceptional value and service become part of the overall company culture. For example, year after year, Ritz-Carlton ranks at or near the top of the hospitality industry in terms of customer satisfaction. Its passion for satisfying customers is summed up in the company's credo, which promises that its luxury hotels will deliver a truly memorable experience – one that 'enlivens the senses, instils well-being, and fulfils even the unexpressed wishes and needs of our guests'.[13]

Check into any Ritz-Carlton hotel around the world, and you'll be amazed by the company's fervent dedication to anticipating even your slightest need. Without ever asking, they seem to know that you're allergic to peanuts and want a king-size bed, a non-allergenic pillow, extra body gel, the blinds open when you arrive, and breakfast with decaffeinated coffee in your room. Each day, hotel staffers – from those at the front desk to those in maintenance and housekeeping – discreetly observe and record even the smallest guest preferences. Then, every morning, each hotel reviews the files of all new arrivals who have previously stayed at a Ritz-Carlton and prepares a list of suggested extra touches that might delight each guest. For example, according to one Ritz-Carlton manager, if the chain gets hold of a picture of a guest's pet, it will make a copy, have it framed and display it in the guest's room in whatever Ritz-Carlton the guest visits.

Once they identify a special customer need, Ritz-Carlton employees go to legendary extremes to meet it. For instance, to serve the needs of a guest whose son had food allergies,

Customer satisfaction: Ritz-Carlton's passion for satisfying customers is summed up in its credo, which promises a truly memorable experience – one that 'enlivens the senses, instils well-being, and fulfils even the unexpressed wishes and needs of our guests'.

Source: Mia2you/Shutterstock

a Ritz-Carlton chef in Bali located special eggs and milk in a small grocery store in another country and had them delivered to the hotel. In another case, when a businessman attending a conference at the Ritz-Carlton Orlando ordered his favourite soda during a dinner in a hotel ballroom, his banquet server told him that the hotel didn't serve that beverage but he would see what he could do. To no one's surprise, the server quickly returned with the requested beverage, and for the rest of the week he had the drink waiting for the guest. But here's the best part. A year later when the guest returned for the conference, as he sat in the ballroom waiting for dinner the first night, the same server walked up with his favourite drink in hand. As a result of such customer service heroics, an amazing 95 per cent of departing guests report that their stay has been a truly memorable experience. More than 90 per cent of Ritz-Carlton's delighted customers return.

Other companies that have become legendary for customer delight and their service heroics include John Lewis, Virgin Atlantic, Amazon and Singapore Airways. However, a company doesn't need to have over-the-top service to create customer delight. For example, no-frills grocery chain Aldi has highly satisfied customers, even though they have to bag their own groceries. Aldi's everyday very low pricing on good-quality products delights customers and keeps them coming back. Thus, customer satisfaction comes not just from service heroics but from how well a company delivers on its basic value proposition and helps customers solve their buying problems. 'Most customers don't want to be "wowed"', says one marketing consultant. 'They [just] want an effortless experience.'[14]

Although a customer-centred firm seeks to deliver high customer satisfaction relative to competitors, it does not attempt to *maximise* customer satisfaction. A company can always increase customer satisfaction by lowering its prices or increasing its services. But this may result in lower profits. Thus, the purpose of marketing is to generate customer value profitably. This requires a very delicate balance: The marketer must continue to generate more customer value and satisfaction but not 'give away the house'.

Customer relationship levels and tools

Companies can build customer relationships at many levels, depending on the nature of the target market. At one extreme, a company with many low-margin customers may seek to develop *basic relationships* with them. For example, Häagen-Dazs does not phone or call on all of its consumers to get to know them personally. Instead, Häagen-Dazs creates relationships through brand-building advertising, public relations, its newsletter, its website (www.haagendazs.com) and via Facebook followers. At the other extreme, in markets with few customers and high margins, sellers want to create *full partnerships* with key customers. For example, Häagen-Dazs sales representatives work closely with Tesco, Carrefour and other large retailers. In between these two extremes, other levels of customer relationships are appropriate.

Beyond offering consistently high value and satisfaction, marketers can use specific marketing tools to develop stronger bonds with customers. For example, many companies offer *frequency marketing programmes* that reward customers who buy frequently or in large amounts. Airlines offer frequent-flyer programmes, hotels give room upgrades to frequent guests, and supermarkets give patronage discounts to 'very important customers'.

These days almost every brand has a loyalty rewards programme. Such programmes can enhance and strengthen a customer's brand experience. For example, KLM Airways and Air France offer their Flying Blue members frequent-flyer points they can use on any seat on any KLM or Air France flight. Flying Blue promises its members that 'as you travel more and more with us, we reward your loyalty by offering more and more services you can enjoy, to make every trip that much more special. By simply showing your Flying Blue card, you can access countless extra services and make your travels, or even your waiting time at the airport, smoother, easier and more pleasant.'[15]

Some innovative loyalty programmes go a step beyond the usual. Other companies sponsor *club marketing programmes* that offer members special benefits and create member communities. For example, BMW sponsors the BMW Car Club, which gives BMW drivers a way to share their driving passion. BMW Car Club membership benefits include a quarterly magazine, discounts on BMW servicing, parts and accessories, the club shop stocks BMW books, clothing, model cars and other BMW merchandise at discount prices. The club also organises track events and BMW festivals.

However, significant changes are occurring in the nature of customer–brand relationships. Today's digital technologies – the internet and the surge in online, mobile and social media – have profoundly changed the ways that people on the planet relate to one another. In turn, these events have had a huge impact on how companies and brands connect with customers and how customers connect with and influence each other's brand behaviours.

Customer engagement and today's digital and social media

The digital age has spawned a dazzling set of new customer relationship-building tools, from websites, online ads and videos, mobile ads and apps, and blogs to online communities and the major social media, such as Twitter, Facebook, YouTube, Snapchat, Pinterest and Instagram.

Yesterday's companies focused mostly on mass marketing to broad segments of customers at arm's length. By contrast, today's companies are using online, mobile and social media to refine their targeting and to engage customers more deeply and interactively. The *old marketing* involved marketing brands *to* consumers. The *new marketing* is **customer-engagement marketing** – fostering direct and continuous customer involvement in shaping brand conversations, brand experiences and brand community. Customer-engagement marketing goes beyond just selling a brand to consumers. Its goal is to make the brand a meaningful part of consumers' conversations and lives.

Customer-engagement marketing Making the brand a meaningful part of consumers' conversations and lives by fostering direct and continuous customer involvement in shaping brand conversations, experiences and community.

The burgeoning internet and social media have given a huge boost to customer-engagement marketing. Today's consumers are better informed, more connected and more empowered than ever before. Newly empowered consumers have more information about brands, and they have a wealth of digital platforms for airing and sharing their brand views with others. Thus, marketers are now embracing not only customer relationship management but also *customer-managed relationships*, in which customers connect with companies and with each other to help forge and share their own brand experiences.

Greater consumer empowerment means that companies can no longer rely on marketing by *intrusion*. Instead, they must practise marketing by *attraction* – creating market offerings and messages that engage consumers rather than interrupt them. Hence, most marketers now combine their mass-media marketing efforts with a rich mix of online, mobile and social media marketing that promotes brand–consumer engagement, brand conversations and brand advocacy among customers.

For example, companies post their latest ads and videos on social media sites, hoping they'll go viral. They maintain an extensive presence on Twitter, YouTube, Facebook, Google+, Pinterest, Instagram, Snapchat and other social media to create brand buzz. They launch their own blogs, mobile apps, online microsites and consumer-generated review systems, all with the aim of engaging customers on a more personal, interactive level.

Take Twitter, for example. Organisations ranging from FC Barcelona, Santander, Munich Airport, Le Tour de France and Volvo to Howells School Llandaff have created Twitter pages and promotions. They use tweets to start conversations with and between Twitter's more than 645 million active users, address customer service issues, research customer reactions, and drive traffic to relevant articles, web and mobile marketing sites, contests, videos and other brand activities.

Similarly, almost every company has something going on Facebook these days. Burberry has around 18 million Facebook 'fans'; Converse has around 44 million, Subway has around 24 million, Zara has about 26 million, Starbucks has more than 36 million, Coca-Cola has more than 96 million. And every major marketer has a YouTube channel where the brand and its fans post current ads and other entertaining or informative videos. Instagram, LinkedIn, Pinterest and Snapchat, – all have exploded onto the marketing scene, giving brands more ways to engage and interact with customers. Skilled use of social media can get consumers involved with a brand, talking about it and advocating it to others.

IKEA used a simple but inspired Facebook campaign to promote the opening of a new store in Malmö, Sweden. It opened a Facebook profile for the store's manager, Gordon Gustavsson. Then it uploaded pictures of IKEA showrooms to Gustavsson's Facebook photo album and announced that whoever was first to photo tag a product in the pictures with their name would win it. Thousands of customers rushed to tag items. Word spread quickly to friends, and customers were soon begging for more pictures. More than just looking at an ad with IKEA furniture in it, the Facebook promotion had people poring over the pictures, examining products item by item.[16]

The key to engagement marketing is to find ways to enter consumers' conversations with engaging and relevant brand messages. Simply posting a humorous video, creating a social media page, or hosting a blog isn't enough. Successful engagement marketing means making relevant and genuine contributions to consumers' lives and conversations. According to David Oksman, chief marketer for T-shirt and apparel maker Life is Good, engagement and social media are 'about deep meaningful relationships that go beyond the product you are selling. The real depth of engagement is in the commenting and community that go on [around the brand]'.

Consumer-generated marketing

Consumer-generated marketing Brand exchanges created by consumers themselves – both invited and uninvited – by which consumers are playing an increasing role in shaping their own brand experiences and those of other consumers.

One form of customer-engagement marketing is **consumer-generated marketing**, by which consumers themselves play a role in shaping their own brand experiences and those of others. This might happen through uninvited consumer-to-consumer exchanges in blogs, video-sharing sites, social media and other digital forums. But increasingly, companies themselves are inviting consumers to play a more active role in shaping products and brand content.

Some companies ask consumers for new product and service ideas. For example, the LEGO Ideas website invites customers to submit and vote on ideas for new LEGO building sets. And at the My Starbucks Idea site, Starbucks collects ideas from customers on new products, store changes and just about anything else that might make their Starbucks experience better. 'You know better than anyone else what you want from Starbucks', says the company at the website. 'So tell us. What's your Starbucks idea? Revolutionary or simple – we want to hear it.' The site invites customers to share their ideas, vote on and discuss the ideas of others, and see which ideas Starbucks has implemented.[17]

Other companies are inviting customers to play an active role in shaping ads. For example, Redrow, T-Mobile, L'Oréal, MasterCard, Unilever, H.J. Heinz and many other companies have run contests for customer-generated commercials that have been aired on national television. T-Mobile have sponsored and filmed 'flashmob' events at Times Square in 2018 and previously at Liverpool Street Station and Trafalgar Square in London. Such success inspired T-Mobile into filming a spoof Royal Wedding during which actors playing the Royal Family (and a surprisingly funky Archbishop of Canterbury) literally danced down the aisle. For 10 years in the USA, PepsiCo's Doritos brand have held a 'Crash the Super Bowl' contest that invited 30-second ads from consumers and ran the best ones during the game. The contest attracted thousands of entries from around the world (not just the USA!), and the hugely popular consumer-generated ads routinely finished in the top five of rankings. Based on the success of the 'Crash the Super Bowl' contest, Doritos now runs new campaigns that create fun fan-made ads and other content throughout the year.[18]

Many brands incorporate user-generated social media content into their own traditional marketing and social media campaigns. For example, Santander built a recent multi-channel campaign around user-generated content. Using a smartphone app, it garnered videos from users who recorded one second of video footage per day and then (chronologically) edited them into a whole video. The emphasis was on videos that highlighted Santander's message that prosperity is not simply a financial measure but a wider gauge of experiences and goals. Keith Moor, chief marketing officer at Santander, said: 'Our new campaign signals a new approach to our communications. Not only are we explicitly talking about our purpose for the first time, we are taking a radical approach to how we deliver our message. By using warm, engaging, funny and real footage, we aim to showcase our purpose and the role Santander plays in people's lives in a compelling and honest way.'[19]

Despite the successes, however, harnessing consumer-generated content can be a time-consuming and costly process, and companies may find it difficult to mine even a little gold from all the content submitted. Moreover, because consumers have so much control over social media content, inviting their input can sometimes backfire. For example, McDonald's famously launched a Twitter campaign using the hashtag #McDStories, hoping that it would inspire heart-warming stories about Happy Meals. Instead, the effort was hijacked by Twitter users, who turned the hashtag into a 'bashtag' by posting less-than-appetising messages about their bad experiences with the fast-food chain. McDonald's pulled the campaign within only two hours, but the hashtag was still churning weeks, even months later.[20] Starbucks unwisely asked UK customers to tweet messages that used the hashtag #spreadthecheer and (very unwisely) displayed the resulting tweets on a big screen at the National History Museum in London. Very, very, very unwisely, Starbucks forgot to monitor the tweets some of which derided the company's alleged tax avoidance measures. One read Hey #Starbucks PAY YOUR F***ING TAX. Similarly, British Gas arranged a Twitter question and answer session on the same day that the announced a very unpopular 11 per cent price hike. They had over 16,000 angry responses – 145 contained the word 'death' and 88 accused the company of being 'greedy'.[21]

As consumers become more connected and empowered, and as the boom in digital and social media technologies continues, consumer brand engagement – whether invited by marketers or not – will be an increasingly important marketing force. Through a profusion of consumer-generated videos, shared reviews, blogs, mobile apps and websites, consumers are playing a growing role in shaping their own and other consumers' brand experiences. Engaged consumers are now having a say in everything from product design, usage and packaging to brand messaging, pricing and distribution. Brands must embrace this new consumer empowerment and master the new digital and social media relationship tools or risk being left behind.

Partner relationship management

When it comes to creating customer value and building strong customer relationships, today's marketers know that they can't go it alone. They must work closely with a variety of marketing partners. In addition to being good at *customer relationship management*, marketers must also be good at **partner relationship management** – working closely with others inside and outside the company to jointly engage and bring more value to customers.

Partner relationship management Working closely with partners in other company departments and outside the company to jointly bring greater value to customers.

Traditionally, marketers have been charged with understanding customers and representing customer needs to different company departments. However, in today's more connected world, every functional area in the organisation can interact with customers. The new thinking is that – no matter what your job is in a company – you must understand marketing and be customer focused. Rather than letting each department go its own way, firms must link all departments in the cause of creating customer value.

Author comment

Look back at Figure 1.1. In the first four steps of the marketing process, the company creates value *for* target customers and builds strong relationships with them. If it does that well, it can capture value *from* customers in return, in the form of loyal customers who buy and continue to buy the company's brands.

Marketers must also partner with suppliers, channel partners and others outside the company. Marketing channels consist of distributors, retailers and others who connect the company to its buyers. The *supply chain* describes a longer channel, stretching from raw materials to components to final products that are carried to final buyers. Through *supply chain management*, companies today are strengthening their connections with partners all along the supply chain. They know that their fortunes rest on more than just how well they perform. Success at delivering customer value rests on how well their entire supply chain performs against competitors' supply chains.

Capturing value from customers

The first four steps in the marketing process outlined in Figure 1.1 involve engaging customers and building customer relationships by creating and delivering superior customer value. The final step involves capturing value in return, in the form of sales, market share and profits. By creating superior customer value, the firm creates satisfied customers who stay loyal and buy more. This, in turn, means greater long-run returns for the firm. Here, we discuss the outcomes of creating customer value: customer loyalty and retention, share of market and share of customer, and customer equity.

Creating customer loyalty and retention

Good customer relationship management creates customer satisfaction. In turn, satisfied customers remain loyal and talk favourably to others about the company and its products. Studies show big differences in the loyalty between satisfied and dissatisfied customers. Even slight dissatisfaction can create an enormous drop in loyalty. Thus, the aim of customer relationship management is to create not only customer satisfaction but also customer delight.

Keeping customers loyal makes good economic sense. Loyal customers spend more and stay around longer. Research also shows that it's five times cheaper to keep an old customer than acquire a new one. Conversely, customer defections can be costly. Losing a customer means losing more than a single sale. It means losing the entire stream of purchases that the customer would make over a lifetime of patronage. For example, here is a classic illustration of **customer lifetime value**:[22]

Customer lifetime value The value of the entire stream of purchases a customer makes over a lifetime of patronage.

Lexus, estimates that a single satisfied and loyal customer is worth more than €800,000 in lifetime sales while the estimated lifetime value of a young mobile phone consumer is around €34,000. In fact, a company can lose money on a specific transaction but still benefit greatly from a long-term relationship. This means that companies must aim high in building customer relationships. Customer delight creates an emotional relationship with a brand, not just a rational preference. And that relationship keeps customers coming back.

Growing share of customer

Beyond simply retaining good customers to capture customer lifetime value, good customer relationship management can help marketers increase their **share of customer** – the share they get of the customer's purchasing in their product categories. Thus, banks want to increase 'share of wallet'. Supermarkets and restaurants want to get more 'share of stomach'. Car companies want to increase 'share of garage' and airlines want greater 'share of travel'.

Share of customer The portion of the customer's purchasing that a company gets in its product categories.

To increase share of customer, firms can offer greater variety to current customers. Or they can create programmes to cross-sell and up-sell to market more products and services to existing customers. For example, Amazon is highly skilled at leveraging relationships with its 304 million customers worldwide to increase its share of each customer's spending budget:[23]

> Once they log onto Amazon, customers often buy more than they intend, and Amazon does all it can to help make that happen. The online giant continues to broaden its merchandise assortment, creating an ideal spot for one-stop shopping. And based on each customer's purchase and search history, the company recommends related products that might be of interest. This recommendation system influences perhaps a third of all sales. Amazon's ingenious Amazon Prime two-day shipping programme has also helped boost its share of customers' wallets. For an annual fee, Prime members receive delivery of all their purchases within two days, whether it's a single paperback book or a 60-inch HDTV. According to one analyst, the ingenious Amazon Prime programme 'converts casual shoppers, who gorge on the gratification of having purchases reliably appear two days after the order, into Amazon addicts'. As a result, Amazon's 100 million global Prime customers now account for more than half of its sales. On average, a Prime customer spends 1.8 times more than a non-Prime customer.

Building customer equity

We can now see the importance of not only acquiring customers but also keeping and growing them. The value of a company comes from the value of its current and future customers. Customer relationship management takes a long-term view. Companies want not only to create profitable customers but also 'own' them for life, earn a greater share of their purchases and capture their customer lifetime value.

What is customer equity?

The ultimate aim of customer relationship management is to produce high *customer equity*.[24] **Customer equity** is the total combined customer lifetime values of all of the company's current and potential customers. As such, it's a measure of the future value of the company's customer base. Clearly, the more loyal the firm's profitable customers, the higher its customer equity. Customer equity may be a better measure of a firm's performance than current sales or market share. Whereas sales and market share reflect the past, customer equity suggests the future. Consider Cadillac:[25]

Customer equity The total combined customer lifetime values of all of the company's customers.

> In the 1970s and 1980s, Cadillac had some of the most loyal customers in the industry. To an entire generation of car buyers, the name *Cadillac* defined 'The Standard of the World'. Cadillac's share of the luxury car market reached a whopping 51 per cent in 1976, and based on market share and sales, the brand's future looked rosy. However, measures of customer equity would have painted a bleaker picture. Cadillac customers were getting older (average age 60), and average customer lifetime value was falling. Many Cadillac buyers were on their last cars. Thus, although Cadillac's market share was good, its customer equity was not.
>
> Compare this with BMW. Its more youthful and vigorous image didn't win BMW the early market share war. However, it did win BMW younger customers (average age about 40) with higher customer lifetime values. The result: in the years that followed, BMW's market share and profits soared while Cadillac's fortunes eroded badly. BMW overtook Cadillac in the 1980s. In recent years, Cadillac has struggled to make the Caddy cool again with edgier, high-performance designs that target a younger generation of consumers. More recently, the brand has billed itself as 'The New Standard of the World' with marketing pitches based on 'power, performance, and design', attributes that position it more effectively against the likes of BMW and Audi. Recent ads feature young achievers and invite consumers to 'Dare Greatly' and 'Drive the World Forward'. However, for the past decade, Cadillac's share of the luxury car market has stagnated.
>
> The moral: marketers should care not just about current sales and market share. Customer lifetime value and customer equity are the name of the game.

Building the right relationships with the right customers.

Companies should manage customer equity carefully. They should view customers as assets that need to be managed and maximised. But not all customers, not even all loyal customers, are good investments. Surprisingly, some loyal customers can be unprofitable, and some disloyal customers can be profitable. Which customers should the company acquire and retain?

The company can classify customers according to their potential profitability and manage its relationships with them accordingly. Figure 1.5 classifies customers into one of four relationship groups, according to their profitability and projected loyalty.[26] Each group requires a different relationship management strategy. *Strangers* show low potential profitability and little projected loyalty. There is little fit between the company's offerings and their needs. The relationship management strategy for these customers is simple: Don't invest anything in them; make money on every transaction.

Butterflies are potentially profitable but not loyal. There is a good fit between the company's offerings and their needs. However, like real butterflies, we can enjoy them for only a short while and then they're gone. An example is stock market investors who trade shares often and in large amounts but who enjoy hunting out the best deals without building a regular relationship with any single brokerage company. Efforts to convert butterflies into loyal customers are rarely successful. Instead, the company should enjoy the butterflies for the moment. It should create satisfying and profitable transactions with them, capturing as much of their business as possible in the short time during which they buy from the company. Then it should move on and cease investing in them until the next time around.

True friends are both profitable and loyal. There is a strong fit between their needs and the company's offerings. The firm wants to make continuous relationship investments to delight these customers and engage, nurture, retain and grow them. It wants to turn true friends into *true believers*, who come back regularly and tell others about their good experiences with the company.

Barnacles are highly loyal but not very profitable. There is a limited fit between their needs and the company's offerings. An example is smaller bank customers who bank regularly but do not generate enough returns to cover the costs of maintaining their accounts. Like barnacles on the hull of a ship, they create drag. Barnacles are perhaps the most problematic customers. The company might be able to improve their profitability by selling them more,

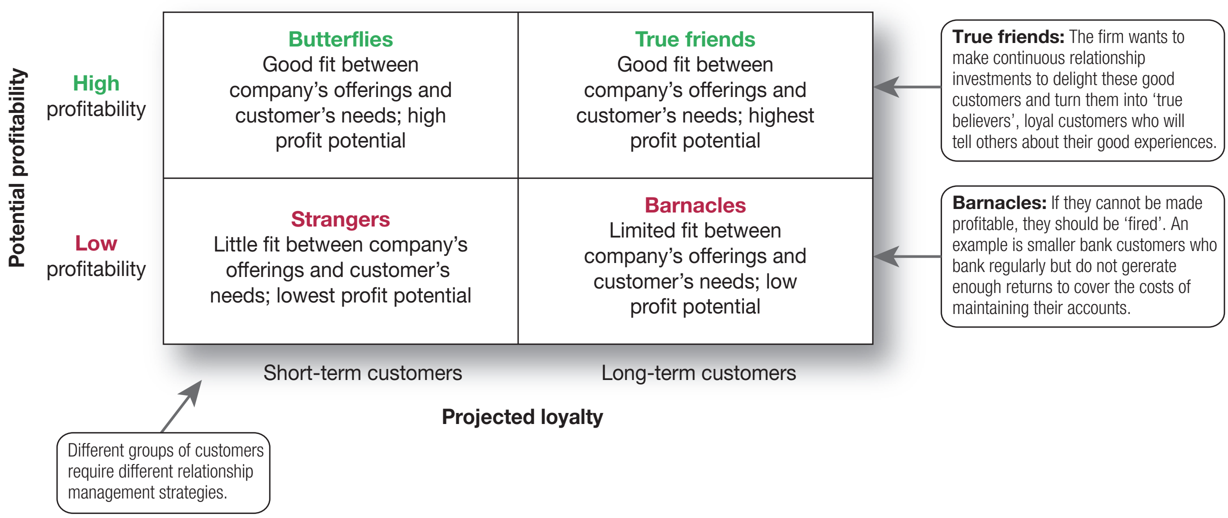


Figure 1.5 Customer relationship groups

Source: adapted from 'Mismanagement of Customer Loyalty', *Harvard Business Review*, p. 93 (Relnartz W. and Kumar V. 2002), Harvard Business School Publishing.

raising their fees, or reducing service to them. However, if they cannot be made profitable, they should be 'fired'.

The point here is an important one: Different types of customers require different engagement and relationship management strategies. The goal is to build the *right relationships* with the *right customers*.

Author comment

Marketing doesn't take place in a vacuum. Now that we've discussed the five steps in the marketing process, let's look at how the ever-changing marketplace affects both consumers and the marketers who serve them. We'll look more deeply into these and other marketing environment factors in Chapter 3.

The changing marketing landscape

Every day, dramatic changes are occurring in the marketplace. Richard Love of HP observed, 'The pace of change is so rapid that the ability to change has now become a competitive advantage'. Indeed, Rupert Murdoch notes, 'the world is changing very fast. Big will not beat small any more. It will be the fast beating the slow'. As the marketplace changes, so must those who serve it or as Niccolo Machiavelli claims, 'Whosoever desires constant success must change his conduct with the times'.

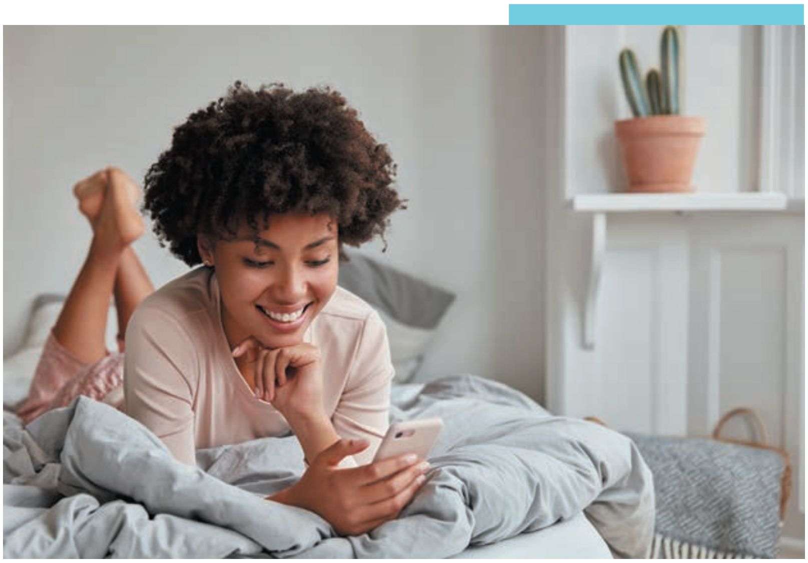
In this section, we examine the major trends and forces that are changing the marketing landscape and challenging marketing strategy. We look at five major developments: the digital age, the changing economic environment, the growth of not-for-profit marketing, rapid globalisation and the call for sustainable marketing practices.

The digital age: online, mobile and social media marketing

Digital and social media marketing Using digital marketing tools such as websites, social media, mobile apps and ads, online video, email and blogs to engage consumers anywhere, at any time, via their digital devices.

The explosive growth in digital technology has fundamentally changed the way we live – how we communicate, share information, access entertainment and shop. Welcome to the age of the *Internet of Things* (IoT), a global environment where everything and everyone is digitally connected to everything and everyone else. More than 3.3 billion people – 46 per cent of the world's population – are now online. In Europe, seven countries have internet usage of more than 90 per cent (Iceland and Norway leading the way with 98 and 97 per cent each). More than 87 per cent of Europe is now online, Eastern Europe spends most time online (Polish and Russian users both spending an average 4.8 hours online every day). Italy leads mobile internet usage at 2.2 hours per day. Europe boasted around 300 million active social media users (around 50 per cent of the population). In Western Europe Facebook dominates with 376 million active users in 2018 while in Eastern Europe VKontakte is stronger with 60 million active Russian users alone.[27]

Most consumers are totally smitten with all things digital. For example, according to one study, more than half of Europeans keep their mobile phone next to them when they sleep – they say it's the first thing they touch when they get up in the morning and the last thing they touch at night. Favourite online and mobile destinations include the profusion of websites and social media that have sprung up.



Marketers increasingly need to consider the different means with which they can connect with customers.
Source: WAYHOME studio/Shutterstock

The consumer love affair with digital and mobile technology makes it fertile ground for marketers trying to engage customers. So it's no surprise that the internet and rapid advances in digital and social media have taken the marketing world by storm. **Digital and social media marketing** involves using digital marketing tools such as websites, social media, mobile ads and apps, online video, email, blogs and other digital platforms to engage consumers anywhere, anytime via their computers, smartphones, tablets, internet-ready TVs and other digital devices. These days, it seems that every company is reaching out to customers with multiple websites, newsy tweets and Facebook pages, viral ads and videos posted on YouTube, rich-media emails, and mobile apps that solve consumer problems and help them shop.

At the most basic level, marketers set up company and brand websites that provide information and promote the company's products. Many companies also set up branded community sites, where customers can congregate and exchange brand-related interests and information. For example, Avia Premiership Rugby Club's website for the Harlequins serves as a hub for the club's super-passionate fans to check out the latest team news, buy tickets, engage with players, learn about the 'Quins', shop for merchandise, link with community programmes and otherwise get the latest teams news and gossip.[28]

Beyond brand websites, most companies are also integrating social and mobile media into their marketing mixes.

Social media marketing

It's hard to find a brand website, or even a traditional media ad, that doesn't feature links to the brand's Facebook, Instagram, Twitter, Google+, YouTube, Snapchat, Pinterest, LinkedIn or other social media sites. Social media provide exciting opportunities to extend customer engagement and get people talking about a brand.

Some social media are huge – Facebook has more than 1.59 billion active monthly members. Instagram has more than 400 million active monthly users, Twitter has more than 315 million monthly users, Google+ racks up 300 million active monthly visitors, and Pinterest draws in more than 100 million users. Reddit, the online social news community, has 234 million unique visitors each month from 185 countries. But smaller, more focused social media sites are also thriving, such as CafeMom or mumsnet, online communities of millions of moms who exchange advice, entertainment and commiseration at the community's online, Facebook, Twitter, Pinterest, YouTube, Google+ and mobile sites. Even tiny sites can attract active audiences, such as Birdpost.com for avid birdwatchers or Ravelry.com for knitters and crocheters.

Online social media provide a digital home where people can connect and share important information and moments in their lives. As a result, they offer an ideal platform for *real-time marketing*, by which marketers can engage consumers in the moment by linking brands to important trending topics, real-world events, causes, personal occasions or other important happenings in consumers' lives.

Using social media might involve something as simple as a contest or promotion to garner Facebook 'Likes', tweets, or YouTube postings. But more often these days, large organisations of all kinds use a wide range of carefully integrated social media. For example, Asos, the online fashion retailer, recently won the prestigious Media Lion in Cannes for its global digital campaign. The company helped drive more than €7 million of sales via the #BestNightEver hashtag. The campaign featured the model Charlotte Free and the singers Ellie Goulding and Azealia Banks who all used their social media networks to post videos and offer fans the chance to win the clothes they were wearing. Asos featured the stars in a number of videos with shoppable technology that showed off Asos's latest products. As the videos were viewed, shoppers could click and buy the clothes they saw directly.[29]

Mobile marketing

Mobile marketing is perhaps the fastest-growing digital marketing platform. Smartphones are ever present, always on, finely targeted and highly personal. This makes them ideal for engaging customers anytime, anywhere as they move through the buying process. For example, UK's Costa Coffee customers can use their mobile devices for everything from finding the nearest Costa Coffee and learning about new products to placing and paying for orders.

Four out of five smartphone users use their phones to shop – browsing product information through apps or the mobile web, making in-store price comparisons, reading online product reviews, finding and redeeming coupons, and more. Almost 30 per cent of all online purchases are now made from mobile devices, and mobile online sales are growing 2.6 times faster than total online sales. During this past holiday season, mobile shoppers made up more than 70 per cent of traffic to Walmart.com, accounting for almost half the site's orders over the Black Friday weekend.[30]

Unilever's Wish-Bone campaign was an innovative new approach to mobile marketing. They wanted to increase brand awareness of their new range of Italian salad dressing. So, the company ran full-page adverts and created content that played up to the most important keywords – zesty, tangy and tasty. The company spurred customer engagement by getting customers to type in keywords associated with the brand in order to unlock content. This innovative approach lifted brand awareness by 122 per cent and purchase intents up by 87 per cent.[31]

Although online, social media and mobile marketing offer huge potential, most marketers are still learning how to use them effectively. The key is to blend the new digital approaches with traditional marketing to create a smoothly integrated marketing strategy and mix. We will examine digital, mobile and social media marketing throughout the text – they touch almost every area of marketing strategy and tactics. Then, after we've covered the marketing basics, we'll look more deeply into digital and direct marketing in Chapter 17.

The changing economic environment

The Great Recession and its aftermath hit consumers hard. After two decades of overspending, new economic realities forced consumers to bring their consumption back in line with their incomes and rethink their buying priorities.

In today's post-recession era, consumer incomes and spending are again on the rise. However, even as the economy has strengthened, rather than reverting to their old free-spending ways, Europeans are now showing a new enthusiasm for frugality. Sensible consumption has made a comeback, and it appears to be here to stay. The new consumer spending values emphasise simpler living and more value for the euro. Despite their rebounding means, consumers continue to buy less, clip more coupons, swipe their credit cards less and put more in the bank.

Many consumers are reconsidering their very definition of the good life. 'People are finding happiness in old-fashioned virtues – thrift, savings, do-it-yourself projects, self-improvement, hard work, faith and community', says one consumer behaviour expert. 'We are moving from mindless to mindful consumption'.[32] The new, more frugal spending values don't mean that people have resigned themselves to lives of deprivation. As the economy has improved, consumers are again indulging in luxuries and bigger-ticket purchases, just more sensibly.

In response, companies in all industries – from discounters such as Lidl and Aldi to luxury brands such as Lexus and Montblanc – have realigned their marketing strategies with the new economic realities. More than ever, marketers are emphasising the *value* in their value propositions. They are focusing on value for the money, practicality and durability in their product offerings and marketing pitches. 'Value is the magic word', says a marketing executive. These days, 'people are doing the math in their heads, and they're being much more thoughtful before making purchases. Now, we're going to be even more focused on helping consumers see value.' Similarly, Whitbread customers seek 'value for money', according to the owner of Premier Inn hotels and restaurants including Brewers Fayre and Beefeater. Occupancy at their budget hotels is up to 79.3 per cent in 2017–18.[33]

Even wealthier consumers have joined the trend toward frugality. Conspicuous free spending is no longer so fashionable. As a result, luxury brands are stressing value too. Indeed, even diamond marketer De Beers had temporally adjusted its longstanding, iconic 'a diamond is forever' promise to these more frugal times by cleverly adding 'Here's to Less'.

Customers are increasingly frugal and focused on value. Even diamond marketer De Beers has adjusted its long-standing 'a diamond is forever' promise.
Source: Ed Rooney/Alamy Stock Photo

In adjusting to the new economy, companies may be tempted to cut their marketing budgets and slash prices in an effort to coax customers into opening their wallets. However, although cutting costs and offering selected discounts can be important marketing tactics, smart marketers understand that making cuts in the wrong places can damage long-term brand images and customer relationships. The challenge is to balance the brand's value proposition with the current times while also enhancing its long-term equity. Thus, rather than slashing prices in uncertain economic times, many marketers hold the line on prices and instead explain why their brands are worth it.

The growth of not-for-profit marketing

In recent years, marketing has also become a major part of the strategies of many not-for-profit organisations, such as colleges, hospitals, museums, zoos, symphony orchestras, foundations and even churches. The nation's not-for-profits face stiff competition for support and membership. Sound marketing can help them attract membership, funds and support.

Consider the marketing efforts of WaterAid. Their mission says 'WaterAid is an international not-for-profit, determined to make clean water, decent toilets and good hygiene normal for everyone, everywhere within a generation. Only by tackling these three essentials in ways that last can people change their lives for good.' They argue that 'With clean water, decent toilets and good hygiene, children are born healthier. They get the chance to go to school and grow up to become adults. Women and men get to earn a living. Whole communities start to thrive. It sounds normal and it should be.' To promote their work WaterAid ran emotive television advertisements but also used video blogging from a range of events including the G8 summit and the Glastonbury Music Festival. They were the first international development charity to run a 24-hour 'Australia to Zambia' 'tweetathon' that raised the profile of the charity worldwide. In this way, WaterAid are an excellent example of how charities and other not-for-profit organisations are embracing marketing in all its forms.[34]

Another example is the World Wildlife Fund (WWF), a global not-for-profit conservation organisation whose mission is to conserve nature and protect the world's wildlife. WWF operates in 100 countries under funding from government grants, foundations, corporations and individuals – nearly 5 million members worldwide. WWF uses sophisticated marketing to raise the considerable resources it needs to accomplish its sweeping mission. Just one example is the WWF's recent cost-efficient but effective #LastSelfie Snapchat campaign:[35]

> The idea behind the WWF Last Selfie campaign is that the world's endangered wildlife species are disappearing from the earth as quickly as a Snapchat. To make the point, WWF sent nine-second Snapchat pictures of endangered animals to WWF followers worldwide with the message 'Don't let this be my LastSelfie', urging recipients to take a screenshot. Within only eight hours, the campaign generated 5,000 tweets viewed on 6 million timelines. Within only a week, there were 40,000 tweets reaching 120 million users. In all, the LastSelfie campaign reached more than half of all Twitter users. It also helped WWF to meet its monthly donation target in just three days and led to a record number of animal adoptions through WWF's website. More broadly, thanks to such marketing efforts and despite its limited marketing budget, WWF raised nearly $290 million in funds last year, more than a third of it from individual donors.

Government agencies have also shown an increased interest in marketing. For example, the UK military has a marketing plan to attract recruits to its different services, and various government agencies are now designing social marketing campaigns to encourage energy conservation and concern for the environment, or discourage smoking, illegal drug use and obesity. Indeed, the UK government has an annual advertising budget measured in hundreds of millions of pounds.[36]

While 80 per cent of IKEA's sales are in Europe, China and Russia are their fastest-growing markets.
Source: testing/Shutterstock

Rapid globalisation

As they are redefining their customer relationships, marketers are also taking a fresh look at the ways in which they relate to the broader world around them. Today, almost every company, large or small, is touched in some way by global competition. A neighbourhood florist buys its flowers from Dutch nurseries, and a large French electronics manufacturer competes in its home markets with giant Korean rivals. A fledgling internet retailer finds itself receiving orders from all over the world at the same time that a European consumer goods producer introduces new products into emerging markets abroad.

The skilful marketing of American and Asian multinationals has challenged European firms at home. Companies such as Toyota, Nestlé and Samsung have often outperformed their competitors in European markets. Similarly, European companies in a wide range of industries have developed truly global operations, making and selling their products worldwide. Quintessentially American McDonald's now serves 70 million customers daily in more than 36,000 local restaurants in more than 100 countries worldwide – 68 per cent of its corporate revenues come from outside the United States.[37] Similarly, while 80 per cent of IKEA's sales are in Europe, China and Russia are their fastest-growing markets. Today, companies are not just selling more of their locally produced goods in international markets; they are also sourcing more supplies and components abroad and developing new products for specific markets around the world.

Thus, managers in countries around the world are increasingly taking a global, not just local, view of the company's industry, competitors and opportunities. They are asking: What is global marketing? How does it differ from domestic marketing? How do global competitors and forces affect our business? To what extent should we 'go global'? We will discuss the global marketplace in more detail in Chapter 19.

Sustainable marketing – the call for more environmental and social responsibility

Marketers are re-examining their relationships with social values and responsibilities and with the very Earth that sustains us. As the worldwide consumerism and environmentalism movements mature, today's marketers are being called on to develop *sustainable marketing* practices. Corporate ethics and social responsibility have become hot topics for almost every business. And few companies can ignore the renewed and very demanding environmental movement. Every company action can affect customer relationships. Today's customers expect companies to deliver value in a socially and environmentally responsible way.

The social responsibility and environmental movements will place even stricter demands on companies in the future. Some companies resist these movements, budging only when forced by legislation or organised consumer outcries. Forward-looking companies, however, readily accept their responsibilities to the world around them. They view sustainable marketing as an opportunity to do well by doing good. They seek ways to profit by serving immediate needs and the best long-run interests of their customers and communities.

Some companies, such as Statoil, Marks & Spencer, Edison, Grupo Ferrovial and others, practice *caring capitalism*, setting themselves apart by being civic minded and responsible. They build social and environmental responsibility into their company values and mission statements.

For those in the business of gold, turning green is increasingly important – that is the belief of Michael Kowalski, chief executive and chairman of Tiffany & Co. Mr Kowalski is so convinced of the need to address environmental issues that he has spent 10 years developing the company's environmental strategy. 'There is so much work to be done, so much complexity surrounding these issues of environmental responsibility, that our philosophy has always been to work quietly behind the scenes', says Mr Kowalski. 'So we made a conscious decision to build a record of activity before we spoke out, to have a history to point to.' This is true not only for gold, but for precious gemstones – Tiffany, along with other jewellers such as Cartier, has not sold newly-mined rubies since 2002. Similarly, Tiffany stopped selling coral, after discovering that 'there is no such thing as sustainable coral farming', says Mr Kowalski. Hence, Tiffany & Co.'s mission is 'to ensure the highest quality diamonds, ethical sourcing, lifetime warranty, affordable price options, and that they'll always be there for you.'[38]

Ben & Jerry's, a division of Unilever, has long prided itself on being a 'values-led business', one that creates 'linked prosperity' for everyone connected to the brand – from suppliers to employees to customers and communities.[39] Under its three-part mission, Ben & Jerry's wants to make fantastic ice cream (product mission), manage the company for sustainable financial growth (economic mission) and use the company 'in innovative ways to make the world a better place' (social mission). Ben & Jerry's backs its mission with actions. For example, the company is committed to using wholesome, natural, non-GMO, Fairtrade-Certified ingredients and buys from local farms. It employs business practices 'that respect the earth and the environment', investing in wind energy, solar usage, travel offsets and carbon neutrality. Its Caring Dairy programme helps farmers develop more sustainable practices on the farm ('Caring Dairy means happy cows, happy farmers, and a happy planet'). The Ben & Jerry's Foundation awards nearly €2 million annually in grassroots grants to community service organisations and projects in communities. Ben & Jerry's also operates a number of PartnerShops, scoop shops that are independently owned and operated by community-based not-for-profit organisations. The company waives standard franchise fees for these shops.

Sustainable marketing presents both opportunities and challenges for marketers. We will revisit the topic of sustainable marketing in greater detail in Chapter 20.

So, what is marketing? Pulling it all together

Author comment

Remember Figure 1.1 outlining the marketing process? Now, based on everything we've discussed in this chapter, we'll expand that figure to provide a road map for learning marketing throughout the remainder of the text.

At the start of this chapter, Figure 1.1 presented a simple model of the marketing process. Now that we've discussed all the steps in the process, Figure 1.6 presents an expanded model that will help you pull it all together. What is marketing? Simply put, marketing is the process of engaging customers and building profitable customer relationships by creating value for customers and capturing value in return.

The first four steps of the marketing process focus on creating value for customers. The company first gains a full understanding of the marketplace by researching customer needs and managing marketing information. It then designs a customer-driven marketing strategy based on the answers to two simple questions. The first question is 'What consumers will we serve?' (market segmentation and targeting). Good marketing companies know that they cannot serve all customers in every way. Instead, they need to focus their resources on the customers they

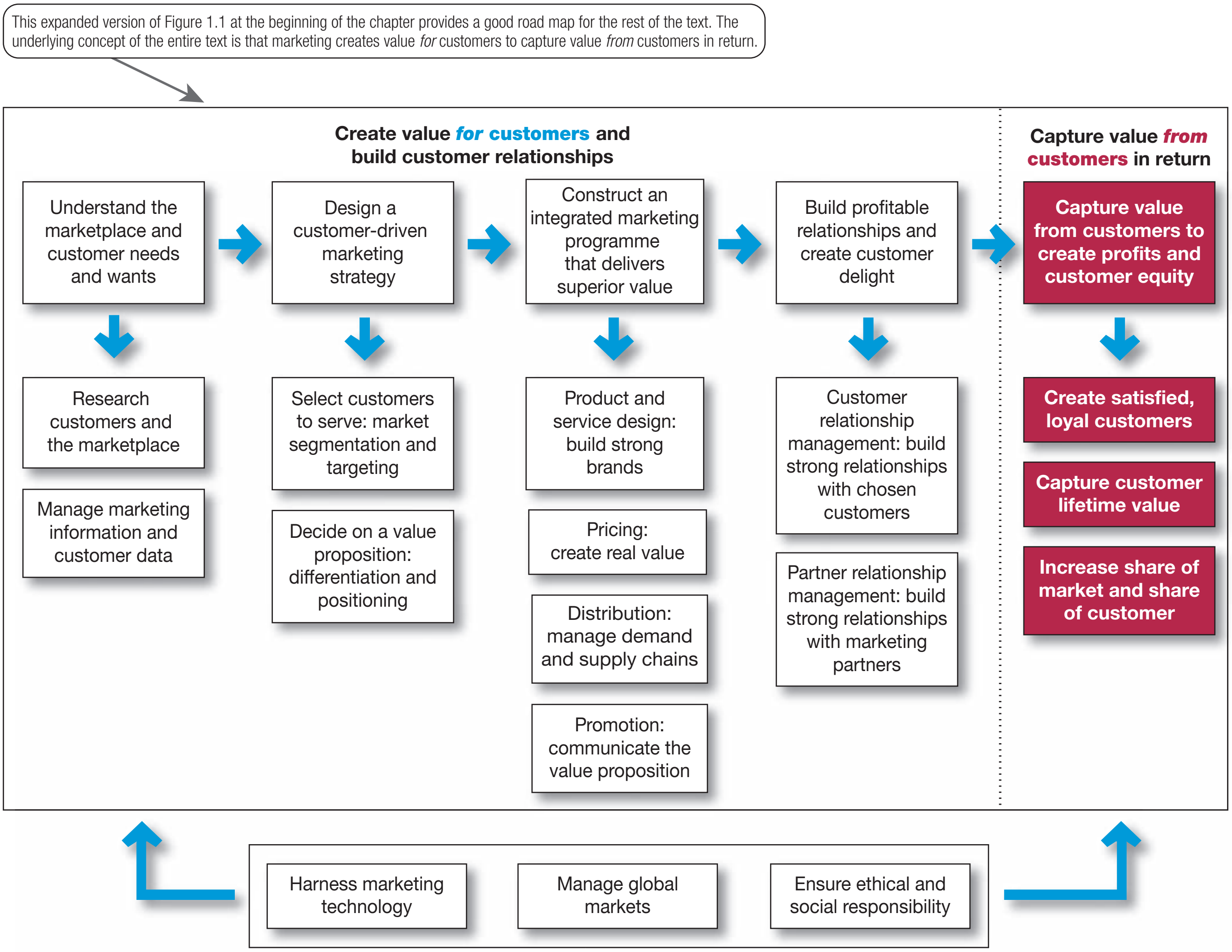


Figure 1.6 An expanded model of the marketing process

can serve best and most profitably. The second marketing strategy question is 'How can we best serve targeted customers?' (differentiation and positioning). Here, the marketer outlines a value proposition that spells out what values the company will deliver to win target customers.

With its marketing strategy chosen, the company now constructs an integrated marketing programme – consisting of a blend of the four marketing mix elements, the four Ps – that transforms the marketing strategy into real value for customers. The company develops product offers and creates strong brand identities for them. It prices these offers to create real customer value and distributes the offers to make them available to target consumers. Finally, the company designs promotion programmes that engage target customers, communicate the value proposition and persuade customers to act on the market offering.

Perhaps the most important step in the marketing process involves building value-laden, profitable relationships with target customers. Throughout the process, marketers practise customer relationship management to create customer satisfaction and delight. They engage customers in the process of creating brand conversations, experiences and community. In creating customer value and relationships, however, the company cannot go it alone. It must work closely with marketing partners both inside the company and throughout its marketing system. Thus, beyond practising good customer relationship management and customer-engagement marketing, firms must also practise good partner relationship management.

The first four steps in the marketing process create value *for* customers. In the final step, the company reaps the rewards of its strong customer relationships by capturing value *from* customers. Delivering superior customer value creates highly satisfied customers who will buy more and buy again. This helps the company capture customer lifetime value and greater share of customer. The result is increased long-term customer equity for the firm.

Finally, in the face of today's changing marketing landscape, companies must consider three additional factors. In building customer and partner relationships, they must harness marketing technologies in the new digital age, take advantage of global opportunities, and ensure that they act sustainably in an environmentally and socially responsible way.

Figure 1.6 provides a good road map to future chapters of this text. Chapters 1 and 2 introduce the marketing process, with a focus on building customer relationships and capturing value from customers. Chapters 3 through 6 address the first step of the marketing process – understanding the marketing environment, managing marketing information, and understanding consumer and business buyer behaviour. In Chapter 7, we look more deeply into the two major marketing strategy decisions: selecting which customers to serve (segmentation and targeting) and determining a value proposition (differentiation and positioning). Chapters 8 through 17 discuss the marketing mix variables one by one. Chapter 18 sums up customer-driven marketing strategy and creating competitive advantage in the marketplace. The final two chapters examine special marketing considerations: global marketing and sustainable marketing.

Learning outcomes review

Today's successful companies – whether large or small, for-profit or not-for-profit, domestic or global – share a strong customer focus and a heavy commitment to marketing. The goal of marketing is to engage customers and manage profitable customer relationships.

Objective 1 Define marketing and outline the steps in the marketing process (pp. 5–7)

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

Objective 2 Explain the importance of understanding the marketplace and customers and identify the five core marketplace concepts (pp. 7–10)

Outstanding marketing companies go to great lengths to learn about and understand their customers' *needs*, *wants* and *demands*. This understanding helps them to design want-satisfying market offerings and build value-laden customer relationships by which they can capture *customer lifetime value* and greater *share of customer*. The result is increased long-term *customer equity* for the firm.

The core marketplace concepts are needs, wants and demands; market offerings (products, services and experiences); value and satisfaction; exchange and relationships; and markets. Companies address needs, wants and demands by putting forth a value proposition, a set of benefits that they promise to consumers to satisfy their needs. The value proposition is fulfilled through a market offering, which delivers customer value and satisfaction, resulting in long-term exchange relationships with customers.

Objective 3 Identify the key elements of a customer value-driven marketing strategy and discuss the marketing management orientations that guide marketing strategy (pp. 10–14)

To design a winning marketing strategy, the company must first decide whom it will serve. It does this by dividing the market into segments of customers (*market segmentation*) and selecting which segments it will cultivate (*target marketing*). Next, the company must decide *how* it will serve targeted customers (how it will *differentiate and position* itself in the marketplace).

Marketing management can adopt one of five competing market orientations. The *production concept* holds that management's task is to improve production efficiency and bring down prices. The *product concept* holds that consumers favour products that offer the most in quality, performance and innovative features; thus, little promotional effort is required. The *selling concept* holds that consumers will not buy enough of an organisation's products unless it undertakes a large-scale selling and promotion effort. The *marketing concept* holds that achieving organisational goals depends on determining the needs and wants of target markets and delivering the desired satisfactions more effectively and efficiently than competitors do. The *societal marketing concept* holds that generating customer satisfaction *and* long-run societal well-being through sustainable marketing strategies is key to both achieving the company's goals and fulfilling its responsibilities.

Objective 4 Discuss customer relationship management and identify strategies for creating value *for* customers and capturing value *from* customers in return (pp. 14–20)

Broadly defined, *customer relationship management* is the process of engaging customers, and building and maintaining profitable customer relationships by delivering superior customer value and satisfaction. *Customer-engagement marketing* aims to make a brand a meaningful part of consumers' conversations and lives through direct and continuous customer involvement in shaping brand conversations, experiences and community. The aim of customer relationship management and customer engagement is to produce high *customer equity*, the total combined customer lifetime values of all of the company's customers. The key to building lasting relationships is the creation of superior *customer value* and *satisfaction*. In return for creating value *for* targeted customers, the company captures value *from* customers in the form of profits and customer equity.

Objective 5 Describe the major trends and forces that are changing the marketing landscape in this age of relationships (pp. 23–27)

Dramatic changes are occurring in the marketing arena. The digital age has created exciting new ways to learn about and relate to individual customers. As a result, advances in digital and social media have taken the marketing world by storm. Online, mobile and social media marketing offer exciting new opportunities to target customers more selectively and engage them more deeply. The key is to blend the new digital approaches with traditional marketing to create a smoothly integrated marketing strategy and mix.

The Great Recession caused consumers to rethink their buying priorities and bring their consumption back in line with their incomes. Even as the post-recession economy has strengthened, Americans are now showing an enthusiasm for frugality not seen in decades. The challenge is to balance a brand's value proposition with current times while also enhancing its long-term equity.

In recent years, marketing has become a major part of the strategies for many not-for-profit organisations, such as colleges, hospitals, museums, zoos, symphony orchestras, foundations and even churches. Also, in an increasingly smaller world, many marketers are now connected *globally* with their customers, marketing partners and competitors. Finally, today's marketers are also re-examining their ethical and societal responsibilities. Marketers are being called on to take greater responsibility for the social and environmental impacts of their actions.

Pulling it all together, as discussed throughout the chapter, the major new developments in marketing can be summed up in a single concept: *engaging customers and creating and capturing customer value*. Today, marketers of all kinds are taking advantage of new opportunities for building value-laden relationships with their customers, their marketing partners and the world around them.

Navigating the key terms

Objective 1

Marketing (p. 6)

Objective 2

Needs (p. 7)
Wants (p. 7)
Demands (p. 7)
Market offerings (p. 7)
Marketing myopia (p. 8)
Exchange (p. 9)
Market (p. 9)

Objective 3

Marketing management (p. 10)
Production concept (p. 11)
Product concept (p. 11)
Selling concept (p. 11)
Marketing concept (p. 12)
Societal marketing concept (p. 13)

Objective 4

Customer relationship management (p. 14)
Customer-perceived value (p. 15)
Customer satisfaction (p. 15)
Customer-engagement marketing (p. 17)
Consumer-generated marketing (p. 18)
Partner relationship management (p. 19)
Customer lifetime value (p. 20)
Share of customer (p. 20)
Customer equity (p. 21)

Objective 5

Digital and social media marketing (p. 23)

Discussion and critical thinking

Discussing the concepts

1.1 Define *marketing* and outline the steps in the marketing process. (AACSB: Communication)

1.2 What is a market offering? Give a recent example of a market offering that has satisfied your need or want. (AACSB: Communication; Reflective thinking)

1.3 Describe the key elements of a customer-driven marketing strategy and discuss the marketing management orientations that guide marketing strategy. (AACSB: Communication; Reflective thinking)

1.4 Discuss the concept of customer satisfaction. How do customer relationship management and customer-perceived value affect customer satisfaction? (AACSB: Communication; Reflective thinking)

1.5 Explain the growing importance of digital and social media marketing. (AACSB: Communication; Reflective thinking)

Critical-thinking exercises

1.6 Select a publicly traded company and research how much was spent on marketing activities in the most recent year of available data. What percentage of sales do marketing expenditures represent for the company? Have these expenditures increased or decreased over the past five years? Write a brief report of your findings. (AACSB Communication; Analytic reasoning)

1.7 Go to a company's, organisation's or specific brand's website that has a link to Facebook, Google+, YouTube, Twitter and/or Pinterest. Click on the links and describe how that company is using social media to market its products. Evaluate its effectiveness in creating customer engagement. (AACSB: Communication, Use of IT, Reflective thinking)

1.8 Search the internet for salary information regarding jobs in the marketing industry using www.glassdoor.com, www.payscale.com, or a similar website. Choose five different jobs in marketing. For each position, review the national average salaries and compare them to the salaries in your local area. Discuss your findings. (AACSB: Communication; Use of IT; Reflective thinking)

Mini-cases and applications

Online, mobile and social media marketing: The ALS Ice Bucket Challenge

In the summer of 2014, people with connections to ALS (Lou Gehrig's disease) raised awareness of the condition by urging people to post videos of themselves dumping buckets of ice water over their heads and challenging others to do the same. The efforts raised millions of euros in online donations to the ALS Association for enhanced research and patient services. This real-time marketing campaign generated 17 million videos uploaded to social media platforms from 159 countries. Celebrities posting videos included Will Smith, Bill Gates, Oprah Winfrey and Mark Zuckerberg. The Ice Bucket Challenge generated 70 billion video views while raising €220 million. The best part? Zero euros were spent to promote the Ice Bucket Challenge, yet 440 million people saw it. The ALS Association has now turned the wildly successful challenge into an annual social media campaign, bringing back the original Ice Bucket Challenge: #EveryAugustUntilACure.

For more information, visit www.alsa.org/fight-als/ice-bucket-challenge.

1.9 Real-time marketing is a shift for traditional marketers who can now digitally link brands to important moments in customers' lives. Explain how real-time marketing was used in the Ice Bucket Challenge. Why was this campaign successful? (AACSB: Communication; Reflective thinking)

1.10 Create a real-time marketing campaign for a product or service of your choice to create customer engagement using online, mobile and social media. How would you measure the success of your campaign? (AACSB: Communication; Reflective thinking)

Marketing ethics: is Big Brother watching?

Every parents' fear when they put an infant to sleep is Sudden Infant Death Syndrome (SIDS) – the sudden unexplainable death of an otherwise healthy baby. In Europe thousands of infants die each year of SIDS; a leading cause of infant death. For around €199, parents can buy monitors that track babies' vital signs, such as respiration, heart rate, skin temperature, sleeping position and quality of sleep. The Mimo Smart Baby Monitor is a cute clip-on turtle that attaches to a special organic cotton onesie, and the Owlet Baby Monitor is a smart sock that looks like a little toeless boot. If parents don't want to attach these devices to their little ones, they can opt for the SafeToSleep Breathing Monitor sheet with a built-in monitor. All of these devices stream data to parents' smartphones. Manufacturers of these devices promote them to parents for 'your baby's health' or 'gives you that extra assurance' to protect against SIDS. However, several government agencies agree that these devices cannot protect a baby from SIDS. But fear sells, and most of these manufacturers cannot keep up with the demand for their products.

1.11 Is it right for marketers to track consumer purchases? Should consumers be concerned with what information is being used? (AACSB: Communication; Ethical reasoning; Reflective thinking)

1.12 Discuss other examples of marketers using data collection to sell products. Is this ethical? (AACSB: Communication; Ethical reasoning)

Marketing by numbers: what's a customer worth?

How much are you worth to a given company if you continue to purchase its brand for the rest of your life? Many marketers are grappling with that question, but it's not easy to determine how much a customer is worth to a company over his or her lifetime. Calculating customer lifetime value can be very complicated. Intuitively, however, it can be a fairly simple net present value calculation, which incorporates the concept of the time value of money. To determine a basic customer lifetime value, each stream of profit (C, the net cash flow after costs are subtracted) is discounted back to its present value (PV) and then summed. The basic equation for calculating net present value (NPV) is:

$$\text{NPV} = \sum_{t=0}^{N} \frac{C_t}{(1+r)^t}$$

Where

t: time of the cash flow
N: total customer lifetime
r: discount rate
C_t: net cash flow (the profit) at time t
(The initial cost of acquiring a customer would be a negative net cash flow at time 0.)

NPV can be calculated easily on most financial calculators or by using one of the calculators available on the internet, such as the one found at www.investopedia.com/calculator/NetPresentValue.aspx

1.13 Assume that a customer shops at a local grocery store, spending an average of $200 a week and resulting in a retailer profit of €10 each week from this customer. Assuming the shopper visits the store all 52 weeks of the year, calculate the customer lifetime value if this shopper remains loyal over a 10-year life span. Also assume a 5 per cent annual interest rate and no initial cost to acquire the customer. (AACSB Communication; Analytic reasoning)

Video case

Eskimo Joe's

see www.pearsoned.co.uk/kotler

Since 1975, Eskimo Joe's has been a popular watering hole in Stillwater, Oklahoma. Through word of mouth and a popular logo spread via T-shirts, it rapidly became a favourite place to grab a beer for students at Oklahoma State. But what started as a basic beer joint has grown into something much more.

When the drinking age changed from 18 to 21 in the 1980s, Eskimo Joe's had to decide how it would move forward. That challenge helped the company to recognise that its product is much more than just a cold mug of beer. Instead, people flocked to Eskimo Joe's for the fun atmosphere and customer-friendly service. This realisation led to an expansion into different businesses that have now spread the Eskimo Joe's logo all over the planet.

1.14 After viewing the video featuring Eskimo Joe's, answer the following questions:

1.15 What is Eskimo Joe's value proposition? How does its value proposition relate to its market offering?

1.16 How does Eskimo Joe's build long-term customer relationships?

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Company case

Argos: creating customer value amid change and turbulence

One of the biggest news items in the UK retail sector recently was the €1.57 billion acquisition of Home Retail Group, the parent company of Argos, by Sainsbury's, one of the leading British supermarkets. Unsurprisingly, the highlights of this business decision are the huge sum involved and the associated risk in the complex marketing environment. So why this was considered a good decision, especially after the British referendum in favour of leaving the European Union (EU) and the uncertainty in the business environment that follows?

The key answers to these questions are not hard to find. The deal makers can see the gold in the track record of the organisation. Argos, the leading UK digital retailer, was established in July 1973 as the UK's first catalogue retailer with only 17 stores; it now has over 750 stores throughout the UK and the Republic of Ireland, serving over 130 million customers annually. Approximately one-third of the UK population shops in an Argos store annually, buying one thing or another. Even before the agreement on the takeover deal, 10 Argos outlets that opened in Sainsbury's stores already had a record 30 per cent sales increase, and the takeover is expected to result in annual savings of €180 million.

As part of its attempts to create value for its customers, Argos has undergone remarkable changes in the twenty-first century.

The design makeover has turned the tatty faux-wooden floorboards and display cabinets into tiled floors and LED display boards for easy shopping. It is thus not surprising that Argos was valued so highly by Sainsbury's. Ultimately, the plan is to have an Argos centre at every Sainsbury's branch to ensure convenience in shopping for customers. While the in-store catalogues are still in use at Argos stores, the centres have been radically transformed into hi-tech outlets and 'digital' stores. The idea behind all these changes is that the customers of today are more informed and deserve the best. Argos's approach is to ensure that value creation for customers.

Market offerings

The assortment of products offered by Argos to its various customers across the country illustrates the core value that it offers its target market. The organisation is noted for offering a wide range of products that are categorised on its websites to make shopping easy for its online visitors. For example, customers who are interested in products such as TVs, telephones or computers would simply need to click on the 'Technology' link to be ushered into the world of these gadgets. Similarly, there are categories for 'Home and Garden', 'Sports and Leisure', 'Clothing', 'Health and Beauty', 'Toys' and many more.

One critic noted that Argos's focus is on being a 'working class' brand, implying that their customers are mainly less well-off. However, former CEO John Walden disagrees with this customer stereotype and insists that while this may have been true five years earlier, things have now changed at Argos; the company now targets all demographics. Beyond the rhetoric of who their customers actually are is the issue of keeping those customers satisfied with seasoned products and excellent customer service. This has been strategically identified by John Rogers, the new CEO of Argos, as the cornerstone of his approach in marketing after taking over the job. The core objective is to ensure not only that the customers are encouraged to shop at Argos but that they are motivated to stay loyal even when the competition tries to entice them. For example, Tesco has a strong plan in place to price-match best-selling toys by the end of this year. This is clearly in direct competition with Argos. The retailer's mainstay is the continuous effort to clearly outperform competitors like Tesco and Amazon in meeting customers' needs and addressing their concerns.

Same-day delivery

As the retail environment in the UK becomes more competitive, Argos also continues to explore various means of maintaining and improving its market share. To this end, the management has set a long-term goal of having 250 Argos collection points that will be located within Sainsbury's to ensure that customers get their ordered items more quickly than before the acquisition of the firm – which, according to Mike Coupe, the CEO of Sainsbury's, was meant to give customers more choice in their purchasing decisions and make life easier for them.

In 2015, Argos introduced a striking and daring policy – its 'Same-Day Delivery' service. As the name suggests, a customer could now order the desired products and get them immediately in the store or delivered at home on the same day through a 'fast tracked' option. This quickly became a very popular strategy and was considered a good gesture among the customers. It not only reinforced loyalty among the organisation's current clientele but also wooed others keen on efficiency in the marketplace. As the company experienced increase in demand, it also realised that this would require a commensurate increase in resources, hence the recent increase in its delivery vans to about 800 and the 30,000 people employed in different areas of the organisation, including customer service, packaging and order delivery, across its 845 stores. In the run-up to Christmas sales, Argos reportedly hired additional seasonal staff, adding to the current number.

Digital retailing

Developments in the world of technology are transforming businesses in various sectors, and retailing is no exception. Based on data from the food and grocery research charity IGD, 5 per cent of grocery sales in the UK are done online. This small figure is due to a variety of challenges associated with this transaction mode, but this is very likely to improve over time. As a key organisation in the retail sector in the digital age, Argos is also working toward transforming itself into a 'click and collect' business. Toward the end of 2012, Argos announced its mission to rediscover itself as a digital retail leader. John Coombe, the chairman of Home Retail, Argos's parent organisation, remarked that Argos was not only an icon of the British high street but also a leading player in the digital transformation of UK retailing business. In June 2016, a report indicated that Argos's internet sales had gone up by 16 per cent, the strongest record in three years. Around the time Argos was being sold to Sainsbury's, John Walden debunked the view that being digital would be like operating a traditional retailing outfit with just one store. According to him, it would still involve hiring people, bringing stock in, expanding and upgrading. Around 60 per cent of Argos's sales are now done as online transactions, which is also closely linked to the fact that the organisation is the first retailer in the UK to make over €1.12 billion through mobile payments. Its hefty catalogues are being replaced by iPad-style terminals to facilitate order processing. All of this has helped Argos make a seamless entry into the digital world in retail business.

Special offers

Argos's commitment to delighting its customers is not only evident in the increasing range of products it offers its customers and the sleek distribution system, but also in the various promotional programmes it offers. Some of these are offered to existing loyal customers through the Argos loyalty card scheme while others are to attract new customers. Periodically, it sends its customers various promotional offers, money-off vouchers and other financing offers. When Black Friday hit the UK high street and its public awareness grew, Argos was quick to explore the opportunity through various special price-cut offers that also attracted a response from many new and existing customers. About 12 million customers reportedly visited the company's website on the recent Black Friday, resulting in 18 purchases in a second. The expectation for subsequent years is that around 38 per cent more sales than what was recorded for the previous year will have been made. John Rogers also estimates that at least 70 per cent of its orders will be taken online on Black Friday while normal trading will account for 50 per cent. The Argos gift voucher promotions, which are managed by the company's affiliates, offer its customers something to fall back on during their various subsequent purchases. The periodic product-specific special offers on certain products like furniture, computers and TVs also constitute part of the package that keeps Argos's stores busy over the years, and with this, it generates customer value profitably.

Argos and society

It is tempting to conclude that Argos's focus on maximising customer value is predominantly driven by profit. However, evidence suggests that the company does believe in taking responsibility for the environment, improving the local communities and pursing a number of initiatives that revolve around long-run benefits for customers and society. Argos is focused on reducing the amount of resources used in its operations and the CO_2 (carbon dioxide) emissions it produces. It clearly communicates its green credentials on its web pages. Apart from its catalogue, which is 100 per cent recyclable, it sources the paper it uses from sustainably managed forests and encourages customers to recycle old catalogues in their possession as these have proven useful to newspaper print manufacturers. According to the firm, it has already been able to recycle 91 per cent of waste from the business, had a 9 per cent reduction in its carbon footprint, ensured a 35 per cent reduction in the waste sent to landfill, and has established a goal to reduce its CO_2 emission per square foot by 40 per cent by the year 2020. Argos's impacts in the local community are also notable: it supports various charities and other related organisations, and recently it specifically chose Macmillan Cancer Support as its charity of the year. Argos has shown that it is quite possible to create value for customers and still build relationships with stakeholders.

Questions for discussion

1 To what extent do you think the acquisition of Argos by Sainsbury's resulted in delivering superior value to customers?

2 How is the concept of share of customer illustrated in the case study?

3 To what extent would you agree with the claim that Argos's marketing management orientation is a marketing concept? Justify your standpoint with relevant points from the case study.

4 What are the key actions taken by Argos that show that the organisation is following the changing marketing landscape?

5 In view of the stiff competition in the UK retail sector, suggest various ways by which Argos could continue to provide better value to its customers.

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Chapter Two

Company and marketing strategy: partnering to build customer engagement, value and relationships

Chapter preview

In the first chapter, we explored the marketing process by which companies create value for customers to capture value from them in return. In this chapter, we dig deeper into steps two and three of that process: designing customer value-driven marketing strategies and constructing marketing programmes. First, we look at the organisation's overall strategic planning, which guides marketing strategy and planning. Next, we discuss how, guided by the strategic plan, marketers partner closely with others inside and outside the firm to engage customers and create value for them. We then examine marketing strategy and planning – how marketers choose target markets, position their market offerings, develop a marketing mix and manage their marketing programmes. Finally, we look at the important step of measuring and managing marketing return on investment (marketing ROI).

First, let's look at Rolex, an outstanding company and a good marketing strategy story. Rolex met with enormous instant success by focusing on the customer and on product features that are important to them. The company has pursued this customer-driven marketing strategy since its foundation. Along the way, it discovered that good marketing strategy means more than just growth, sales and profits. It means skilfully engaging customers and creating value for them. At its core, Rolex doesn't sell just wristwatches; it sells a sentiment of achievement and of belonging to an exclusive club.

Learning outcomes

➤ **Objective 1** You will be able to explain company-wide strategic planning and its four steps.
Company-wide strategic planning: defining marketing's role (pp. 41–46)

➤ **Objective 2** You will be able to discuss how to design business portfolios and develop growth strategies.
Designing the business portfolio (pp. 43–46)

➤ **Objective 3** You will be able to explain marketing's role in strategic planning and how marketing works with its partners to create and deliver customer value.
Planning marketing: partnering to build customer relationships (pp. 47–49)

➤ **Objective 4** You will be able to describe the elements of a customer value-driven marketing strategy and mix and the forces that influence them.
Marketing strategy and the marketing mix (pp. 49–53)

➤ **Objective 5** You will be able to list the marketing management functions, including the elements of a marketing plan, and discuss the importance of measuring and managing marketing return on investment.
Managing the marketing effort and marketing return on investment (pp. 53–56)

Rolex: building brand equity through a customer-driven marketing mix

Rolex's luxury watches are manufactured in Switzerland but have an enduring global appeal of exclusivity.
Source: AS photo studio/Shutterstock

In 1905, in London, Alfred Davis and his brother-in-law Hans Wilsdorf founded Wilsdorf and Davis, the company that would eventually become Rolex SA. Rolex is the single largest luxury watch brand, with estimated recent revenues of over €4 billion. Although its luxury wristwatches are manufactured in Switzerland, the company maintains a network of 4,000 Rolex-trained watchmakers in over 100 countries. Rolex has set up and maintained its pole position in the luxury watch market through its customer value-driven marketing strategy and by focusing on features that have been important to its customer base since the company was founded.

Product-wise, Rolex has the distinction of having many new-to-the-world products launched due to its research and development as well as manufacture of unique and timeless watches. In 1910, a Rolex watch was the first wristwatch to receive the Swiss Certificate of Precision, granted by the Official Watch Rating Centre, and in 1914, the Kew Observatory in Great Britain awarded a Rolex wristwatch a 'Class A' precision certificate, which until that point had been reserved exclusively for marine chronometers. Rolex watches became synonymous with precision all over the world. In 1926, the company took a major step toward developing the world's first waterproof wristwatch, named the 'Oyster'. The following year, the watch was worn by Mercedes Gleitze, a young Englishwoman who swam the English Channel. The watch remained in perfect working order after the 10-hour swim, and this event prompted Rolex to use testimonials in their advertising strategy to convey the superiority of the brand. Since then, the Oyster has graced the wrists of personages from Winston Churchill to Che Guevara to Eminem. Launched in 1953, the 'Submariner' was the first watch guaranteed to be waterproof to a depth of 100 metres. In the same year, the expedition led by Sir Edmund Hillary was equipped with the 'Oyster Perpetual', and his team became the first to reach the summit of Mount Everest. All of this has made Rolex watches synonymous with precision, achievement, robustness and reliability. The design of its products has been through such minor changes that they are recognisable at first sight, setting the brand apart from its rivals. It has become an outward expression of exclusiveness and of the sentiment of belonging to a select club. In this sense, wearers get the feeling of belonging to a special group of achievers.

Distribution-wise, Rolex has a very exclusive network consisting of a limited number of fine jewellery stores in order to make the brand and its products look even more exclusive to customers A crystal prism indicates that a store is an official Rolex dealer, and the locations selected are all in upmarket areas with an established reputation. Its high-end jewellers are spaced geographically and have to carry a certain level of inventory, use certain display patterns and place specific levels of annual local advertising. Thus, Rolex has high market control with minimal service or channel conflict problems, which enables the company to closely monitor the brand. Rolex strengthens this positioning strategy by limiting production even as demand increases. For luxury goods, scarcity in the marketplace definitely influences value perception, thus increasing demand and contributing to long-term appreciation in the end. Rolex does not have a retail outlet on the internet. Its website has information on the watch line-up and information on dealers in a respective region, but it does not serve as a point of purchase, thus ensuring that it can offer the best possible service and maintain the exclusivity of its brand in terms of its distribution channels.

The pricing strategy that Rolex employs is distinct in its conception and execution. It pursues a premium pricing policy and sets its prices with little regard to the competition, setting instead the price that others follow. Furthermore, the company does not offer any sort of discount for customers or any sorts of price reductions or sales because consumers are willing to pay the high prices set by the company. This has been evidenced by the fact that even during an economic downturn and faced with discounted watches from other brands, the majority of luxury watch shoppers are still looking for a Rolex.

When it comes to promotion, Rolex uses a number of marketing communication tools to effectively convey its positioning strategy, like print advertising in upmarket publications such as the *Financial Times* and *Vogue*. Sponsorship and testimonials remain central to its marketing communications, for the company chooses people who have achieved something and can reinforce the values of the brand. The sports that the company endorses are those generally considered upmarket, such as golf, equestrianism, yachting and tennis. By tradition, the brand has been a partner of the famous Wimbledon tennis tournament since 1978, with the Rolex clock prominently placed at the scoreboard on Centre Court. All promotional tools convey a consistent positioning and message – Rolex purchasers are wealthy, attractive and active, and lead interesting lives. The image it seeks to put across is that customers purchase Rolex as a statement and as a reward for success.

In the future, Rolex will face increasingly fierce competition, particularly in Asia, as competitors search for new ways to gain market share. The large luxury goods conglomerates such as Louis Vuitton, Moët Hennessy and Compagnie Financière Richemont enjoy advantages of size and significantly reduced costs from synergies in advertising and marketing. Furthermore, these enterprises are also targeting younger customers to generate further market potential. However, Rolex has successfully managed to build and enhance its brand equity and has effectively generated a distinct perception of the company and its products that is rooted in values such as accuracy, exclusivity and robustness. This was accomplished by the company's carefully orchestrated customer-driven marketing mix in concert with constant innovation. The company has also successfully reacted to their rival's strategy to target a younger audience by sponsoring more current testimonials in sports, such as young golf pros Rickie Fowler and Martin Kaymer.

With similar goals in mind, Rolex created a fan page on Facebook in 2013 that has earned over 5.6 million likes to date, outperforming rivals like Breitling or Cartier. In 2013, Rolex amplified its 30-year sponsorship of Wimbledon with a raft of digital content based around the world's most famous tennis competition. The company used a 'scorecard' Facebook app, Twitter hashtags and video content, to deeply embed its brand into the event experience and start an online dialogue with consumers. In 2012, the brand started its YouTube channel to launch in-house documentaries about topics that matter to the brand and its devotees, like deep-sea missions to investigate the polar ice caps and Himalayan expeditions. As to the cost advantage of some of their rivals, Rolex successfully adapted its marketing mix strategy by launching its Tudor brand. Priced significantly lower than the classic Rolex wristwatches, the launch of Tudor has enabled the company to compete with Tag Heuer and other competitors within the accessible luxury market, and also to target a younger audience. In this respect, the company ensures a clear distinction between both brands (for example, by not having any reference to the Tudor brand on the official Rolex website) to prevent any dilution of the value of the Rolex brand in the luxury watch market.

In all, its effective and flexible marketing mix strategy, in line with its ability to react to a dynamic environment, has enabled Rolex not only to build brand equity but also successfully repel threats from competitors and stand resilient as one of the world's most powerful and enduring brands.[1]

Company-wide strategic planning: defining marketing's role

Author comment

Company-wide strategic planning guides marketing strategy and planning. Like marketing strategy, the company's broader strategy must also be customer focused.

Each company must find the game plan for long-run survival and growth that makes the most sense given its specific situation, opportunities, objectives and resources. This is the focus of **strategic planning** – the process of developing and maintaining a strategic fit between the organisation's goals and capabilities and its changing marketing opportunities.

Strategic planning The process of developing and maintaining a strategic fit between the organisation's goals and capabilities and its changing marketing opportunities.

Strategic planning sets the stage for the rest of planning in the firm. Companies usually prepare annual plans, long-range plans and strategic plans. The annual and long-range plans deal with the company's current businesses and how to keep them going. In contrast, the strategic plan involves adapting the firm to take advantage of opportunities in its constantly changing environment.

At the corporate level, the company starts the strategic planning process by defining its overall purpose and mission (see Figure 2.1). This mission is then turned into detailed supporting objectives that guide the entire company. Next, headquarters decides what portfolio of businesses and products is best for the company and how much support to give each one. In turn, each business and product develops detailed marketing and other departmental plans that support the company-wide plan. Thus, marketing planning occurs at the business unit, product and market levels. It supports company strategic planning with more detailed plans for specific marketing opportunities.

Defining a market-oriented mission

An organisation exists to accomplish something, and this purpose should be clearly stated. Forging a sound mission begins with the following questions: What *is* our business? Who is the customer? What do consumers value? What *should* our business be? These simple-sounding questions are among the most difficult the company will ever have to answer. Successful companies continuously raise these questions and answer them carefully and completely.

Many organisations develop formal mission statements that answer these questions. A **mission statement** is a statement of the organisation's purpose – what it wants to accomplish in the larger environment. A clear mission statement acts as an 'invisible hand' that guides people in the organisation.

Mission statement A statement of the organisation's purpose – what it wants to accomplish in the larger environment.

Some companies define their missions myopically in product or technology terms ('We make and sell furniture' or 'We are a chemical-processing firm'). But mission statements should be *market oriented* and defined in terms of satisfying basic customer needs. Products and technologies eventually become outdated, but basic market needs may last forever. For example, social scrapbooking site Pinterest doesn't define itself as just an online place to post pictures. Its mission is to give people a social media platform for collecting, organising and sharing things they love. Virgin Atlantic's mission statement is not simply to sell lots of flights but is 'To grow a profitable airline where people love to fly and people love to work.' Similarly, Bosch doesn't talk

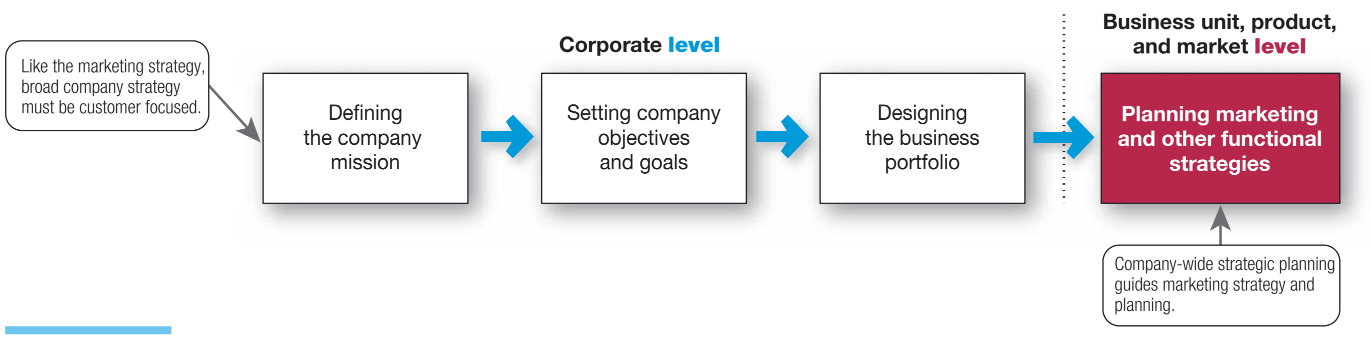

Figure 2.1 Steps in strategic planning

BeQIK Focus on quality (Q), innovation (I), customer orientation (K for the German term 'Kundenorientierung') and speed.
Source: Grzegorz Czapski/Shutterstock

about selling or making white goods and power tools but rather 'BeQIK': Focus on quality (Q), innovation (I), customer orientation (K for the German term 'Kundenorientierung') and speed.

Table 2.1 provides several examples of product-oriented versus market-oriented business definitions.[2]

Mission statements should be meaningful and specific yet motivating. Too often, mission statements are written for public relations purposes and lack specific, workable guidelines. Instead, they should emphasise the company's strengths and tell forcefully how it intends to win in the marketplace.

Finally, as we discovered in the chapter-opening Rolex story, a company's mission should not be stated as making more sales or profits; profits are only a reward for creating value for customers. Instead, the mission should focus on customers and the customer experience the firm seeks to create. Thus, IKEA's mission isn't 'to be the world's best and most profitable furniture retailer'; it's 'to create a better everyday life for the many'. If IKEA accomplishes this market-focused mission, profits will follow.[3]

Table 2.1 Product- versus market-oriented business definitions

Company	Product-oriented definition	Market-oriented definition
Michelin	We make tyres.	We provide service to people and their transport.
Royal Dutch Shell	We find, extract, refine and sell oil..	We refine and deliver energy solutions in a sustainable way.
Nestlé	We make consumer nutrition and health products.	As the world's leading nutrition, health and wellness company, we are committed to increasing the nutritional value of our products while offering better taste and more pleasure.
B&Q	We sell tools and home repair and improvement items.	We help people to create homes of which they can be proud.
eBay	We hold online auctions.	We provide a global marketplace where practically anyone can trade practically anything.
Revlon	We make cosmetics.	We sell lifestyle and self-expression; success and status; memories, hopes and dreams.
Ritz-Carlton Hotels & Resorts	We rent rooms.	We create 'The Ritz-Carlton experience' – a memorable stay that far exceeds guests' already-high expectations.
Starbucks	We sell coffee and snacks.	We sell 'The Starbucks Experience', one that enriches people's lives one moment, one human being, one extraordinary cup of coffee at a time.

Setting company objectives and goals

For example, Kohler makes and markets familiar kitchen and bathroom fixtures – everything from Mira showers, bathtubs and toilets to kitchen sinks. But Kohler also offers a breadth of other products and services, including furniture, tile and stone, and even small engines and backup power systems (in Italy and China). It also owns golf resorts and spas in the United States and Scotland. Kohler ties this diverse product portfolio together under the mission of 'contributing to a higher level of gracious living for those who are touched by our products and services'.[4]

This broad mission leads to a hierarchy of objectives, including business objectives and marketing objectives. Kohler's overall objective is to build profitable customer relationships by developing efficient yet beautiful products that embrace the 'essence of gracious living' mission. It does this by investing heavily in research and design. Research is expensive and must be funded through improved profit, so improving profits becomes another major objective for Kohler. Profits can be improved by increasing sales or reducing costs. Sales can be increased by improving the company's share of domestic and international markets. These goals then become the company's current marketing objectives.

Marketing strategies and programmes must be developed to support these marketing objectives. To increase its market share, Kohler might increase its products' availability and promotion in existing markets and expand into new markets. For example, Kohler is boosting production capacity in India and China to better serve the Asian market.

These are Kohler's broad marketing strategies. Each broad marketing strategy must then be defined in greater detail. For example, increasing the product's promotion may require more salespeople, advertising and PR efforts; if so, both requirements will need to be spelled out. In this way, the firm's mission is translated into a set of objectives for the current period.

Designing the business portfolio

Guided by the company's mission statement and objectives, management now must plan its business portfolio – the collection of businesses and products that make up the company. The best **business portfolio** is the one that best fits the company's strengths and weaknesses to opportunities in the environment.

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

Most large companies have complex portfolios of businesses and brands. Strategic and marketing planning for such business portfolios can be a daunting but critical task. For example, GE is a giant €122 billion (2017) conglomerate operating in several business markets, with a broad portfolio of products that 'move, power, build, and cure the world'. Most consumers know GE for its home appliance and lighting products, even though the company sold its appliances division in 2016 to Haier. But that's just the beginning for GE. Other company units – such as GE Aviation, GE Power, GE Healthcare and others – offer products and services ranging from jet engines, wind turbines and gas turbines to medical imaging equipment. Successfully managing such a broad portfolio takes plenty of management skill, operational focus and – as GE's long-running corporate slogan suggests – lots of 'Imagination at work'.

Business portfolio planning involves two steps. First, the company must analyse its *current* business portfolio and determine which businesses should receive more, less, or no investment. Second, it must shape the *future* portfolio by developing strategies for growth and downsizing.

Analysing the current business portfolio

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

Portfolio analysis The process by which management evaluates the products and businesses that make up the company.

Management's first step is to identify the key businesses that make up the company, called *strategic business units* (SBUs). An SBU can be a company division, a product line within a division, or sometimes a single product or brand. The company next assesses the attractiveness of its various SBUs and decides how much support each deserves. When designing a business portfolio, it's a good idea to add and support products and businesses that fit closely with the firm's core philosophy and competencies.

The purpose of strategic planning is to find ways in which the company can best use its strengths to take advantage of attractive opportunities in the environment. For this reason, most standard portfolio analysis methods evaluate SBUs on two important dimensions: the attractiveness of the SBU's market or industry and the strength of the SBU's position in that market or industry. The best-known portfolio-planning method was developed by the Boston Consulting Group, a leading management consulting firm.[5]

The Boston Consulting Group approach

Growth–share matrix A portfolio-planning method that evaluates a company's SBUs in terms of market growth rate and relative market share.

Using the now-classic Boston Consulting Group (BCG) approach, a company classifies all its SBUs according to the **growth–share matrix**, as shown in Figure 2.2. On the vertical axis, *market growth rate* provides a measure of market attractiveness. On the horizontal axis, *relative market share* serves as a measure of company strength in the market. The growth–share matrix defines four types of SBUs:

1. *Stars.* Stars are high-growth, high-share businesses or products. They often need heavy investments to finance their rapid growth. Eventually their growth will slow down, and they will turn into cash cows.
2. *Cash cows.* Cash cows are low-growth, high-share businesses or products. These established and successful SBUs need less investment to hold their market share. Thus, they produce a lot of the cash that the company uses to pay its bills and support other SBUs that need investment.
3. *Question marks.* Question marks are low-share business units in high-growth markets. They require a lot of cash to hold their share, let alone increase it. Management has to think hard about which question marks it should try to build into stars and which should be phased out.
4. *Dogs.* Dogs are low-growth, low-share businesses and products. They may generate enough cash to maintain themselves but do not promise to be large sources of cash.

The 10 circles in the growth–share matrix represent the company's 10 current SBUs. The company has two stars, two cash cows, three question marks and three dogs. The area of each circle is proportional to the SBU's euro sales. This company is in fair shape, although not in good shape. It wants to invest in the more promising question marks to make them stars and maintain the stars so that they will become cash cows as their markets mature. Fortunately, it has two good-sized cash cows. Income from these cash cows will help finance the company's question marks, stars and dogs. The company should take some decisive action concerning its dogs and its question marks.

Once it has classified its SBUs, the company must determine what role each will play in the future. It can pursue one of four strategies for each SBU. It can invest more in the business unit to *build* its share. Or it can invest just enough to *hold* the SBU's share at the current level. It can

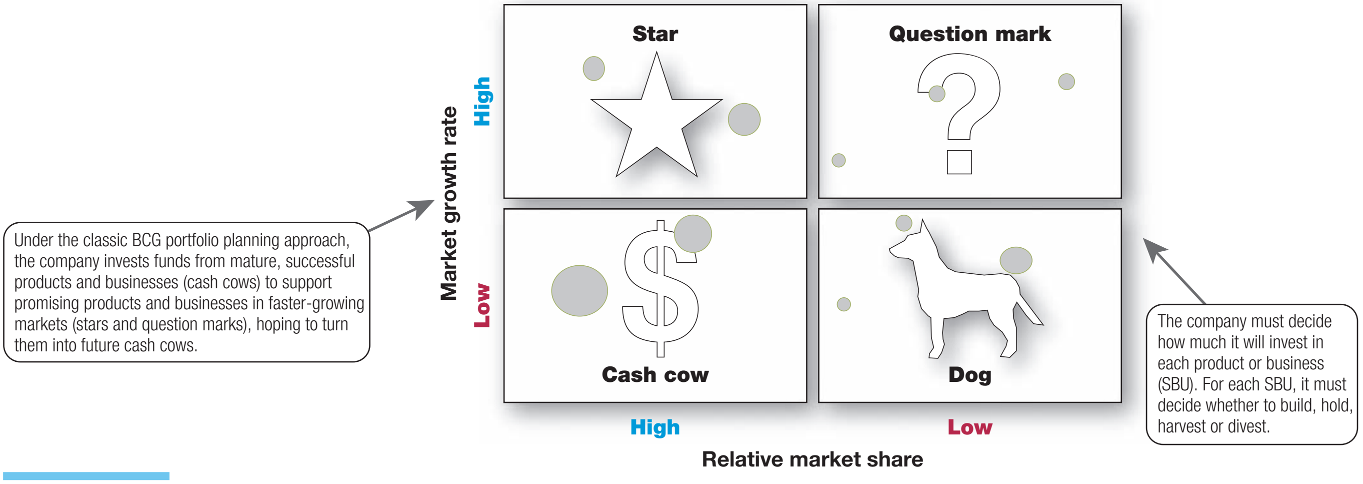

Figure 2.2 The BCG growth–share matrix
Source: adapted from The BCG Portfolio Matrix © 1970, The Boston Consulting Group

harvest the SBU, milking its short-term cash flow regardless of the long-term effect. Finally, it can *divest* the SBU by selling it or phasing it out and using the resources elsewhere.

As time passes, SBUs change their positions in the growth–share matrix. Many SBUs start out as question marks and move into the star category if they succeed. They later become cash cows as market growth falls and then finally die off or turn into dogs toward the end of the life cycle. The company needs to add new products and units continuously so that some of them will become stars and, eventually, cash cows that will help finance other SBUs.

Problems with matrix approaches

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

Because of such problems, many companies have dropped formal matrix methods in favour of more customised approaches that better suit their specific situations. Moreover, unlike former strategic planning efforts that rested mostly in the hands of senior managers at company headquarters, today's strategic planning has been decentralised. Increasingly, companies are placing responsibility for strategic planning in the hands of cross-functional teams of divisional managers who are close to their markets. In this digital age, such managers have rich and current data at their fingertips and can adapt their plans quickly to meet changing conditions and events in their markets.

Portfolio planning can be challenging. For example, think about The Walt Disney Company. Most Europeans think of Disney as theme parks and wholesome family entertainment. But in the mid-1980s, Disney set up a powerful, centralised strategic planning group to guide its direction and growth. Over the next two decades, the strategic planning group turned The Walt Disney Company into a huge and diverse collection of media and entertainment businesses. The sprawling company grew to include everything from theme resorts and film studios (Walt Disney Pictures, Touchstone Pictures, Pixar Animation and Marvel Studios) to media networks (ABC Television plus ESPN, Disney Channel, parts of A&E and the History Channel, and a half-dozen others) to consumer products (from apparel and toys to interactive games) and a cruise line.

The newly transformed company proved hard to manage and performed unevenly. To improve performance, Disney disbanded the centralised strategic planning unit, decentralising its functions to Disney division managers. As a result, Disney retains its position at the head of the world's media conglomerates. And even through the recently weak economy, Disney's sound strategic management of its broad mix of businesses, plus a touch of the famed Disney magic, has helped it fare better than rival media companies.[6]

Developing strategies for growth and downsizing

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

Marketing has the main responsibility for achieving profitable growth for the company. Marketing needs to identify, evaluate and select market opportunities, and lay down strategies for capturing them. One useful device for identifying growth opportunities is the **product/market expansion grid**, shown in Figure 2.3.[7] We apply it here to Finnish company Vivago Oy – a healthcare technology company that develops, sells and markets automatic personal security systems, monitoring and analysing users' activity levels.[8]

Product/market expansion grid A portfolio-planning tool for identifying company growth opportunities through market penetration, market development, product development or diversification.

Vivago markets the world's first system that monitors the physiological signals of wearers (including movement, skin conductivity and body temperature) and sends an alarm via the local

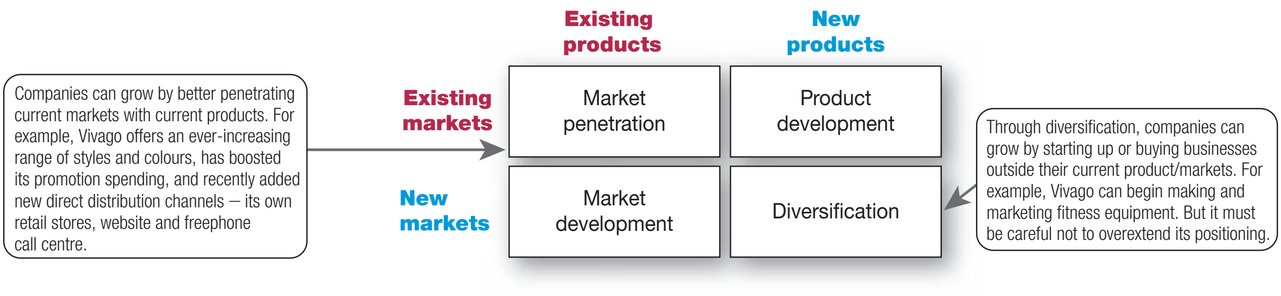

Figure 2.3 The product/market expansion grid
Source: from 'Strategies for Diversification', *Harvard Business Review*, pp. 113–124 (Ansoff H.I. 1957)

telephone network if the health of the wearer appears to deteriorate (or if they manually trigger an alarm). Worn on a wristband that also functions as a watch, the Vivago system has won numerous international awards for innovation.

First, Vivago might consider whether the company can achieve deeper **market penetration** – making more sales without changing its original product. It can spur growth through marketing mix improvements – adjustments to its product design, advertising, pricing and distribution efforts. For example, Vivago could offer a broader range of styles, colours and designs for different users. The company could also add direct-to-consumer distribution channels, including its own retail stores, or a toll-free call centre.

Second, Vivago might consider possibilities for **market development** – identifying and developing new markets for its current products. Given the global ageing population, various markets could prove fruitful. Japan and the United States of America both have large, affluent ageing populations who could prove to be a profitable long-term market.

Third, Vivago could consider **product development** – offering modified or new products to current markets. Vivago could develop and introduce other wrist- or body-worn physiological monitors for sport and fitness users. Although this would put the company into direct competition with current sports technology providers, it also offers promise for big growth.

Finally, Vivago might consider **diversification** – starting up or buying businesses beyond its current products and markets. For example, it could move into broader security and monitoring businesses. When diversifying, companies must be careful not to overextend their brands' positioning.

Companies must develop not only strategies for growing their business portfolios but also strategies for *downsizing* them. There are many reasons that a firm might want to abandon products or markets. A firm may have grown too fast or entered areas where it lacks experience. The market environment might change, making some products or markets less profitable. For example, in difficult economic times, many firms prune out weaker, less-profitable products and markets to focus their more limited resources on the strongest ones. Finally, some products or business units simply age and die.

When a firm finds brands or businesses that are unprofitable or that no longer fit its overall strategy, it must carefully prune, harvest or divest them. For example, over the past several years, P&G has sold off dozens of major brands – from Crisco, Folgers, Cif and Pringles to Duracell batteries, Right Guard deodorant, Aleve pain reliever, CoverGirl and Max Factor cosmetics, Wella and Clairol hair care products, and its Iams and other pet food brands – allowing the company to focus on household care and beauty and grooming products. In recent years, GM has pruned several underperforming brands from its portfolio, including Oldsmobile, Pontiac, Saturn, Hummer and Saab. Weak businesses usually require a disproportionate amount of management attention. Managers should focus on promising growth opportunities, not fritter away energy trying to salvage fading ones.

There are many options for Vivago Oy – a healthcare technology company that develops, sells and markets automatic personal security systems monitoring and analysing users' activity levels.
Source: Vivago Oy

Market penetration Company growth by increasing sales of current products to current market segments without changing the product.

Market development Company growth by identifying and developing new market segments for current company products.

Product development Company growth by offering modified or new products to current market segments.

Diversification Company growth through starting up or acquiring businesses outside the company's current products and markets.

Planning marketing: partnering to build customer relationships

Author comment

Marketing can't go it alone in creating customer value. Under the company-wide strategic plan, marketing must work closely with other departments to form an effective internal company value chain and with other companies in the marketing system to create an external value delivery network that jointly serves customers.

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

Marketing plays a key role in the company's strategic planning in several ways. First, marketing provides a guiding *philosophy* – the marketing concept – that suggests the company strategy should revolve around creating customer value and building profitable relationships with important consumer groups. Second, marketing provides *inputs* to strategic planners by helping to identify attractive market opportunities and assessing the firm's potential to take advantage of them. Finally, within individual business units, marketing designs *strategies* for reaching the unit's objectives. Once the unit's objectives are set, marketing's task is to help carry them out profitably.

Customer engagement and value are the key ingredients in the marketer's formula for success. However, as noted in Chapter 1, although marketing plays a leading role, it alone cannot produce engagement and superior value for customers. It can be only a partner in attracting, engaging and growing customers. In addition to *customer relationship management*, marketers must also practise *partner relationship management*. They must work closely with partners in other company departments to form an effective internal *value chain* that serves customers. Moreover, they must partner effectively with other companies in the marketing system to form a competitively superior external *value delivery network*. We now take a closer look at the concepts of a company value chain and a value delivery network.

Partnering with other company departments

Each company department can be thought of as a link in the company's internal **value chain**.[9] That is, each department carries out value-creating activities to design, produce, market, deliver and support the firm's products. The firm's success depends not only on how well each department performs its work but also on how well the various departments coordinate their activities.

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

For example, Aldi's goal is to create customer value and satisfaction by providing shoppers with the products they want at the lowest possible prices. Marketers at Aldi play an important role. They learn what customers need and stock the stores' shelves with the desired products at unbeatable low prices. They prepare advertising and merchandising programmes and assist shoppers with customer service. Through these and other activities, Aldi's marketers help deliver value to customers.

However, the marketing department needs help from the company's other departments. Aldi's ability to offer the right products at low prices depends on the purchasing department's skill in developing the needed suppliers and buying from them at low cost. Aldi's information technology (IT) department must provide fast and accurate information about which products are selling in each store. And its operations people must provide effective, low-cost merchandise handling.

A company's value chain is only as strong as its weakest link. Success depends on how well each department performs its work of adding customer value and the activity coordination of various departments. At Aldi, if purchasing can't obtain the lowest prices from suppliers, or if operations can't distribute merchandise at the lowest costs, then marketing can't deliver on its promise of unbeatable low prices – 'Like Aldi, Like the Price'.

Ideally, then, a company's different functions should work in harmony to produce value for consumers. In practice, interdepartmental relations are full of conflicts and misunderstandings. The marketing department takes the consumer's point of view. But when marketing tries to improve customer satisfaction, it can cause other departments to do a poorer job *in their terms*. Marketing department actions can increase purchasing costs, disrupt production schedules, increase inventories and create budget headaches. Thus, other departments may resist the marketing department's efforts.

Yet marketers must find ways to get all departments to 'think consumer' and develop a smoothly functioning value chain. One marketing expert puts it this way: 'Engaging customers today requires commitment from the entire company. We're all marketers now.'[10] Thus, whether you're an accountant, an operations manager, a financial analyst, an IT specialist or a human resources manager, you need to understand marketing and your role in creating customer value.

Partnering with others in the marketing system

Value delivery network A network composed of the company, suppliers, distributors and, ultimately, customers who partner with each other to improve the performance of the entire system in delivering customer value.

In its quest to engage customers and create customer value, the firm needs to look beyond its own internal value chain and into the value chains of its suppliers, its distributors and, ultimately, its customers. Consider IKEA. People do not swarm to IKEA because they love only the chain's furniture. Consumers flock to the IKEA *network*, not only to its furniture products. Throughout the world, IKEA's finely tuned value delivery network delivers a high standard of quality, service, cleanliness and value. IKEA is effective only to the extent that it successfully partners with its suppliers, and others jointly to create 'a better everyday life' for its customers.

More companies today are partnering with other members of the supply chain – suppliers, distributors and, ultimately, customers – to improve the performance of the customer **value delivery network**. For example, cosmetics maker L'Oréal knows the importance of building close relationships with its extensive network of suppliers, who supply everything from polymers and fats to spray cans and packaging to production equipment and office supplies:[11]

Increasingly in today's marketplace, competition no longer takes place between individual competitors. Rather, it takes place between the entire value delivery networks created by these competitors. Thus, Citroën's performance against Ford depends on the quality of

L'Oréal builds long-term supplier relations based on mutual benefit and growth. The aim is to generate respect through respecting others.
Source: ACORN 1/Alamy Stock Photo

L'Oréal is the world's largest cosmetics manufacturer, with 25 brands ranging from Maybelline and Kiehl's to Lancôme and Redken. The company's supplier network is crucial to its success. As a result, L'Oréal treats suppliers as respected partners. On the one hand, it expects a lot from suppliers in terms of design innovation, quality and socially responsible actions. The company carefully screens new suppliers and regularly assesses the performance of current suppliers. On the other hand, L'Oréal works closely with suppliers to help them meet its exacting standards. Whereas some companies make unreasonable demands of their suppliers and 'squeeze' them for short-term gains, L'Oréal builds long-term supplier relationships based on mutual benefit and growth. According to the company's supplier website, it treats suppliers with 'fundamental respect for their business, their culture, their growth, and the individuals who work there. Each relationship is based on . . . shared efforts aimed at promoting growth and mutual profits that make it possible for suppliers to invest, innovate, and compete'. As a result, more than 75 per cent of L'Oréal's supplier-partners have been working with the company for 10 years or more and the majority of them for several decades. Says the company's head of purchasing, 'The CEO wants to make L'Oréal a top performer and one of the world's most respected companies. Being respected also means being respected by our suppliers.'

Citroën's overall value delivery network versus Ford's. Even if Citroën makes the best cars, it might lose in the marketplace if Ford's dealer network provides more customer-satisfying sales and service.

Marketing strategy and the marketing mix

The strategic plan defines the company's overall mission and objectives. Marketing's role is shown in Figure 2.4, which summarises the major activities involved in managing a customer-driven marketing strategy and the marketing mix.

Consumers are in the centre. The goal is to create value for customers and build profitable customer relationships. Next comes **marketing strategy** – the marketing logic by which the company hopes to create this customer value and achieve these profitable relationships. The company decides which customers it will serve (segmentation and targeting) and how (differentiation and positioning). It identifies the total market and then divides it into smaller segments, selects the most promising segments, and focuses on serving and satisfying the customers in these segments.

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

Author comment
Now that we've set the context in terms of company-wide strategy, it's time to discuss customer value-driven marketing strategies and programmes.

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

Customer value-driven marketing strategy

To succeed in today's competitive marketplace, companies must be customer centred. They must win customers from competitors and then engage and grow them by delivering greater value. But before it can satisfy customers, a company must first understand customer needs and wants. Thus, sound marketing requires careful customer analysis.

Companies know that they cannot profitably serve all consumers in a given market – at least not all consumers in the same way. There are too many different kinds of consumers with too

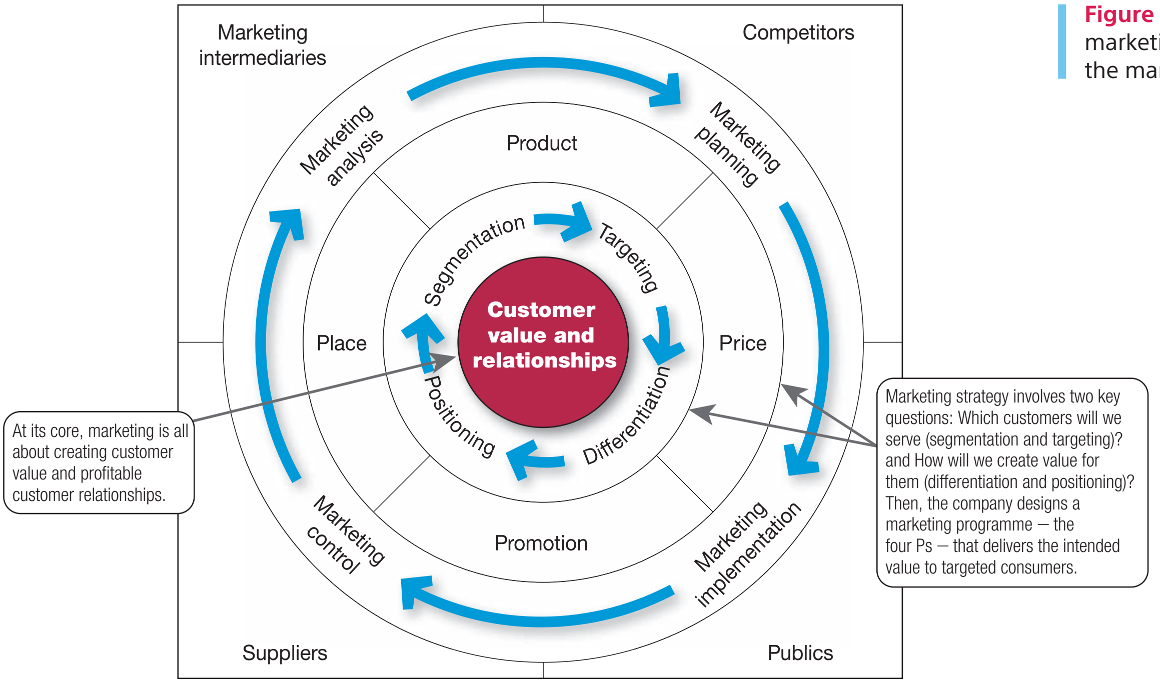

Figure 2.4 Managing marketing strategies and the marketing mix

many different kinds of needs. Most companies are in a position to serve some segments better than others. Thus, each company must divide up the total market, choose the best segments and design strategies for profitably serving chosen segments. This process involves *market segmentation, market targeting, differentiation* and *positioning*.

Market segmentation

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

Market segmentation Dividing a market into distinct groups of buyers who have different needs, characteristics or behaviours, and who might require separate marketing strategies or mixes.

Market segment A group of consumers who respond in a similar way to a given set of marketing efforts.

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

Market targeting

Market targeting Evaluating each market segment's attractiveness and selecting one or more segments to serve.

After a company has defined its market segments, it can enter one or many of these segments. **Market targeting** involves evaluating each market segment's attractiveness and selecting one or more segments to enter. A company should target segments in which it can profitably generate the greatest customer value and sustain it over time.

A company with limited resources might decide to serve only one or a few special segments or market niches. Such niches specialise in serving customer segments that major competitors overlook or ignore. For example, Ferrari sells around 8,400 of its very high-performance cars globally each year but at very high prices – from an eye-opening €232,000 for its Ferrari 488 GTB to an astonishing more than €2.6 million for its Pininfarina Sergio super sports car. Most niches aren't quite so exotic. Tetra GmbH manufactures aquarist and pond-related products and with their Tetramin flakes dominates the fish food market. And small online-search start-up DuckDuckGo thrives among privacy-minded users in the shadows of search giants Google and Microsoft's Bing.

Ferrari focus on a niche but lucrative luxury-oriented market.
Source: Nadezda Murmakova/Alamy Stock Photo

Alternatively, a company might choose to serve several related segments – perhaps those with different kinds of customers but with the same basic wants. Gap Inc., for example, targets different age, income, and lifestyle clothing and accessory segments with five different store and online brands: Gap, Banana Republic, Old Navy, Athleta and INTERMIX. The Gap store brand breaks its segment down into even smaller niches, including Gap, GapKids, babyGap, GapMaternity and GapBody.[12] Or a large company (for example, car companies such as Honda and Ford) might decide to offer a complete range of products to serve all market segments.

Most companies enter a new market by serving a single segment; if this proves successful, they add more segments. For example, Nike started with innovative running shoes for serious runners. Large companies eventually seek full market coverage. Nike now makes and sells a broad range of sports apparel and equipment for just about anyone and everyone in about every sport. It designs different products to meet the special needs of each segment it serves.

Market differentiation and positioning

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

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

Positioning Arranging for a product to occupy a clear, distinctive and desirable place relative to competing products in the minds of target consumers.

BMW promises 'Sheer driving pleasure'; Subaru is 'Confidence in Motion'. At Philips it is 'Sense and Simplicity', Coca-Cola wants you to 'Taste the Feeling'; Pepsi says 'Live for now'. Del Monte is 'Bursting with Life'; whereas at Burger King you can have your burger 'Your way'. Such deceptively simple statements form the backbone of a product's marketing strategy. For example, Burger King has designed its entire worldwide integrated marketing campaign – from television and print commercials to its websites – around the (original) tagline of 'Have it your way' – now updated to the current 'Your way' positioning.

In positioning its brand, a company first identifies possible customer value differences that provide competitive advantages on which to build the position. A company can offer greater customer value by either charging lower prices than competitors or offering more benefits to justify higher prices. But if the company *promises* greater value, it must then *deliver* that greater value. Thus, effective positioning begins with **differentiation** – actually *differentiating* the company's market offering to create superior customer value. Once the company has chosen a desired position, it must take strong steps to deliver and communicate that position to target consumers. The company's entire marketing programme should support the chosen positioning strategy.

Differentiation Actually differentiating the market offering to create superior customer value.

Developing an integrated marketing mix

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

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

- *Product* means the goods-and-services combination the company offers to the target market. Thus, an Alfa Romeo Stelvio consists of nuts and bolts, spark plugs, pistons, headlights and thousands of other parts. Alfa Romeo offers several Stelvio models and dozens of optional features. The car comes fully serviced and with a comprehensive warranty that is as much a part of the product as the tailpipe.
- *Price* is the amount of money customers must pay to obtain the product. For example, Alfa Romeo calculates suggested retail prices that its dealers might charge for each Stelvio. But Alfa Romeo dealers rarely charge the full sticker price. Instead, they negotiate the price with each customer, offering discounts, trade-in allowances and credit terms. These actions adjust prices for the current competitive and economic situations and bring them into line with the buyer's perception of the car's value.
- *Place* includes company activities that make the product available to target consumers. Alfa Romeo partners with a large body of independently owned dealerships that sell the company's many different models. Alfa Romeo selects its dealers carefully and strongly

supports them. The dealers keep an inventory of Alfa Romeo cars, demonstrate them to potential buyers, negotiate prices, close sales and service the cars after the sale.

- *Promotion* refers to activities that communicate the merits of the product and persuade target customers to buy it. Alfa Romeo spends millions each year on advertising to tell consumers about the company and its many products. Dealership salespeople assist potential buyers and persuade them that Alfa Romeo is the best car for them. Alfa Romeo and its dealers offer special promotions – sales, cash rebates and low financing rates – as added purchase incentives. And Alfa Romeo's Facebook, Twitter, YouTube, Instagram and other social media platforms engage consumers with the brand and with other brand fans.

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

Some critics think that the four Ps may omit or underemphasise certain important activities. For example, they ask, 'Where are services? Just because they don't start with a *P* doesn't justify omitting them'. The answer is that services, such as banking, airline and retailing services, are products too. We might call them *service products*. 'Where is packaging?' the critics might ask. Marketers would answer that they include packaging as one of many product decisions. All said, as Figure 2.5 suggests, many marketing activities that might appear to be left out of the marketing mix are included under one of the four Ps. The issue is not whether there should be four, six or ten Ps so much as what framework is most helpful in designing integrated marketing programmes.

There is another concern, however, that is valid. It holds that the four Ps concept takes the seller's view of the market, not the buyer's view. From the buyer's viewpoint, in this age of customer value and relationships, the four Ps might be better described as the four As:[13]

Four Ps	Four As
Product	Acceptability
Price	Affordability
Place	Accessibility
Promotion	Awareness

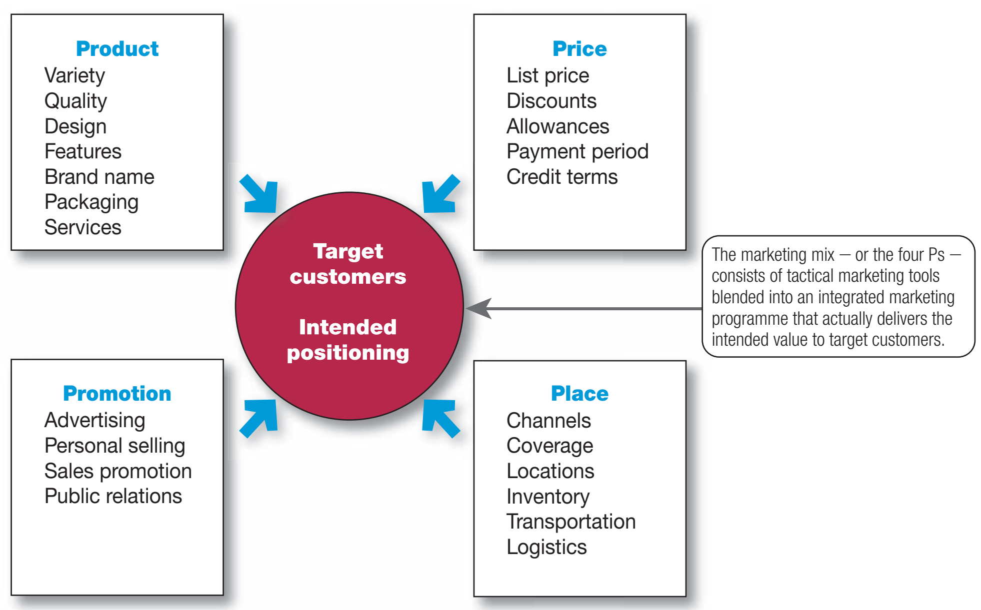

Figure 2.5 The four Ps of the marketing mix

Under this more customer-centred framework, *acceptability* is the extent to which the product exceeds customer expectations; *affordability* the extent to which customers are willing and able to pay the product's price; *accessibility* the extent to which customers can readily acquire the product; and *awareness* the extent to which customers are informed about the product's features, persuaded to try it and reminded to repurchase. The four As relate closely to the traditional four Ps. Product design influences acceptability, price affects affordability, place affects accessibility and promotion influences awareness. Marketers would do well to think through the four As first and then build the four Ps on that platform.

Managing the marketing effort

In addition to being good at the *marketing* in marketing management, companies also need to pay attention to the *management*. Managing the marketing process requires the five marketing management functions shown in Figure 2.6 – *analysis, planning, implementation, organisation* and *control*. The company first develops company-wide strategic plans and then translates them into marketing and other plans for each division, product and brand. Through implementation and organisation, the company turns the plans into actions. Control consists of measuring and evaluating the results of marketing activities and taking corrective action where needed. Finally, marketing analysis provides the information and evaluations needed for all the other marketing activities.

Author comment

So far we've focused on the *marketing* in marketing management. Now, let's turn to the *management*.

Marketing analysis

Managing the marketing function begins with a complete analysis of the company's situation. The marketer should conduct a **SWOT analysis** by which it evaluates the company's overall strengths (S), weaknesses (W), opportunities (O) and threats (T) (see Figure 2.7). Strengths include internal capabilities, resources and positive situational factors that may help the company serve its customers and achieve its objectives. Weaknesses include internal limitations and negative situational factors that may interfere with the company's performance. Opportunities are favourable factors or trends in the external environment that the company may be

SWOT analysis An overall evaluation of the company's strengths (S), weaknesses (W), opportunities (O) and threats (T).

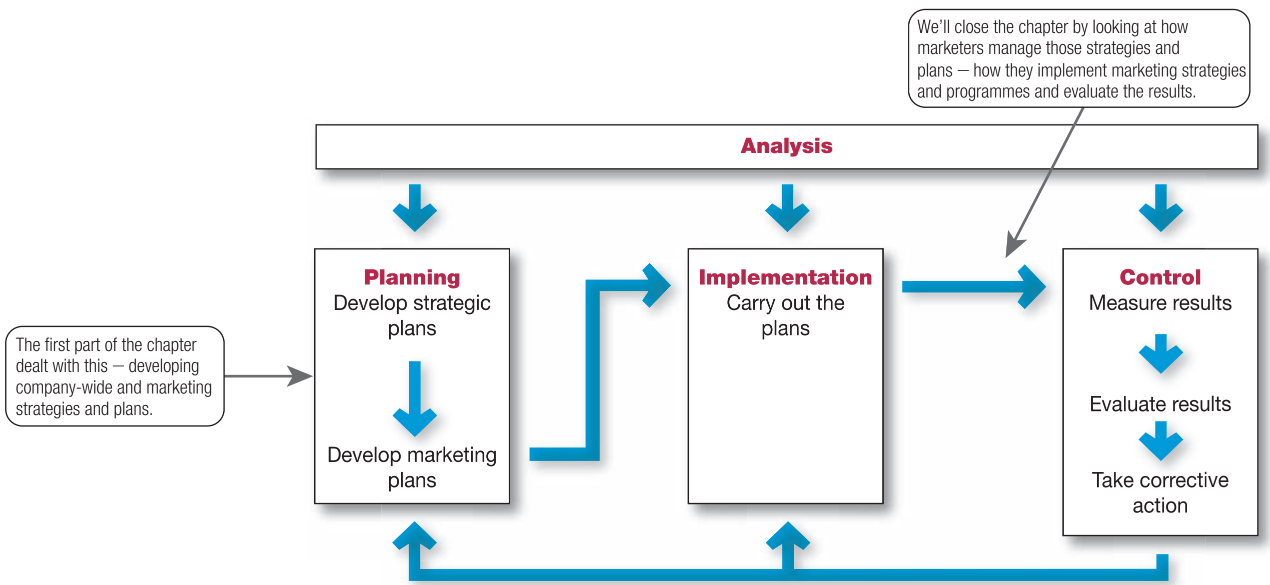

Figure 2.6 Managing marketing: analysis, planning, implementation and control

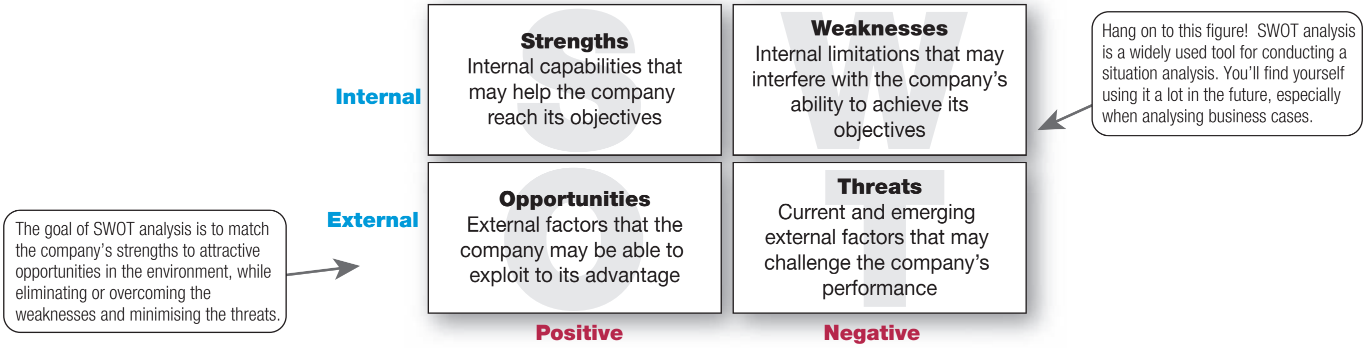

Figure 2.7 SWOT analysis: strengths (S), weaknesses (W), opportunities (O) and threats (T)

able to exploit to its advantage. And threats are unfavourable external factors or trends that may present challenges to performance.

The company should analyse its markets and marketing environment to find attractive opportunities and identify threats. It should analyse company strengths and weaknesses as well as current and possible marketing actions to determine which opportunities it can best pursue. The goal is to match the company's strengths to attractive opportunities in the environment while simultaneously eliminating or overcoming the weaknesses and minimising the threats. Marketing analysis provides inputs to each of the other marketing management functions. We discuss marketing analysis more fully in Chapter 3.

Marketing planning

Through strategic planning, the company decides what it wants to do with each business unit. Marketing planning involves choosing marketing strategies that will help the company attain its overall strategic objectives. A detailed marketing plan is needed for each business, product or brand. What does a marketing plan look like? Our discussion focuses on product or brand marketing plans.

Table 2.2 outlines the major sections of a typical product or brand marketing plan. (See Appendix 1 for a sample marketing plan.) The plan begins with an executive summary that quickly reviews major assessments, goals and recommendations. The main section of the plan presents a detailed SWOT analysis of the current marketing situation as well as potential threats and opportunities. The plan next states major objectives for the brand and outlines the specifics of a marketing strategy for achieving them.

A *marketing strategy* consists of specific strategies for target markets, positioning, the marketing mix and marketing expenditure levels. It outlines how the company intends to engage target customers and create value in order to capture value in return. In this section, the planner explains how each strategy responds to the threats, opportunities and critical issues spelled out earlier in the plan. Additional sections of the marketing plan lay out an *action programme* for implementing the marketing strategy along with the details of a supporting *marketing budget*. The last section outlines the *controls* that will be used to monitor progress, measure return on marketing investment and take corrective action.

Marketing implementation Turning marketing strategies and plans into marketing actions to accomplish strategic marketing objectives.

Marketing implementation

Planning good strategies is only a start toward successful marketing. A brilliant marketing strategy counts for little if the company fails to implement it properly. **Marketing implementation** is the process that turns marketing *plans* into marketing *actions* to accomplish strategic marketing

Table 2.2 Contents of a marketing plan

Section	Purpose
Executive summary	Presents a brief summary of the main goals and recommendations of the plan for management review, helping top management find the plan's major points quickly.
Current marketing situation	Describes the target market and the company's position in it, including information about the market, product performance, competition and distribution. This section includes the following: • A *market description* that defines the market and major segments and then reviews customer needs and factors in the marketing environment that may affect customer purchasing. • A *product review* that shows sales, prices and gross margins of the major products in the product line. • A review of *competition* that identifies major competitors and assesses their market positions and strategies for product quality, pricing, distribution and promotion. • A review of *distribution* that evaluates recent sales trends and other developments in major distribution channels.
Threats and opportunities analysis	Assesses major threats and opportunities that the product might face, helping management to anticipate important positive or negative developments that might have an impact on the firm and its strategies.
Objectives and issues	States the marketing objectives that the company would like to attain during the plan's term and discusses key issues that will affect their attainment.
Marketing strategy	Outlines the broad marketing logic by which the business unit hopes to engage customers, create customer value and build customer relationships, plus the specifics of target markets, positioning and marketing expenditure levels. How will the company create value for customers in order to capture value from customers in return? This section also outlines specific strategies for each marketing mix element and explains how each responds to the threats, opportunities and critical issues spelled out earlier in the plan.
Action programmes	Spells out how marketing strategies will be turned into specific action programmes that answer the following questions: *What* will be done? *When* will it be done? *Who* will do it? *How* much will it cost?
Budgets	Details a supporting marketing budget that is essentially a projected profit-and-loss statement. It shows expected revenues and expected costs of production, distribution and marketing. The difference is the projected profit. The budget becomes the basis for materials buying, production scheduling, personnel planning and marketing operations.
Controls	Outlines the controls that will be used to monitor progress, allow management to review implementation results and spot products that are not meeting their goals. It includes measures of return on marketing investment.

objectives. Whereas marketing planning addresses the *what* and *why* of marketing activities, implementation addresses the *who, where, when* and *how*.

Many managers think that 'doing things right' (implementation) is as important as, or even more important than, 'doing the right things' (strategy). The fact is that both are critical to success, and companies can gain competitive advantages through effective implementation. One firm can have essentially the same strategy as another yet win in the marketplace through faster or better execution. Still, implementation is difficult – it is often easier to think up good marketing strategies than it is to carry them out.

In an increasingly connected world, people at all levels of the marketing system must work together to implement marketing strategies and plans. At Mercedes-Benz, for example, marketing implementation for the company's car manufacturing requires day-to-day decisions and actions by thousands of people both inside and outside the organisation. Marketing managers make decisions about target segments, branding, product development, pricing, promotion and distribution. They talk with engineering about product design, with manufacturing about production and inventory levels, and with finance about funding and cash flows. They also connect with outside people, such as advertising agencies to plan advertising campaigns and the news media to obtain publicity support. The sales force urges and supports dealers in their efforts to convince customers that choosing a Mercedes-Benz is really a choice between 'The Best or Nothing'.

Marketing department organisation

The company must design a marketing organisation that can carry out marketing strategies and plans. If the company is very small, one person might do all the research, selling, advertising, customer service and other marketing work. As the company expands, however, a marketing department emerges to plan and carry out marketing activities. In large companies, this department contains many specialists – product and market managers, sales managers and salespeople, market researchers, and advertising and social media experts, among others.

To head up such large marketing organisations, many companies have now created a *chief marketing officer* (or CMO) position. This person heads up the company's entire marketing operation and represents marketing on the company's top management team. The CMO position puts marketing on equal footing with other 'C-level' executives, such as the chief operating officer (COO) and the chief financial officer (CFO). As a member of top management, the CMO's role is to champion the customer's cause – to be the 'chief customer officer'. To that end, British Airways even went so far as to rename its top marketing position as director of customer experience.[14]

Modern marketing departments can be arranged in several ways. The most common form of marketing organisation is the *functional organisation*, under which different marketing activities are headed by a functional specialist – a sales manager, an advertising manager, a marketing research manager, a customer service manager, or a new product manager. A company that sells across the country or internationally often uses a *geographic organisation*, assigning sales and marketing people to specific countries, regions and districts. Companies with many very different products or brands often create a *product management organisation*. For companies that sell one product line to many different types of markets and customers who have different needs and preferences, a *market* or *customer management organisation* might be best. Large companies that produce many different products flowing into many different geographic and customer markets usually employ some *combination* of the functional, geographic, product and market organisation forms.

Marketing organisation has become an increasingly important issue in recent years. More and more, companies are shifting their brand management focus toward *customer management* – moving away from managing only product or brand profitability and toward managing customer profitability and customer equity. They think of themselves not as managing portfolios of brands but as managing portfolios of customers. And rather than managing the fortunes of a brand, they see themselves as managing customer–brand engagement, experiences and relationships. Indeed, companies such as Unilever have created large teams, or even whole divisions, to serve large customers, such as Edeka, Metro, Carrefour and Tesco.

Marketing control

Marketing control Measuring and evaluating the results of marketing strategies and plans and taking corrective action to ensure that the objectives are achieved.

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

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

Measuring and managing marketing return on investment

Marketing managers must ensure that their marketing euros are being well spent. In the past, many marketers spent freely on big, expensive marketing programmes and flashy advertising campaigns, often without thinking carefully about the financial returns on their spending. Their goal was often a general one – to 'build brands and consumer preference'. They believed that marketing produces intangible creative outcomes, which do not lend themselves readily to measures of productivity or return.

However, those free-spending days have now been replaced by a new era of marketing measurement and accountability. More than ever, today's marketers are being held accountable for linking their strategies and tactics to measurable marketing performance outcomes. One important marketing performance measure is **marketing return on investment (or marketing ROI)**. *Marketing ROI* is the net return from a marketing investment divided by the costs of the marketing investment. It measures the profits generated by investments in marketing activities.

Marketing ROI can be difficult to measure. In measuring financial ROI, both the *R* and the *I* are uniformly measured in euros. For example, when buying a piece of equipment, the productivity gains resulting from the purchase are fairly straightforward. As of yet, however, there is no consistent definition of marketing ROI. For instance, returns such as engagement, advertising and brand-building impact aren't easily put into euro returns.

A company can assess marketing ROI in terms of standard marketing performance measures, such as brand awareness, sales or market share. Many companies are assembling such measures into *marketing dashboards* – meaningful sets of marketing performance measures in a single display used to monitor strategic marketing performance. Just as car dashboards present drivers with details on how their cars are performing, the marketing dashboard gives marketers the detailed measures they need to assess and adjust their marketing strategies. For example, VF Corporation uses a marketing dashboard to track the performance of its more than 30 lifestyle apparel brands – including Wrangler, Lee, The North Face, Vans, Nautica, 7 For All Mankind, Timberland and others. VF's marketing dashboard tracks brand equity and trends, share of voice, market share, online sentiment and marketing ROI in key markets worldwide, not only for VF brands but also for competing brands.[15]

Increasingly, however, beyond standard performance measures, marketers are using customer-centred measures of marketing impact, such as customer acquisition, customer engagement, customer experience, customer retention, customer lifetime value and customer equity. These measures capture not only current marketing performance but also future performance resulting from stronger customer relationships. Figure 2.8 views marketing expenditures as investments that produce returns in the form of more profitable customer relationships.[16] Marketing investments result in improved customer value, engagement and satisfaction, which in turn increase customer attraction and retention. This increases individual customer lifetime values and the firm's overall customer equity. Increased customer equity, in relation to the cost of the marketing investments, determines return on marketing investment.

As one chief marketing officer says, 'You have to be able to move on to those deeper engagement metrics, which show that for the money that I'm spending, here are the various programs that are working in terms of driving engagement with customers and ultimately driving purchase behaviour and revenue.'[17]

Author comment

Measuring marketing return on investment has become a major emphasis. But it can be difficult. For example, a Champions League Final ad reaches millions of consumers but may cost millions of euros for 30 seconds of airtime. How do you measure the return on such an investment in terms of sales, profits and building customer engagement and relationships? We'll look at this question again in Chapter 15.

Marketing return on investment (marketing ROI) The net return from a marketing investment divided by the costs of the marketing investment.

Many companies assemble marketing dashboards – meaning sets of marketing performance measures in a unified display.

Source: Anna Berkut/Alamy Stock Photo

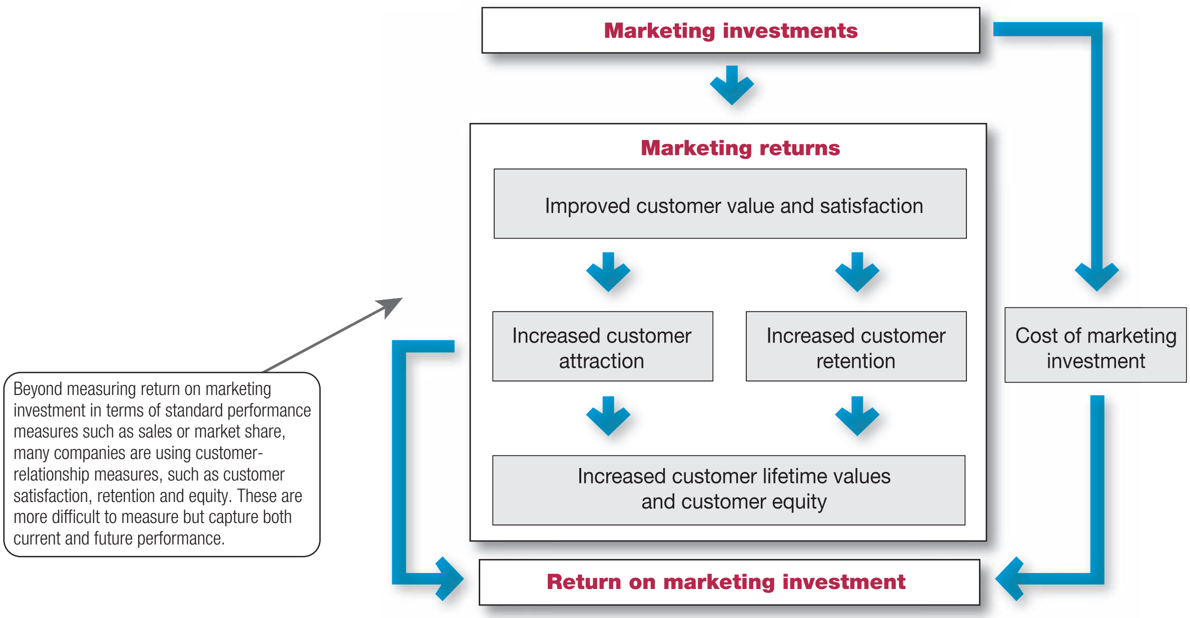

Figure 2.8 Marketing return on investment

Source: adapted from Roland T. Rust, Katherine N. Lemon and Valerie A. Zeithaml, 'Return on marketing: using consumer equity to focus marketing strategy', *Journal of Marketing*, January 2004, p. 112.

Learning outcomes review

In Chapter 1, we defined marketing and outlined the steps in the marketing process. In this chapter, we examined company-wide strategic planning and marketing's role in the organisation. Then we looked more deeply into marketing strategy and the marketing mix, and reviewed the major marketing management functions. So you've now had a pretty good overview of the fundamentals of modern marketing.

Objective 1 Explain company-wide strategic planning and its four steps (pp. 41–46)

Strategic planning sets the stage for the rest of the company's planning. Marketing contributes to strategic planning, and the overall plan defines marketing's role in the company.

Strategic planning involves developing a strategy for long-run survival and growth. It consists of four steps: (1) defining the company's mission, (2) setting objectives and goals, (3) designing a business portfolio and (4) developing functional plans. The company's mission should be market oriented, realistic, specific, motivating and consistent with the market environment. The mission is then transformed into detailed supporting goals and objectives, which in turn guide decisions about the business portfolio. Then each business and product unit must develop detailed marketing plans in line with the company-wide plan.

Objective 2 Discuss how to design business portfolios and develop growth strategies (pp. 43–46)

Guided by the company's mission statement and objectives, management plans its business portfolio, or the collection of businesses and products that make up the company. The firm wants to produce a business portfolio that best fits its strengths and weaknesses to opportunities in the environment. To do this, it must analyse and adjust its current business portfolio and develop growth and downsizing strategies for adjusting the future portfolio. The company might use a formal portfolio-planning method. But many companies are now designing more-customised portfolio-planning approaches that better suit their unique situations.

Objective 3 Explain marketing's role in strategic planning and how marketing works with its partners to create and deliver customer value (pp. 47–49)

Under the strategic plan, the major functional departments – marketing, finance, accounting, purchasing, operations, information systems, human resources and others – must work together to accomplish strategic objectives. Marketing plays a key role in the company's strategic planning by providing a marketing concept philosophy and inputs regarding attractive market opportunities. Within individual business units, marketing designs strategies for reaching the unit's objectives and helps to carry them out profitably.

Marketers alone cannot produce superior value for customers. Marketers must practise partner relationship management, working closely with partners in other departments to form an effective *value chain* that serves the customer. And they must also partner effectively with other companies in the marketing system to form a competitively superior value delivery network.

Objective 4 Describe the elements of a customer value–driven marketing strategy and mix and the forces that influence them (pp. 49–53)

Customer engagement, value and relationships are at the centre of marketing strategy and programmes. Through market segmentation, targeting, differentiation and positioning, the company divides the total market into smaller segments, selects segments it can best serve, and decides how it wants to bring value to target consumers in the selected segments. It then designs an integrated marketing mix to produce the response it wants in the target market. The marketing mix consists of product, price, place and promotion decisions (the four Ps).

Objective 5 List the marketing management functions, including the elements of a marketing plan, and discuss the importance of measuring and managing marketing return on investment (pp. 53–56)

To find the best strategy and mix and to put them into action, the company engages in marketing analysis, planning, implementation and control. The main components of a marketing plan are the executive summary, the current marketing situation, threats and opportunities, objectives and issues, marketing strategies, action programmes, budgets and controls. Planning good strategies is often easier than carrying them out. To be successful, companies must also be effective at implementation – turning marketing strategies into marketing actions.

Marketing departments can be organised in one way or a combination of ways: functional marketing organisation, geographic organisation, product management organisation or market management organisation. In this age of customer relationships, more and more companies are now changing their organisational focus from product or territory management to customer relationship management. Marketing organisations carry out marketing control, both operating control and strategic control.

More than ever, marketing accountability is the top marketing concern. Marketing managers must ensure that their marketing dollars are being well spent. In a tighter economy, today's marketers face growing pressures to show that they are adding value in line with their costs. In response, marketers are developing better measures of marketing return on investment. Increasingly, they are using customer-centred measures of marketing impact as a key input into their strategic decision making.

Navigating the key terms

Objective 1
Strategic planning (p. 41)
Mission statement (p. 41)

Objective 2
Business portfolio (p. 43)
Portfolio analysis (p. 43)
Growth–share matrix (p. 44)
Product/market expansion grid (p. 45)
Market penetration (p. 46)
Market development (p. 46)
Product development (p. 46)
Diversification (p. 46)

Objective 3
Value chain (p. 47)
Value delivery network (p. 48)

Objective 4
Marketing strategy (p. 49)
Market segmentation (p. 50)
Market segment (p. 50)
Market targeting (p. 50)
Positioning (p. 51)
Differentiation (p. 51)
Marketing mix (p. 51)

Objective 5
SWOT analysis (p. 53)
Marketing implementation (p. 54)
Marketing control (p. 56)
Marketing return on investment (marketing ROI) (p. 57)

Discussion and critical thinking

Discussing the concepts

2.1 Define *strategic planning* and briefly describe the four steps that lead managers and the firm through the strategic planning process. Discuss the role marketing plays in this process. (AACSB: Communication)

2.2 Name and define the four product/market growth strategies in the product/market expansion grid. Provide an example of a company implementing each strategy. (AACSB: Communication; Reflective thinking)

2.3 Describe the differences between a value chain and a value delivery network. (AACSB: Communication; Reflective thinking)

2.4 Discuss the elements of the integrated marketing mix. Explain how marketers use these tools to position products and services. (AACSB: Communication; Reflective thinking)

2.5 Why must marketers practise marketing control, and how is it done? (AACSB: Communication)

Critical-thinking exercises

2.6 As a student you have individual experiences with your college or university. These may include managing the application process, enrolling, orientation, choosing a major, setting schedules and many more. Conduct a SWOT analysis for your school from your perspective. Discuss how your SWOT analysis would provide strategic insight for future decisions at your college or university. (AACSB: Communication; Reflective thinking)

2.7 Examine Starbucks and determine how its marketers have positioned the company relative to the competition. How has Starbucks used differentiation to create customer value? (AACSB: Communication)

2.8 Create a mission statement for a non-profit organisation you would be interested in starting. Have another student evaluate your mission statement while you evaluate the other student's statement, suggesting areas of improvement. (AACSB: Communication; Reflective thinking)

Mini-cases and applications

Online, mobile and social media marketing: Google's (Alphabet's) mission

Founded in 1998 as an internet search engine, Google's mission statement remains the same to this day: to 'organize the world's information and make it universally accessible and useful'. Google is certainly successful, with revenues growing from €2.8 billion in 2002 to €100 billion in 2017, 90 per cent of which comes from advertisers. Google is expanding rapidly into other areas well beyond its search engine, such as self-driving cars, smart contact lenses that measure a person's blood sugar levels, internet-bearing balloons to create internet hotspots anywhere on earth, and even magnetic nanoparticles to search for disease within the human bloodstream. In fact, Google has innovated into so many diverse new ventures that it recently created a broader organisation – a parent holding company called Alphabet – to contain them all. Google/Alphabet has been on a buying frenzy recently, purchasing security, biotech and robotic companies in a quest to capitalise on the Internet of Things (IoT) phenomenon. Experts predict there will be 25 million connected devices in our homes and workplaces by 2020. Google recently announced its new IoT operating system, dubbed Brillo (after the Brillo scrubbing pad because it is a scrubbed-down version of its Android operating system), targeted to developers of smart products connected to the internet, such as ovens, thermostats and even toothbrushes. It's also developed Weave, the corresponding IoT language that will allow smart products to speak to each other. Perhaps one day you will be sitting in your Google/Alphabet self-driving car, streaming the news, checking your blood sugar and cooling your home by turning down your thermostat on the way home from work.

2.9 Conduct research on Google/Alphabet to learn more about its products and services. Some say the time has come for Google to create a new mission statement. Do you agree? Explain. (AACSB: Communication; Reflective thinking)

2.10 Create a new mission statement for Google/Alphabet that will take it through the rest of this century. (AACSB: Communication; Reflective thinking)

Marketing ethics: creating value or distracting consumers?

In early 2014, US restaurant chain Chipotle Mexican Grill announced that it would stop using genetically modified ingredients (GMOs) in its restaurants. Many observers applauded this move. However, critics of the fast-food chain cited a lack of evidence to support its anti-GMO stance. They suspected that Chipotle's anti-GMO claim was simply a ploy to distract consumers from a larger issue: the company's risky sanitation practices. Chipotle's anti-GMO policies may have won the burrito chain some health-conscious customers, but at the same time customers were becoming sick after eating at some Chipotle locations, calling into question the firm's food handling and safety practices.

Steve Ells, founder and co-CEO of Chipotle, said the GMO decision was 'another step toward the visions we have of changing the way people think about and eat fast food. Just because food is served fast doesn't mean it has to be made with cheap raw ingredients, highly processed with preservatives and fillers and stabilizers and artificial colours and flavours'. However, ridding Chipotle's supply chain of genetically altered components proved difficult. The chain discovered GMOs in basic ingredients such as baking powder, corn starch, canola and soy oils, corn meal and sugar. And many non-GMO ingredients were in short supply. For example, at one point, Chipotle found that it could not supply all its locations with enough non-GMO pork to make carnitas. Given the supply chain challenges, Chipotle decided to use non-GMO products in its food preparation but to continue to serve some soft drinks with sweeteners derived from genetically engineered corn.[18]

2.11 Has Chipotle's focus on eliminating GMOs created value for its customers? Defend this market strategy. (AACSB: Communication; Ethical reasoning)

2.12 From an ethics standpoint, discuss Chipotle's focus on sourcing non-GMO food products versus attention to food safety. The company's oversights in food safety resulted in numerous customers becoming ill (E. coli, norovirus and salmonella). Discuss the challenges Chipotle faces in overcoming the negative image that resulted. (AACSB: Communication; Reflective thinking; Ethical reasoning)

Marketing by numbers: profitability

Appendix 2 discusses other marketing profitability metrics beyond the marketing ROI measure described in this chapter. Below are the profit-and-loss statements for two businesses. Review Appendix 2 and answer the following questions.

2.13 Calculate marketing return on sales and marketing ROI for both companies, as described in Appendix 2. (AACSB: Communication; Analytic thinking)

2.14 Which company is doing better overall and with respect to marketing? Explain. (AACSB: Communication; Analytic reasoning; Reflective thinking)

Business A		
Net sales		€800,000,000
Cost of goods sold		€375,000,000
Gross margin		€425,000,000
Marketing expenses		
Sales expenses	€70,000,000	
Promotion expenses	€30,000,000	
		€100,000,000
General and administrative expenses		
Marketing salaries and expenses	€10,000,000	
Indirect overhead	€80,000,000	
		€90,000,000
Net profit before income tax		€235,000,000

Business B		
Net sales		€900,000,000
Cost of goods sold		€400,000,000
Gross margin		€500,000,000
Marketing expenses		
Sales expenses	€90,000,000	
Promotion expenses	€50,000,000	
		€140,000,000
General and administrative expenses		
Marketing salaries and expenses	€20,000,000	
Indirect overhead	€100,000,000	
		€120,000,000
Net profit before income tax		€240,000,000

Video case

Konica

see www.pearsoned.co.uk/kotler

Konica Minolta has been in business since 1873. For decades, it was a successful photo company selling cameras, equipment and supplies primarily to final consumers. But dramatic changes in the marketing environment forced the company to re-evaluate its marketing strategy and ultimately to abandon what had been its primary industry.

Today, Konica Minolta has a successful business-to-business strategy centred on office equipment and print products for commercial printers. The company has also developed a healthcare and medical group, an optics group, and a division that produces components for mobile phones and televisions. With the advent and growth of social media, Konica Minolta's marketing strategy continues to evolve.

After viewing the video featuring Konica Minolta, answer the following questions:

2.15 What is Konica Minolta's mission?

2.16 What market conditions led Konica Minolta to re-evaluate its marketing strategy?

2.17 How has Konica Minolta modified its marketing mix? Are these changes in line with its mission?

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Company case

LEGO: one more brick in the wall?

In 1916 the founder of the LEGO dynasty, Ole Kirk Kristiansen, bought a woodworking business and sold furniture to local residents and framers. By the 1930s he had switched his attention to children's toys and in 1934 coined the name 'LEGO' for his company. The name 'Lego' is an abbreviation of the two Danish words 'leg' and 'godt', meaning 'play' and 'well'. LEGO claim that this is more than their name; it is their ideal. The early toys made by LEGO were wood-based – it wasn't until 1940 that the firm began making plastic toys that could be deconstructed and re-assembled. In 1953 LEGO began producing the now eponymous LEGO interlocking bricks (actually based on an earlier UK patent by Kiddicraft that LEGO spotted as full of potential and quickly bought). Today, the brand rivals IKEA, the Swedish furniture chain, as a symbol of Scandinavian design and values.

From its formation to the late 1990s, LEGO experienced steady (if not necessarily spectacular growth) growth. However, in 1998 the company started losing money – fast. The crisis deepened for LEGO to the extent that in the mid-2000s, sales had dropped by 26 per cent and then a further 20 per cent in the following year. These two years represented the biggest losses in LEGO history. The firm was struggling against a falling dollar, cheap imported Chinese toys and young children's growing fascination with electronic gadgetry such as MP3 players and mobile phones. But yet there was hope – 'During the crisis, people wrote letters to us saying, "Please, for God's sake, save this brand because we love it so much"', Jørgen Vig Knudstorp the current CEO recalls. 'People theorise that it's all going to be 'virtual play' in future but kids are always going to want to run after a soccer ball and build things with LEGO bricks.' Nevertheless, the owners and managers of the firm could see that the strategic mission of the firm was outdated, the LEGO portfolio was in big trouble, key internal and external partnerships were ineffective and much of the marketing effort wasted.

The crisis reached its head when Kjeld Kirk Kristiansen the grandson of the founder of the LEGO toy empire, took a brave decision and stepped down as chief executive after forecasting the largest annual loss in the history of the firm. As owner, Kjeld remained deputy chairman but relinquished control of the firm to Jørgen Vig Knudstorp, previously senior vice-president for corporate affairs. Jørgen had been poached by LEGO from McKinsey Management Consultants in 2001. Aged just 36 at the time, he was handpicked by Kjeld, as the first outsider to run the family owned business. By 2016 Jørgen had taken the position of Chairman of the group, reflecting his remarkable achievements.

Jørgen's challenge

With remarkable insight, Jørgen recognised that the firm needed rapid restructuring, cultural change and refocused effort if it were to be saved from financial collapse. The company's internal focus on creativity, innovation and superior quality had created high complexity that was far from market or customer oriented. The company had a total of 12,500 stock-keeping units, with more than 100 different colours and more than 11,000 suppliers.

LEGO also operated one of the largest injection-moulding operations in the world, with production sites in Denmark and Switzerland, and packing and other facilities in the Czech Republic, the US and South Korea.

The process of planned change began with the company gathering a diverse group of both senior executives and (importantly) outside specialists in a 'war room', where they analysed the company's portfolio, product development, sourcing, manufacturing, marketing and logistics process. These analyses lead to a five-year plan called 'Shared Vision', which was fully supported and approved by the board. This plan pivoted on developing and maintaining effective partnerships (both internally and externally) and was supported with a truly market-oriented mission that is to 'inspire and develop the builders of tomorrow', which they further explain is driven by their 'ultimate purpose to inspire and develop children to think creatively, reason systematically and release their potential to shape their own future – experiencing the endless human possibility'.

While Jørgen is today viewed as a miracle worker in his native Denmark for saving a cherished national institution, his appointment was a huge gamble. His first challenge as chief executive was winning the support of subordinates left behind in the wake of his meteoric rise to the top of the firm. 'I told them, "I can't do this on my own, you have to work with me"', he recalls. 'Most people realised it was in their interests to help me succeed rather than prove themselves right by showing I couldn't do the job.' Jørgen could draw from what he describes as a 'very good LEGO upbringing' as the son of a teacher and an engineer – the kind of middle-class northern European household that has been LEGO's key market for generations. He had a deep understanding of children, having spent 18 months as a trainee kindergarten teacher before finally deciding to opt for a career in business. Nevertheless, this teaching experience proved valuable to Jørgen, who claims that 'My dad says that's where I learnt everything I needed to know about leadership', he says. 'If you can be a leader with kindergarten children, you can be a leader anywhere.'

During the development and implementation of the turnaround five-year plan, Jørgen argued that the hardest challenge for him was to get to the truth of what LEGO was doing right and wrong – and crucially to avoid complacency when things were going well. 'It's so easy when you're in a leadership position to think how good you're doing based on all the nice things people say and dismiss the 1 per cent who complain', he says. 'You have to listen extra hard to that 1 per cent because they usually represent a much bigger proportion of silent unhappiness.' LEGO tries to get at the 'truth' by basing a large proportion of managers' bonuses, including Jørgen's, on customer satisfaction surveys of retailers, parents and children rather than sales figures. This approach is designed to ensure that LEGO's long-term corporate health is never sacrificed for short-term financial success. 'Nobody at LEGO is measured on sales because the most important thing is that kids and retailers return for more in future', Jørgen says.

For all his empathy with LEGO's heritage and the paternalism of the Kristiansen family, Jørgen did not shy away from hard decisions. He saw that harsh and fast measures were needed to turn LEGO around. In the small town of Billund in Denmark (where LEGO was founded), hundreds of workers were made redundant and some manufacturing shifted to the more cost-effective locations of Mexico and Eastern Europe. While Billund remains LEGO's largest production site with its assembly plant adjoining the corporate headquarters, diversifying assembly to multiple locations has proved both efficient and effective at reducing fixed cost. This process has not affected quality; Jørgen proudly claims that 'We've never had to recall a single LEGO brick', stressing the importance of quality to the brand. As part of the wider strategy the portfolio was slimmed as the company's flagship LEGOland theme parks were sold (although a minority share was retained) and non-core products scrapped as part of a back-to-basics strategy focused on its classic bricks and mini-figures.

Jørgen also recognised that the family nature of the firm had created problems and strategic inertia. 'The family values had made the company too undisciplined', he recalls. Throughout the process of restructuring he tried to run LEGO like a ruthless private equity firm; focusing solely on the mission of the firm. More recently, he has adopted practices from growth-orientated public companies. As a result, the embryonic family business has grown from a tiny carpentry workshop (that burned down twice) into the world's third biggest toymaker by sales. In many regards, the culture has altered from one of benevolent paternalism to that of a market-driven, professional culture. Yet, Jørgen argues that family ownership continues to hold important advantages. 'You can think long term but act very fast', he explains. 'I can talk to shareholders in the morning and have a decision by the evening.' He describes his relationship with the Kristiansen family as 'very open and trusting' but not always smooth. 'Part of getting along is that you can have conflicts and still get along. We have disagreements but they are always resolved behind closed doors.'

Possibly most crucially, Jørgen and his team focused on their partnerships with suppliers, distributors and customers. Through a series of collaborations between different functions in the company, LEGO cut the number of colours by half and reduced the number of stock-keeping units to 6,500. The company also decided to stick to their core functions and to outsource logistics and production. In an effort to better understand what their customers did and did not need and want, the company sought extended meetings with its top 20 clients who represented 70 per cent of LEGO's total business. This process revealed one very important finding: in direct contrast to what the company had assumed, most customers did not need daily or next-day deliveries. This led to LEGO's decision to solicit orders in advance and to deliver to customers just once a week.

As with all plans, implementation was not always easy. In particular, the outsourcing of logistics strained the important relationship with DHL, LEGO's logistics partner. When DHL initially won the contract, it made its revenue calculations based on the existing customer service requirements (daily, which meant many more deliveries than weekly). However, after analysing the real needs of their customers, LEGO required a much lower number of deliveries than DHL had originally forecast. At the same time, the new outsourced logistics facility was the biggest of its kind in Eastern Europe, thus creating huge start-up challenges for DHL. These stresses and strains inevitably caused conflicts that could have derailed the LEGO turnaround. The breakthrough came when two LEGO executives met secretly with their DHL counterparts in a hotel in Prague. They took a 'four musketeers' oath – 'all for one and one for all' – to not discuss the outcome of this meeting with anyone. Instead, they undertook to change their behaviour towards one another to set a good example for the rest of their staff. It seems to have worked and relations have since flourished to genuine mutual respect.

After sorting out these operational issues, streamlining supply and forging a leaner, fitter LEGO the company has continued its core toy production but enhanced its global reputation and profile through a series of film-related and gaming-related link-ups. A quick search for LEGO games finds games for all tastes and ages – (to name but a few) LEGO racing games, LEGO fighting games, LEGO puzzle games, LEGO shooting games, LEGO pre-school games and (of course!) LEGO building games. The firm has also worked a series of very clever (and profitable) links with high-profile film franchises. The *Lord of the Rings* proved especially popular and the three *Hobbit* movies continue the trend. Link ups with the Batman franchises look set to continue while the hugely successful *LEGO Movie* was followed up by a sequel in 2019. The sets of collectable LEGO from these movie link-ups prove not only hugely collectable but also massively popular with children and parents alike – parents being especially fond of themed birthday and Christmas gifts.

The outcomes of change

When Jørgen took charge, LEGO was so deeply in the red that it faced genuine questions over its short-term survival in an era of online computer games and ever-increasing digital gadgets. In the mid-2000s industry commentators were predicting further losses and probable collapse – LEGO seemed destined to become yet another crumbled edifice in the face of a virtual world. Today, those doubts have been emphatically answered and the future seems bright (and slightly brick shaped). Indeed, under Jørgen's chairmanship LEGO produced a record 55 *billion* Lego bricks, enough to construct a continuous line stretching around the world more than 20 times. It put its popular constructions sets and toys into the eager hands of an estimated 100 million customers annually in 130 countries. The LEGO Group is now the world's largest toy company, ahead of competitors Mattel and Hasbro. And whereas Mattel and Hasbro are facing flat or declining sales, The LEGO Group's sales are exploding. In the past 10 years, its revenues have quadrupled to more than €4.9 billion.

The fixed cost base had been slashed from a debilitating 75 per cent to a highly respectable 33 per cent. Further, LEGO is thinking more about the very long term. Recently, Jørgen's big decisions have been positive ones about new investment. In many ways, LEGO has proved relatively immune to global economic turmoil (largely because caring parents keep spending on traditional and educational toys no matter the hardship). The workforce has almost tripled in the past few years to around 11,755 as recovery in Europe and the US is supplemented by growth in new territories such as Russia. Expansion into other emerging markets such as China, India and Brazil is proving especially good with recent annual growth of 35 per cent in China alone, driving the need for a new manufacturing facility especially for the Chinese market. However, Jørgen rules out diversifying into other products, saying: 'LEGO has been around 80 years and we've never made an acquisition. Companies with single brands, such as Apple and Nintendo, tend to do better than those with several.'

For customers, the outcomes were also good. While customers saw the number of product options reduced and were asked to change their ordering habits, they obtained a substantial improvement in customer service. On-time delivery rose from 62 per cent to 92 per cent. Recently, customers rated LEGO as a 'best in class' supplier and LEGO won a European supply chain excellence award. Those customers were now asking their other suppliers to use LEGO as the benchmark for excellence.

LEGO has launched an online club with over 5 million members. Customers can design and order their own LEGO designs, the firm has well over 13 million followers on Facebook, millions of videos on YouTube are tagged as 'LEGO' and there are over 7 million subscribers to the LEGO YouTube channel.

Questions for discussion

1 In the early 2000s, was LEGO focused on its products or its marketplace? Why?

2 Using the product/market expansion grid, which approach has LEGO adopted under the leadership of Jørgen? Is this different to past approaches?

3 On which internal and external partners did Jørgen's approach concentrate? Why?

4 Implementing change is never easy. In implementing their plans, what did LEGO do right and what did they do wrong? How would you have done things differently?

Sources: This case study draws heavily on the excellent case studies and analyses (including quotes and other information) of: Carlos Cordon, Ralf Seifert and Edwin Wellian 'Case study: Lego', *Financial Times*, 24 November 2010, http://www.ft.com/cms/s/0/05806aa4-f819-11df-8875-00144feab49a.html#ixzz1ZnO0srvW; https://www.lego.com/en-gb/aboutus (company profile); 'Lego becomes world's second-biggest toy maker', BBC, http://www.bbc.co.uk/news/business-23968860; Katrina Bishop, 'Lego builds sales with new product launches', CNBC, 27 February 2014, http://www.cnbc.com/id/101451329#; Holly Ellyatt, 'Toymaker Lego looks to build on success in China', CNBC, 5 September 2013, http://www.cnbc.com/id/101010443; Lego website, http://www.lego.com/en-gb/games, accessed May 2019.

Part Two

Understanding the marketplace and consumers

Chapter Three

Analysing the marketing environment

Chapter preview

So far, you've learned about the basic concepts of marketing and the steps in the marketing process for engaging and building profitable relationships with targeted consumers. Next, we'll begin digging deeper into the first step of the marketing process – understanding the marketplace and customer needs and wants. In this chapter, you'll see that marketing operates in a complex and changing environment. Other actors in this environment – suppliers, intermediaries, customers, competitors, publics and others – may work with or against the company. Major environmental forces – demographic, economic, natural, technological, political and cultural – shape marketing opportunities, pose threats, and affect the company's ability to engage customers and build customer relationships. To develop effective marketing strategies, a company must first understand the environment in which marketing operates. To start, let's look at how artificial intelligence (AI) technology has shaped marketing-related strategies.

Learning outcomes

- **Objective 1** You will be able to describe the environmental forces that affect the company's ability to serve its customers.
  The microenvironment and macroenvironment (pp. 71–75)
- **Objective 2** You will be able to explain how changes in the demographic and economic environments affect marketing decisions.
  The demographic and economic environments (pp. 75–87)
- **Objective 3** You will be able to identify the major trends in the firm's natural and technological environments.
  The natural and technological environments (pp. 87–91)
- **Objective 4** You will be able to explain the key changes in the political and cultural environments.
  The political, social and cultural environments (pp. 91–96)
- **Objective 5** You will be able to discuss how companies can react to the marketing environment.
  Responding to the marketing environment (p. 96)

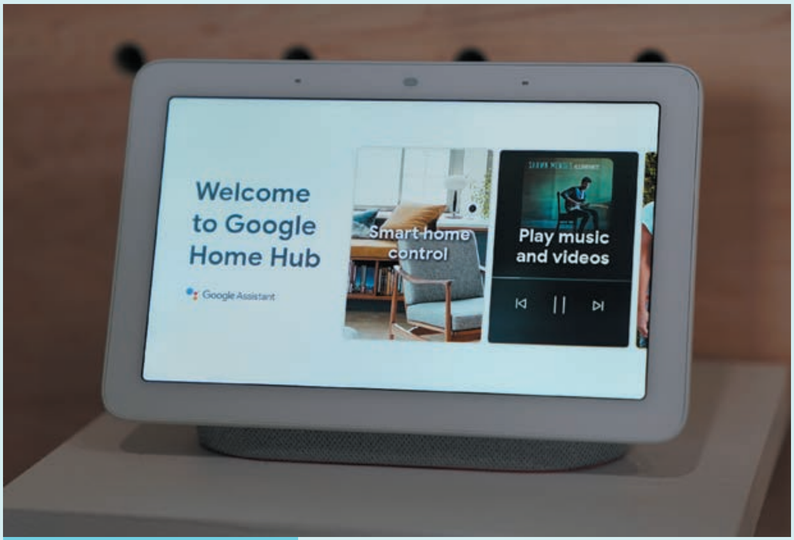
Artificial intelligence and marketing

For many, 9–15 March 2016 was considered a historically significant time, a milestone in the development of artificial intelligence (AI). What happened during those days? They were the days when Google's AlphaGo beat 9-dan Go master Lee Se-dol with a final score of 4 to 1 in a five-game match, which represented the first time that a computer Go program has beaten a 9-dan professional. Board game Go is a game of two players, who take turns putting black or white stones on a 19-by-19 grid. Players win if they can eventually take control of the most territory on the board by surrounding their opponent's pieces with their own. It was a historical day because, although computers have outsmarted humans in similar board games, such as chess, Go is considered a much more complex game than chess with simpler rules but a challenge of extraordinary complexity in the moves: far more than there are atoms in the known universe. This complexity makes it impossible for traditional AI, relying on hand-coded strategies to evaluate each possible move, to beat Go masters. The DeepMind team behind the AlphaGo instead used real game sequence of moves as data for a machine-learning algorithm to allow AlphaGo to play against itself over and over, fine-tuning its strategies with a technique called deep reinforcement learning. This resulted in AlphaGo winning the matches with something like human intuition. Before its retirement, AlphaGo went further to beat Ke Jie, the world number-one ranked player at the time, in 2017.

AI and machine learning have become the most exciting technological innovations and advancements in recent years. Although AI and machine learning are not exactly the same, the terms are often used interchangeably. Broadly speaking, AI is a broader concept of simulated intelligence in machines that are programmed to 'think' like a human and carry out tasks in a 'smart' way; while machine learning is the application of AI, based on the notion that machines can learn for themselves when being given access to data. AI can be classified into two main types: applied and general. Applied AI refers to a system that is designed to intelligently undertake specific tasks such as trading stocks/shares or driving an autonomous vehicle. Generalised AI, on the other hand, is a system or device that can in theory undertake any task. Most of the applications of AI currently in the business and marketing worlds are applied AI. The most exciting development of AI is deep learning, which involves feeding a lot of data, through neural networks, into a consumer system so that it can use them to make decisions about other data. Over time, the AI device or system gains more experience, 'trains' itself on new data, and finally enhances the probability of a correct decision or judgement.

So how does AI affect our daily life? It is already happening. For example, if you have an Apple iPhone, you should be able to talk to Siri (Apple's personal assistant), which is a voice-activated computer that can help us find information, give us directions, send messages, add events to our calendars and so on. The 'intelligent' side of it is that it uses machine learning to get smarter, to be better able to predict and understand our questions and requests. From a marketing perspective AI offers great opportunities to companies and organisations, in terms of, for example, developing new products, improving services and enhancing customer experience.

First, the advancement of AI has helped companies to develop AI-enabled products and product innovation. For example, one of the major breakthroughs in AI is natural language processing (NLP), which has enabled the development of Amazon Echo, a smart speaker that is connected to the voice-controlled intelligent personal assistant service, Alexa. The device allows voice interaction, music playback, setting of alarms, playing of audiobooks and so on. In addition, Alexa allows users to extend its capabilities with new 'skills' that are developed by third-party vendors, such as weather programme apps. Similarly, Google Assistant has been applied in Google's messaging app, Allo, and its voice-activated speaker, Google Home. More recently, Google Duplex extends Google Assistant to allow it to carry out natural conversations by mimicking a human



Google has developed and incorporated artificial intelligence into its products.
Source: TIMOTHY A. CLARY/AFP/Getty Images

voice to autonomously complete tasks, such as booking appointments with a hair salon or a restaurant. Similarly, Telefónica is undergoing a digital transformation to put a 'brain' into its network, with the launch of AI assistant Aura. Aura enables its users to manage their digital lives, and get access to and control the data associated with their use of Telefónica products and services, such as location and payment history, as well as preferences.

Various types of companies have also been active in applying AI to develop their new products. For example, Kolibree, a dental tech company, have developed an AI-enabled electric toothbrush that collects data about users' brushing habits and learns their brushing habits to give its user recommendations on how to improve their brushing and dental hygiene, through an app or email. From a product innovation process perspective, fashion companies are turning to AI to help predict future fashion trends in different markets in an attempt to produce more desirable fashion items and reduce the waste that has been associated with the fashion industry due to weak sales.

Second, AI has been used to deliver, improve and support service delivery to consumers. For example, IBM's AI, Watson, has been installed in hospitals and medical centres to make recommendations in the treatment of certain types of cancers. Salesforce, a cloud-based software company with most of its revenues coming from a customer relationship management (CRM) product, developed AI for CRM that allows companies that use its product to automatically analyse every aspect and stage of a customer's relationship, to build a more accurate and detailed profile of the customer and identify the critical moments of customer decision making. This eventually results in more effective and targeted selling for its clients. AI is also currently under development in many other fields that can assist better service delivery. For example, AI has been developed to predict, with the basic facts of the case, the outcome of legal proceedings.

Third, AI technologies can be applied to enrich customer experience. For example, AI-powered content curation has allowed websites to show the most relevant content to engage their visitors. In an e-commence site, it can generate more relevant content for its recommendations to customers, such as 'customers who bought X also bought Y'. Chatbots are currently widely used to mimic service workers in interpreting and answering consumers' queries, and also helping consumers to complete purchase orders. For example, L'Oréal has launched an AI-powered Facebook Messenger bot to offer beauty services, such as finding the right beauty box gift based on a series of questions that define the recipient's beauty profile, and to learn more about its customers. According to its chief digital officer, 'I believe AI is as big a revolution as the internet itself. It's going to power more of our interactions with our consumers, be it through advertising, CRM or even ad serving. All those compartments of marketing will be transformed by AI. It's a great way to get more personalised than we've ever been.'[1]

Marketing environment
The actors and forces outside marketing that affect marketing management's ability to build and maintain successful relationships with target customers.

This opening case suggests to marketers that one of the key external environments for marketing decision making is technology. It demonstrates how technology is an important environmental factor that has a significant impact on a company's marketing strategies. A company's **marketing environment** consists of the actors and forces outside marketing that affect marketing management's ability to build and maintain successful relationships with target customers. Companies must constantly watch and adapt to the changing environment – or, in many cases, lead those changes.

More than any other group in the company, marketers must be environmental trend trackers and opportunity seekers. Although every manager in an organisation should watch the outside environment, marketers have two special aptitudes. They have disciplined methods – marketing research and marketing intelligence – for collecting information and developing insights about the marketing environment. They also spend more time in customer and competitor environments. By carefully studying the environment, marketers can adapt their strategies to meet new marketplace challenges and opportunities.

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

Microenvironment The actors close to the company that affect its ability to serve its customers – the company, suppliers, marketing intermediaries, customer markets, competitors and publics.

Macroenvironment The larger societal forces that affect the microenvironment – demographic, economic, natural, technological, political and cultural forces.

The microenvironment

Marketing management's job is to build relationships with customers by creating customer value and satisfaction. However, marketing managers cannot do this alone. Figure 3.1 shows the major actors in the marketer's microenvironment. Marketing success requires building relationships with other company departments, suppliers, marketing intermediaries, competitors, various publics and customers, which combine to make up the company's value delivery network.

Author comment

The microenvironment includes all the actors close to the company that affect, positively or negatively, its ability to create value for and relationships with customers.

The company

In designing marketing plans, marketing management takes other company groups into account – groups such as top management, finance, research and development (R&D), purchasing, operations, human resources and accounting. All of these interrelated groups form the internal environment. Top management sets the company's mission, objectives, broad strategies and policies. Marketing managers make decisions within these broader strategies and plans. Then, as we discussed in Chapter 2, marketing managers must work closely with other company departments. With marketing taking the lead, all departments – from manufacturing and finance to legal and human resources – share the responsibility for understanding customer needs and creating customer value.

Suppliers

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

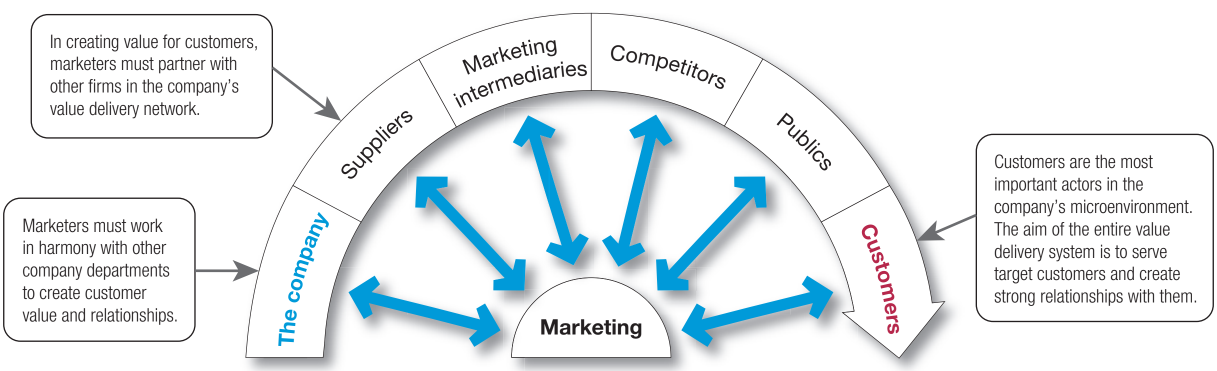


Figure 3.1 Actors in the microenvironment

Most marketers today treat their suppliers as partners in creating and delivering customer value. Morrisons, one of the United Kingdom's leading supermarkets, sells a large number of items, including seafood, dairy products, meat, bakery goods and non-food grocery products. It has realised that the significance of its relationship with suppliers cannot be understated if it is to succeed in the competitive retail sector. It acknowledges that the various awards it has achieved over the years – including 'Supermarket of the Year', 'Nation's Best Café' and 'Most Sustainable Retailer of the Year' – could not have been achieved without good relations with its suppliers. Its endeavour to maintain good relationships with suppliers shows in many ways. For instance, Morrisons' premium brand of milk costs 10 pence per litre more than the Morrisons' standard price, and according to Martyn Jones, the corporate services director of the organisation, the supermarket uses this to support the dairy farmers who supply the milk. Morrisons also encourages farmers to complete the Groceries Code Adjudicator's annual supplier survey, through which the relationship could be developed further. In fact, the close relationship between Morrisons and its suppliers has also culminated in a different way; the organisation hired its former supplier, Neil Davison of Express Dairies, to work for it.[2]

French cosmetics maker L'Oréal knows the importance of building close relationships with its extensive network of suppliers, who supply everything from polymers and fats to spray cans and packaging to production equipment and office supplies.[3]

French company L'Oréal is the world's largest cosmetics maker, with over 30 global brands ranging from Maybelline and Kiehl's to Lancôme. The company's supplier network is crucial to its success. As a result, L'Oréal treats suppliers as respected partners. On the one hand, it expects a lot from suppliers in terms of design innovation, quality and sustainability. On the other hand, L'Oréal works closely with suppliers to help them meet its exacting standards. According to the company's supplier website, L'Oréal treats suppliers with 'fundamental respect for their business, their culture, their growth, and the individuals who work there'. Each relationship is based on 'dialogue and joint efforts. L'Oréal seeks not only to help its suppliers meet its expectations but also to contribute to their growth, through opportunities for innovation and competitiveness'. As a result, more than 75 per cent of L'Oréal's supplier partners have been working with the company for ten years or more, and the majority of them for several decades. Says the company's head of purchasing, 'The CEO wants to make L'Oréal a top performer and one of the world's most respected companies. Being respected also means being respected by our suppliers.'

Marketing intermediaries
Firms that help the company to promote, sell and distribute its products to final buyers.

L'Oréal's supplier network is crucial to its success
Source: TY Lim/Shutterstock

In the tough times of recovery from recession, many major companies have had to act to repair and protect their supply chains in Europe. For example, companies like Sainsbury's, Rolls-Royce, GlaxoSmithKline, Tesco, Vodafone and BT have lent money to suppliers to keep them afloat. In other cases, suppliers dropping out of business has severely limited growth in the UK motor industry, where components suppliers are the vital link in production. Managing supplier relationships closely is a particularly high priority for many industries in the current environment.[4]

Marketing intermediaries

Marketing intermediaries help the company promote, sell and distribute its products to final buyers.

They include resellers, physical distribution firms, marketing services agencies and financial intermediaries.

Resellers are distribution channel firms that help the company find customers or make sales to them. These include wholesalers and retailers that buy and resell merchandise. Selecting and partnering with resellers is not easy. No longer do manufacturers have many small, independent resellers from which to choose. They now face large and growing reseller organisations, such as Tesco in the UK, Walmart in the US, and Carrefour and Metro in Europe. In the UK for example, Tesco alone accounts for over a quarter of all grocery sales, and the top four retailers dominate over two-thirds of all food distribution.[5] These organisations frequently have enough power to dictate terms or even shut smaller manufacturers out of large markets.

Physical distribution firms help the company stock and move goods from their points of origin to their destinations. *Marketing services agencies* are the marketing research firms, advertising agencies, media firms and marketing consulting firms that help the company target and promote its products to the right markets. *Financial intermediaries* include banks, credit companies, insurance companies and other businesses that help finance transactions or insure against the risks associated with the buying and selling of goods.

Like suppliers, marketing intermediaries form an important component of the company's overall value delivery network. Thus, today's marketers recognise the importance of working with their intermediaries as partners rather than simply as channels through which they sell their products. For example, when Coca-Cola signs on as the exclusive provider for a fast-food chain, such as global chains like McDonald's, as well as smaller chains, it provides much more than just soft drinks. It also pledges powerful marketing support.[6]

> Coca-Cola assigns cross-functional teams dedicated to understanding the finer points of each retail partner's business. It conducts a staggering amount of research on beverage consumers and shares these insights with its partners. It analyses the demographics of geographical areas and helps partners determine which Coke brands are preferred in their areas. Coca-Cola has even studied the design of drive-through menu boards to better understand which layouts, fonts, letter sizes, colours and visuals induce consumers to order more food and drink. Based on such insights, the Coca-Cola food service solutions group develops marketing programmes and merchandising tools that help its retail partners improve their beverage sales and profits. Its website, www.CokeSolutions.com, provides US retailers with a wealth of information, business solutions, merchandising tips, advice on digital and social media marketing, and techniques on how to go green. 'At Coca-Cola we always strive to be our customers' most valued partner', says Coca-Cola's vice president of Foodservice Customer Marketing. Such intense partnering has made Coca-Cola a runaway leader in the fountain-soft-drink market.

Competitors

The marketing concept states that, to be successful, a company must provide greater customer value and satisfaction than its competitors do. Thus, marketers must do more than simply adapt to the needs of target consumers. They also must gain strategic advantage by positioning their offerings strongly against competitors' offerings in the minds of consumers.

No single competitive marketing strategy is best for all companies. Each firm should consider its own size and industry position compared with those of its competitors. Large firms with dominant positions in an industry can use certain strategies that smaller firms cannot afford. But being large is not enough. There are winning strategies for large firms, but there are also losing ones. And small firms can develop strategies that give them better rates of return than large firms enjoy.

Publics

Public Any group that has an actual or potential interest in or impact on an organisation's ability to achieve its objectives.

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

- *Financial publics.* This group influences the company's ability to obtain funds. Banks, investment analysts and stockholders are the major financial publics.
- *Media publics.* This group carries news, features, editorial opinions and other content. It includes television stations, newspapers, magazines, and blogs and other social media.
- *Government publics.* Management must take government developments into account. Marketers must often consult the company's lawyers on issues of product safety, truth in advertising and other matters.
- *Citizen-action publics.* A company's marketing decisions may be questioned by consumer organisations, environmental groups, minority groups and others. Its public relations department can help it stay in touch with consumer and citizen groups.
- *Internal publics.* This group includes workers, managers, volunteers and the board of directors. Large companies use newsletters and other means to inform and motivate their internal publics. When employees feel good about the companies they work for, this positive attitude spills over to the external publics.
- *General public.* A company needs to be concerned about the general public's attitude toward its products and activities. The public's image of the company affects its buying behaviour.
- *Local publics.* This group includes local community residents and organisations. Large companies usually work to become responsible members of the local communities in which they operate.

NatWest, one of the leading UK banks, maintains a strong link with its local community through various cause-related activities. In 2016, across the group, the organisation gave a whopping £2.5 million to local charities, community groups and social enterprises, both in the United Kingdom and in Ireland. Meanwhile, the commitment of the bank to supporting local communities is not only displayed in the organisation's corporate efforts but also flows down to the staff members, who are very enthusiastic in supporting various local charities through their concerted efforts. In 2015, the staff of the bank donated a total of £2.7 million to charities through the Pay-as-You-Earn Scheme and contributed 45,437 hours of volunteering for various communities and charity projects. The same year, it became an official sponsor of Sports Relief. Over the years, it has been celebrated for supporting many other local charities to improve life, including Porchlight for the homeless, Discovery Park for tenants and UKSA, a youth charity. Its link to The Prince's Trust spans over 16 years, through which it has helped thousands of disadvantaged young people to create sustainable businesses. In 2014 alone, it ran an employability and mentoring programme for 2,521 disadvantaged people through hours devoted to the Trust.[7]

A company can prepare marketing plans for these major publics as well as for its customer markets. Suppose the company wants a specific response from a particular public, such as goodwill, favourable word of mouth and social sharing, or donations of time or money. The company would have to design an offer to this public that is attractive enough to produce the desired response.

Customers

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

The macroenvironment

The company and all of the other actors operate in a larger macroenvironment of forces that shape opportunities and pose threats to the company. Figure 3.2 shows the six major forces in the company's macroenvironment. Even the most dominant companies can be vulnerable to the often turbulent and changing forces in the marketing environment. Some of these forces are unforeseeable and uncontrollable. Others can be predicted and handled through skilful management. Companies that understand and adapt well to their environments can thrive. Those that don't can face difficult times. One-time dominant market leaders such as Xerox and Sony have learned this lesson the hard way. In the remaining sections of this chapter, we examine these forces and show how they affect marketing plans.

Author comment

The macroenvironment consists of broader forces that affect the actors in the microenvironment.

The demographic environment

Demography is the study of human populations in terms of size, density, location, age, gender, race, occupation and other statistics. The demographic environment is of major interest to marketers because it involves people, and people make up markets. The world population is growing at an explosive rate. It now exceeds 7.3 billion people and is expected to grow to more than 8 billion by the year 2030.[8] The world's large and highly diverse population poses both opportunities and challenges.

Demography The study of human populations in terms of size, density, location, age, gender, race, occupation and other statistics.

Changes in the world demographic environment have major implications for business. Thus, marketers keep a close eye on demographic trends and developments in their markets. They analyse changing age and family structures, geographic population shifts, educational characteristics and population diversity. Here, we discuss the most important demographic trends throughout the world.

Author comment

Changes in demographics mean changes in markets, so they are very important to marketers. We first look at the biggest demographic trend – the changing age structure of the population.

The changing age structure of the population

Changes in the world demographic environment have major implications for business. Perhaps the single most important demographic trend in the world is the changing age structure of

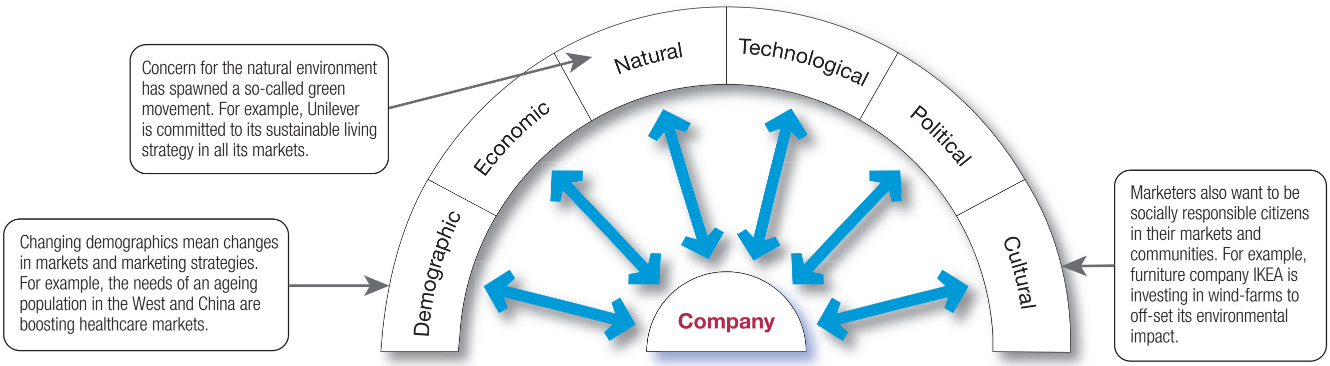


Figure 3.2 Major forces in the company's macroenvironment

the population. For example, India has one of the youngest population profiles in the world – more than 70 per cent of the population is under 35. By 2020, the median age in India will be 28, compared to 37 in China, 38 in the United States, 45 in Western Europe and 49 in Japan.[9] If demography defines destiny, then the next century will belong to India and Africa. This is because their youthful population ensures that they will continue to enjoy a plentiful supply of young workers supporting a relatively small population of elderly people. In demographic terms, their 'dependency ratios' will be favourable. In contrast, European Union countries, the United States and China will all be carrying a growing burden because their populations are ageing and their dependency ratios will be increasingly unfavourable. Countries with unfavourable age structures have concerns about a loss of dynamism and a growing burden on public finances.[10]

Generational differences in the developed world

In the developed world, distinctions are often made between several generational groups. Here, we discuss the following groups – the baby boomers, Generation X, the Millennials and Generation Z – and their impact on today's marketing strategies. Although mainly considered in the developed markets of Europe and the United States, these generational groupings are starting to cut across many national boundaries when marketers start to think about target markets.

The baby boomers

Baby boomers People born during the years following World War II until 1964.

The post-World War II **baby boomers** were born between 1946 and 1964. Over the years, the baby boomers have been one of the most powerful forces shaping the marketing environment. The youngest boomers are now in their 50s; the oldest are in their early 70s and well into retirement. Maturing boomers are rethinking the purpose and value of their work, responsibilities and relationships.

The baby boomers are the wealthiest generation in the Western world, what one analyst calls 'a marketer's dream'. According to a think tank in the UK, the baby boomers, with about a third of the population but expected to reach about 50 per cent by 2020, own more than half of UK's £11 trillion of wealth.[11] Similar numbers can be found in the US, in that baby boomers account for about 26 per cent of the US population but control an estimated 70 per cent of the nation's disposable income and half of all consumer spending.[12] The boomers constitute a lucrative market for financial services, new housing and home remodelling, new cars, travel and entertainment, eating out, health and fitness products, and just about everything else. And contrary to the popular belief that they are staid in their ways, one recent survey found that 82 per cent of boomers are open to new brands. Says a researcher, 'Changing and trying new brands helps boomers feel like they are staying current.'[13]

Hotter is a shoe manufacturer and retailer for the over-50s.
Source: Pcpexclusive/Alamy Stock Photo

It would be a mistake to think of older boomers as phasing out or slowing down. Rather than viewing themselves that way, many of today's boomers see themselves as entering new life phases. More active boomers have no intention of abandoning their youthful lifestyles as they age. For example, a survey has found that British holidaymakers in their sixties spend more on their travel than any other age groups.[14] And adults over 50 now account for 80 per cent of luxury travel spending in the US. Boomers are also digitally active and increasingly social media savvy. They are the fastest-growing shopper demographic online, outspending younger generations two to one. They are also the fastest-growing social media users.[15]

Thus, although boomers buy lots of products that help them deal with issues of ageing – from vitamins to blood pressure monitors to Good Grips kitchen tools – they tend to appreciate marketers who appeal to their youthful thinking rather than their advancing age. For example, T-Mobile recently introduced a phone plan aimed at baby boomers. The plan offers discount for a single person at 55 or older for the first line, but offers even much deeper discount for the second person in the household.[16] In the UK, two mainstream brands, Marks& Spencer and John Lewis & Partners have done particularly well in targeting and appealing to baby boomers.

> Hotter is a shoe manufacturer and retailer for the over-50s. With 65 stores, almost 1 million consumers in the UK and over 90,000 in the US, Hotter is confident in this expanding demographic with a forecast of 13 per cent growth of this market over the next 10 years. As commented by its chief executive, 'when we reach 50 our body shape starts to change, including our feet, and comfort starts to override the more glamorous aspects of footwear. There are not many brands that focus on this segment, so it's a good market to do something specific.'[17]

Generation X

The baby boom was followed by a 'birth dearth', creating another generation of people born between 1965 and 1976. Author Douglas Coupland calls them **Generation X** because they lie in the shadow of the boomers.

Generation X People born between 1965 and 1976 in the 'birth dearth' following the baby boom.

Considerably smaller than the boomer generation that precedes them and the Millennials who follow, the Generation Xers are a sometimes-overlooked consumer group. Although they seek success, they are less materialistic than the other groups; they prize experience, not acquisition. For many of the Gen Xers who are parents, family comes first – both children and their ageing parents – and career second.

From a marketing standpoint, the Gen Xers are a more sceptical bunch. They are sensible shoppers who research products heavily before they consider a purchase, prefer quality to quantity, and tend to be less receptive to overt marketing pitches. They are more receptive to irreverent ad pitches that make fun of convention and tradition. The first to grow up in the internet era, Generation X is a connected generation that embraces the benefits of new technology – most own smartphones and tablets, use the internet for banking, for researching companies or products and for making online purchases. Most are active on social media.

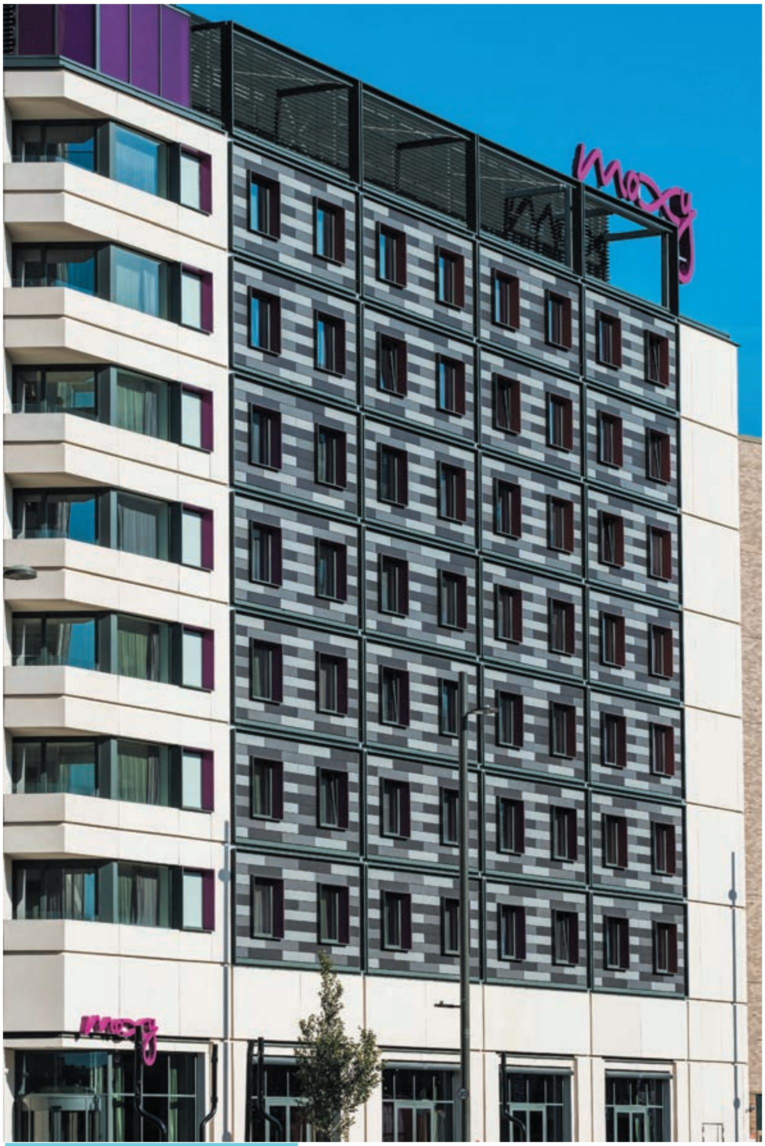
The Gen Xers, now in their 40s, have grown up and are taking over. They have increasingly displaced the lifestyles, culture and values of the baby boomers. They are firmly into their careers, and many are proud homeowners with growing families. They are the most educated generation to date, and they possess hefty annual purchasing power. With so much potential, many brands and organisations focus on Gen Xers as a prime target segment. For example, the majority of Gen Xers own their own homes, making them an important segment for health and home brands.

Millennials

Both the baby boomers and Gen Xers will one day be passing the reins to the **Millennials** (also called **Generation Y** or the echo boomers). Born between 1977 and 2000, these children of the baby boomers, are dwarfing the Gen Xers and becoming larger even than the baby boomer segment. In the post-recession era, the Millennials are the most financially strapped generation. Facing higher unemployment and saddled with more debt, many of these young consumers have near-empty piggy banks.

Millennials (or Generation Y) The children of the baby boomers, born between 1977 and 2000.

In terms of home ownership, it is reported that one in three of Britain's Millennial generation will never be able to own their own home, but have to live and raise families in privately rented accommodation. They are also likely to earn less than the baby boomer generation. However, when they are over 60s, they are highly likely to benefit from the biggest 'inheritance boom' of any post-war generation.[18] Still, because of their numbers, the Millennials make up a huge and attractive market, both now and in the future.



Moxy hotels offer stylish, no-frills accommodations to keep prices down.
Source: BRIAN ANTHONY/Alamy Stock Photo

One thing that all Millennials have in common is their comfort with digital technology. They don't just embrace technology; it's a way of life. The Millennials were the first generation to grow up in a world filled with computers, mobile phones, satellite TV, iPods and iPads, and online social media. As a result, they engage with brands in an entirely new way, such as with mobile or social media.

Compared with other generational groups, Millennials tend to be frugal, practical, connected, mobile and impatient. More than sales pitches from marketers, Millennials seek authenticity and opportunities to shape their own brand experiences and share them with others.

Many brands are now fielding specific products and marketing campaigns aimed at Millennial needs and lifestyles. For example, in 2103 Marriott launched the new European hotel chain Moxy Hotels. The innovative lifestyle hotel chain targets the fast-emerging market of young Millennial travellers by combining contemporary design, approachable service, high-tech features and – perhaps most important – reasonable prices. Moxy hotels offer stylish, no-frills accommodations to keep prices down. But they feature plenty of the technologies that young Millennials favour, such as checking in via mobile devices, big-screen TVs, plenty of built-in USB ports in rooms, free Wi-Fi, and 'plug and meet' common areas furnished with state-of-the-art computers, writing walls and large TV screens for presentations. Marriott is working with a range of operators and owners to grow this brand.[19]

Generation Z

Generation Z People born after 2000 (although many analysts include people born after 1995), who make up the 'kids, tweens and teens' markets.

Hard on the heels of the Millennials is **Generation Z**, young people born after 2000 (although many analysts include people born after 1995 in this group). The Gen Zers make up the important 'kids, tweens and teens' markets. These young consumers also represent tomorrow's markets – they are now forming brand relationships that will affect their buying well into the future.

Even more than the Millennials, the defining characteristic of Gen Zers is their utter fluency and comfort with digital technologies. Generation Z takes smartphones, tablets, internet-connected game consoles, wireless internet, and digital and social media for granted – they've always had them – making this group highly mobile, connected and social. On average, connected Gen Zers receive more than 3,000 texts per month. 'If they're awake, they're online', quips one analyst. They have 'digital in their DNA', says another.[20]

Gen Zers blend the online and offline worlds seamlessly as they socialise and shop. According to recent studies, despite their youth, more than half of all Generation Z tweens and teens do product research before buying a product or having their parents buy it for them. Of those who shop online, more than half *prefer* shopping online in categories ranging from electronics, books, music, sports equipment and beauty products to clothes, shoes and fashion accessories.

Companies in almost all industries market products and services aimed at Generation Z. For example, many retailers have created special lines or even entire stores appealing to Gen Z buyers and their parents.

Marketing to Gen Zers and their parents presents special challenges. Traditional media are still important to this group. But marketers know they must meet Gen Zers where they hang out and shop. Increasingly, that's in the online and mobile worlds. Vodafone launched VOXI in 2017, a mobile sub-network that targets younger people typically under 30 (initially under 25) in the UK. VOXI allows the users endless data to use social media websites and apps without cutting into their data plan.[21]

Today's kids are notoriously fickle and hard to pin down. The key is to engage these young consumers and let them help to define their brand experiences. For example, to engage young consumers more deeply, The North Face even invites them to help design its outdoor apparel and gear:[22]

Vodafone launches the VOXI sub-brand to get 'down with the kids'.

Source: WENN Rights Ltd/Alamy Stock Photo

> The North Face Youth Design Team holds focus groups at summer camps with tweens (9–12-year-olds) and their parents to get their input on the brand's outdoor clothing for kids. 'We find that these kids are just beginning to have their own personal style and are also beginning to influence their parents in their purchases', says a North Face marketer. To engage kids even further, The North Face recently launched a design contest in which it invited young would-be artists aged 6 to 12 to submit new apparel and gear designs that represent what the brand's 'Never Stop Exploring' mantra means to them. The 10 winners will see their artwork featured in the brand's youth collection. 'Kids are our main source of inspiration', says a Youth Design Team marketer. 'It's important that we make things that are "fun", and how fun would it be to have kids help design our product?' Such engagement efforts have helped to make The North Face one of today's hottest brands among teens and tweens.

An important Generation Z marketing concern involves children's privacy and their vulnerability to marketing pitches. Companies marketing to this group must do so responsibly or risk the wrath of parents and public policy makers.

Generational marketing

Do brands need to create separate products and marketing programmes for each generation? Some experts warn that marketers need to be careful about turning off one generation each time they craft a product or message that appeals effectively to another. Others caution that each generation spans decades of time and many socioeconomic levels. For example, marketers often split the baby boomers into three smaller groups – leading-edge boomers, core boomers and trailing-edge boomers – each with its own beliefs and behaviours. Similarly, they split Generation Z into kids, tweens and teens.

Thus, marketers need to form more precise age-specific segments within each group. More important, defining people by their birth date may be less effective than segmenting them by lifestyle, life stage or the common values they seek in the products they buy. We will discuss many other ways to segment markets in Chapters 5 and 7.

Changing family structures

The family unit is a basic structure underpinning social and economic behaviour in most societies, and yet is subject to several fundamental changes that challenge traditional assumptions.

New household formats

The traditional Western household consisted of husband, wife and children (and sometimes grandparents). However, in many European countries, married couples with children represent a smaller proportion of total households, while married couples without children represent a substantial group, and single-parent households another. A growing percentage are non-family households – singles living alone or adults of one or both sexes living together. More people are divorcing or separating, choosing not to marry, marrying later, or marrying without intending to have children. Marketers must increasingly consider the special needs of non-traditional households because they are now growing more rapidly than traditional households. Each group has distinctive needs and buying habits.

Social trends are important to marketing planning. Sometimes trends may be surprising. In 2015, for example, there appeared to be a boom in large families in the UK again – homes with four children or more are at the highest level for 45 years. This appears to be the impact of a changing ethnic composition of the British population and more super-rich families opting for large families. Nonetheless, overall family sizes are falling in Britain, as they are across Europe.[23]

Singletons

Euromonitor estimates that the number of people living alone worldwide is increasing dramatically – in 2011 the global population of singletons had reached 277 million and this is expected to rise to 331 million by 2020, or around 16 per cent of all households. In Europe and North America single-person households already stand at 31 per cent and 28 per cent of all households. Driving factors include greater female employment, higher divorce rates, longevity and mass urbanisation, as well as lifestyle choices made by individuals who simply prefer living alone.

Experian divides the demographic of single people into: *Starting Out Singletons* – younger people who own or rent and are reasonably affluent; *Struggling Singletons* – aged 18 to 25 years, the least affluent and unlikely to own a home or car; *Suddenly Singletons* – affluent executives in their early 40s with high incomes, probably divorced, who eat out regularly and have a busy lifestyle; and *Solus Singletons* – mainly elderly people living on private pensions, who have downsized to live in small flats. Companies are trying to catch up with the diverse social and shopping habits of the single household, by moving away from family-focused brands and ad campaigns, but have to recognise diversity in needs and buying preferences within the singleton population.[24]

Working women

The number of women in paid employment outside the home has also increased greatly in most European nations. In a seismic shift in the British family structure, the number of mothers who are full-time homemakers has halved, while the number of couples who are both in full-time work has doubled since the 1960s and 1970s.[25] Both husband and wife work in the majority of all married-couple families. Meanwhile, more men are staying home with their children, managing the household while their wives go to work. This trend has been amplified by rising male unemployment in economic recession – economic reality meant for many households that as men coped with unemployment, their wives headed back to work.[26]

The significantly increased number of women in the workforce has spawned the childcare business and increased the consumption of career-oriented women's clothing, financial services, and convenience foods and services. Indeed, it has been pointed out that as a market women represent a bigger opportunity than China and India combined, yet despite their dominant buying power many companies market mainly to men and fail to explore how they might meet women's needs beyond the simplistic and patronising 'make it pink' reaction.[27] Part of the challenge is that as more women balance a job with raising children, they struggle to find free time, so time-saving shopping and buying processes are vital.[28]

Innovative gender-oriented marketing strategies are not restricted to adults. LEGO, manufacturer of the famous plastic bricks for children, is building its growth strategy around selling to girls as well as boys. Female children have the same instinct for building as boys, but favour role-play as well. LEGO Friends introduces new colours and mini-figures and encourages children to create scenarios for storytelling, rather than just create the model pictured on the box. LEGO Friends is the company's most strategic launch in decades.[29]

The youth market

One significant change in family units in many European countries has been that young people are remaining at home with their parents far longer than in the past – in the UK the proportion of 20–34-year-olds living at home rose from 19.48 per cent (equating to 2.4 million people) to 25.91 per cent in 2017, amounting to 3.4 million adults still living with their parents.[30] In most European countries, the real disposable income of people in their 20s has stagnated over the past ten years, and these younger people are unlikely to ever match their parents' living standards.[31]

In fact, demographic change suggests a decline in the size of the youth market in Europe in coming years. Also, harsh economic conditions in many western countries have seen a dramatic rise of long-term unemployment among young people – the educated and jobless young – associated with driving unrest in the Middle East and undermining society in Europe and the US. The continuing jobs crisis is in danger of creating a 'lost generation' of long-term unemployed across the developed world. In the UK, jobless rates among young people are escalating. Youth unemployment in Africa and the Arab world also risks exporting tensions to Europe – as an ageing, relatively rich and socially conservative region acts as a magnet for young workers, many of them illegal immigrants, from across the Mediterranean.[32]

In the UK, young adults, who for most of the twentieth century enjoyed living standards well above average, have been displaced by the rise of comfortably off pensioners in the most dramatic generational change in decades. The relative living standards of the young and the old have changed places. This is a generation for which education has failed to bring the social mobility achieved by the older generation.[33]

Older consumers and workers

The corollary to a declining youth market is that in the United States and many European countries, people have to continue working beyond what was once considered retirement age. Older people may have failed to plan well, may have earned a lot but saved little, may have suffered financial losses in the economic downturn, or longer lives may have simply depleted savings. In the UK, the number of older workers past traditional retirement age has doubled in 20 years – driven not just by income needs but by the desire for status as employed people.[34]

It is estimated that by 2050 the percentage of population aged over 60 will be 27 per cent in the US, 35 per cent in the UK and 43 per cent in Japan, reflecting longer life expectancy and falling birth rates – those over 65 will outnumber children under 5 years of age. This demographic shift is creating a new and powerful consumer class, already being called 'the silver economy', with spending power already reaching about £11.3 trillion.[35]

Geographic shifts in population

This is a time of considerable migratory movement both between and within countries. For example, in the UK there has been a general shift of population from the North to the South – mainly as people search for work – and the share of England's population living in the North is at its lowest for 200 years.[36] Such population shifts interest marketers because they indicate where their customers are located and their changing needs and buying priorities. However, migration on a global scale, rather than within countries, has even bigger implications for marketers.

Migration

For a variety of reasons, the world's migrant population is rising fast. Currently, about 3 per cent of the world's population live outside the country of their birth. Indeed, the economic recession of the late 2000s led to that number falling slightly, as poor economic growth in host countries led some migrants to head home. However, United Nations figures suggest that this amounts to a global population of international migrants of 232 million.[37] Indeed, global migrant flows look set to double by 2050.[38]

The US is the largest destination for migrants (a population of about 46 million people in 2014), while within the EU the countries hardest hit by the recession, such as Greece and Spain, have seen net emigration in recent years, while stronger economies like the UK and Germany have attracted more migrants.[39] Nonetheless, 2014 saw the number of Britons living abroad reach 5 million for the first time, with Australia and the US the biggest draws.[40] Migration impacts both on the location of market demand – where people can be reached – and the nature of demand for products and services – the needs of people in new situations.

Higher migrant flows will partly be a matter of choice – fast-ageing advanced economies face a looming labour shortage of potentially as many as 100 million workers by 2050, and much of that shortfall will probably be met by increased immigration. For example, in the UK, in 2015 around 16 per cent of the workforce – almost 5 million people – was overseas workers, up from 7 per cent in 1997, covering gaps in many areas of employment.[41] But alongside these factors, other issues will push migrants out from developing nations. For example, Africa faces particular challenges – by 2050, the continent's population will have doubled to 1.8 billion, many of whom will struggle to find economic opportunities at home.

Key pressure points for migration include the following:

- **Europe** – geographic proximity and economic pull ensures Europe remains on the front line of migration flows. To maintain a stable 'dependency ratio' between working and non-working population, Europe may have to admit 1.3 billion migrants by 2050.
- **Russia and the Caucasus** – Russia is the world's second largest migrant destination with up to 15 million incomers propping up its declining population. In averting a demographic crisis, Russia has created an ethnic one, with migrants facing a nationalist backlash. As many as a third of Russia's professional class also want to leave the country.
- **China's periphery** – China's vast population, hunger for resources and willingness to deploy labour in neighbouring countries is causing disquiet around its borders. Russian nationalists fear encroachments from the south by an influx of Chinese.
- **US/Mexico border** – America's southern frontier is one of the world's most militarised borders – $8 billion has been spent on fences, sensors and surveillance drones to stop migrants from the south. Mexico suffers the consequences, with people movement, drugs and criminal violence destabilising many provinces.
- **Sub-Saharan Africa** – About 18 per cent of the world's population live in dry zones. But environmental migrants are more likely to move to poor neighbouring countries, rather than more distant advanced economies. The effect is large flows of people into the countries least able to cope, such as Somali refugees spilling over the border into Kenya.
- **UAE/Middle East** – the desert states of the Middle East top the league of nations most densely populated by migrants. Qatar and the United Arab Emirates both have populations where more than seven in ten are foreign-born – including large, marginalised groups from south Asia.
- **Mega-cities** – Karachi in Pakistan has been dubbed the world's most dangerous city, with its 15 million residents beset by an explosive mixture of poverty, ethnic violence, crime and ineffective governance. The city offers a worrying vision of where other sprawling global mega-cities, such as Kinshasa and Lagos, may be heading.
- **Remittances** – remittances (cash sent home by migrant workers) are an increasingly important factor in global development, providing emerging markets with vital capital flows. Some nations are increasingly dependent on these flows – in the Philippines, Moldova and Tajikistan, for example, remittances make up nearly half of GDP.[42]

Dramatic moves in migrant worker flows continue. In 2012, because of its underlying economic problems, particularly in the property and construction sectors, Spain saw an exodus of workers leaving to work in other countries. As well as relocating in other European countries, larger numbers of Spanish workers headed for Brazil, Africa and the United States. The Spanish exodus includes many skilled professional workers. For the first time since 1990, in 2011 more people left Spain than moved in. And in 2015, nearly 100,000 people left Spain, while only about half of the number chose to return.[43]

Increasing diversity

Countries vary in their ethnic and racial makeup. At one extreme is Japan, where almost everyone is Japanese. At the other extreme is the United States, with people from virtually all national origins. The United States has often been called a 'melting pot', where diverse groups from many nations and cultures have melted into a single, more homogeneous whole. More broadly, the UK is seeing the development of 'super-diverse' cities where no single ethnic group will provide the majority. This pluralism encompasses places like Leicester, Birmingham, Slough, Luton and many of the London boroughs. However, it is anticipated that immigrant and ethnic minority populations will not be dominated by the currently strong Afro-Caribbean or Asian communities, but increasing numbers will come from countries scattered across the world.

Certainly, population movements create interesting opportunities for marketing specialised products and services to ethnic groups within a country. For example, in London, high-end stores, such as Burberry and Christian Dior, and retailers like Marks & Spencer, Primark and H&M all report the benefits of an annual 'Ramadan rush' – gift buying around the Muslim holy month of Ramadan and the Eid al-Fitr celebration. London retailers make particular efforts to appeal to Muslim shoppers during Ramadan and Eid – a season now second only to Christmas in revenues.[44]

Marketers now face increasingly diverse markets, both at home and abroad, as their operations become more international in scope. The US population is about 62.2 per cent non-Hispanic white, with Hispanics at 17.4 per cent and African Americans at 13.2 per cent. The US Asian American population now totals more than 5.4 per cent of the total US population, with the remaining groups being Native Hawaiian, Pacific Islander, American Indian, Eskimo or Aleut. Moreover, one in eight people living in the United States – more than 13 per cent of the population – was born in another country. The nation's ethnic populations are expected to explode in coming decades. By 2060, Hispanics will be about 28 per cent of the population, African Americans will be about 14 per cent and Asian Americans will increase to 9 per cent.[45]

Similarly, in the UK, migrant workers, largely from within the European Union, are changing the consumer market rapidly and providing marketers with new opportunities. In 2015, the Oxford University Migration Observatory estimated that one in eight of the UK population were people born overseas, underlining the growing diversity and richness of the British community, and suggesting the emergence of many new market opportunities.[46] For example, the vibrant Polish immigrant community has seen a Polish radio station launched, road signs in Polish, banks like NatWest offering a dedicated account for Polish customers, supermarkets Tesco and Asda stocking wide ranges of Polish delicacies, which are advertised in the burgeoning UK-based Polish-language media, and estate agents advertising properties for sales and rent in the Polish language.[47]

Diversity goes beyond ethnic heritage. For example, many major companies explicitly target gay and lesbian consumers. Increasing marketing attention is being paid to the role of the gay buyer in the property market. The gay community provides an attractive target of affluent buyers, often with double-income households and high property ownership. The gay community is also one of the most enthusiastic about

The population in the Western countries has become more diverse.
Source: Elizabeth Leyden/Alamy Stock Photo

buying holiday homes abroad. Research suggests these trends are developing in most of the liberal Western democracies. As a market segment, there are specialist media such as gay lifestyle magazines offering access to this community.[48]

Brands in a wide range of industries are now targeting the LGBT (lesbian, gay, bisexual and transgender) community with gay-specific ads and marketing efforts. For example, Allstate recently ran an 'Everyone deserves to be in good hands' campaign with ads featuring same-sex couples and the hashtag #OutHoldingHands. On Valentine's Day, adidas posted an image on Instagram featuring a same-sex couple.[49] Lloyds Bank launched an ad campaign, titled 'For Your Next Step', targeting the LGBT community in 2016. Lloyds was named the best place to work for LGBT employees and top LGBT employer in Scotland and Wales by Stonewall, a gay equality organisation. This ad campaign featured important occasions in various stages of life, including giving birth, dropping kids off at school, attending a funeral and a same-sex couple in the midst of proposal.[50]

Another attractive diversity segment is the adults with disabilities, representing anywhere from $200 to $500 billion in annual spending power in the US. Most individuals with disabilities are active consumers. For example, one study found that in the US the segment spends $17.3 billion on 73 million business or leisure trips every year. And because people with disabilities typically travel with one or more other adults, the economic impact is estimated to be at least double that amount.[51]

How are companies trying to reach consumers with disabilities? Many marketers now recognise that the worlds of people with disabilities and those without disabilities are one and the same. Marketers such as McDonald's, Nike, Samsung, Toyota and Apple have featured people with disabilities in their mainstream marketing. For instance, a recent Apple iPad Air commercial features real-life travel writer Chérie King travelling the world with her iPad Air in hand, helping her along as she travels through diverse global settings. She communicates back home, posts photos, writes articles and lets her iPad translate what she wants to say to shopkeepers and others who don't speak English. Only at the very end of the commercial is her disability revealed – she is deaf.[52] Samsung and Nike sign endorsement deals with Paralympic athletes and feature them in advertising.

As the population within an individual country or a region like Europe grows more diverse, successful marketers will continue to diversify their marketing programmes to take advantage of opportunities in fast-growing segments. However, a recent report warns that UK retailers are at the risk of losing hundreds of billions of pounds if they do not take accessibility and inclusivity for disabled consumers seriously. The study reports that 6.1 million UK shoppers have a combined spending power of £16.5 billion, but their spending is restricted by access issues when shopping online. It costs brands over £11.75 billion by some 71 per cent of disabled consumers clicking away from a website that they find difficult to use. Meanwhile most of them would spend more on websites that are more accessible.[53]

Urbanisation of population

In addition to flows of population between nations, there are significant movements within countries. There is, for example, a continued trend toward the movement of people from rural to urban areas. Evidence suggests that 500 million farmers will move to cities over the next 50 years, creating pressure on already teeming cities like Mumbai, Delhi, Dhaka and Shanghai (each expected to be home to more than 20 million people), as well as Kinshasa, Cairo and Lagos (each expected to contain more than 15 million people). In three decades China has been transformed into a mainly urban society by the movement of people from rural areas to the cities.[54]

In most developed countries, the shift in where people live has also often caused a shift in where they work. For example, the migration toward suburban areas has resulted in a rapid increase in the number of people who 'telecommute' – work at home or in a remote office and conduct their business by phone, mobile or the internet. This trend, in turn, has created a booming small office/home office market. An increasing number of people are working from home with the help of electronic conveniences such as PCs, smartphones and broadband internet access.

Many marketers are actively courting the lucrative telecommuting market. For example, WebEx, the web-conferencing division of Cisco, helps overcome the isolation that often accompanies telecommuting. With WebEx, people can meet and collaborate online via computer or smartphone, no matter what their work location. 'All you need to run effective online meetings is a browser and a phone', says the company. With WebEx, people working anywhere can interact with other individuals or small groups to make presentations, exchange documents and share desktops, complete with audio and full-motion video.[55]

The economic environment

Markets require buying power as well as people. The **economic environment** consists of economic factors that affect consumer purchasing power and spending patterns. Economic factors can have a dramatic effect on consumer spending and buying behaviour.

Economic environment
Economic factors that affect consumer purchasing power and spending patterns.

For example, budget retailers like Aldi, Lidl, Poundland and Primark have been successful in growing business during economic downturn, with the intention of retaining the new customer they have acquired from more expensive competitors.

Author comment
The economic environment can offer both opportunities and threats. For example, in the post-recession era of more sensible consumer spending, 'value' has become the marketing watchword.

The changing world order

Nations vary greatly in their levels and distribution of income. Some countries have *industrial economies*, which constitute rich markets for many different kinds of goods. At the other extreme are *subsistence economies*; they consume most of their own agricultural and industrial output and may offer few immediate market opportunities. In between are *developing economies* that can offer outstanding marketing opportunities for the right kinds of products.

Incomes, as measured by gross domestic product (GDP) per capita, show huge variation around the world. The average for the whole world in 2019 calculated by the International Monetary Fund is only $11,570. The Western economies are much higher – for example, United States $64,770, Germany $47,790, France $42,470 and United Kingdom $42,310. The emerging markets are much lower than the West – for example, Russia $11,190, Brazil $9,340, China $10,150 and India $2,200.[56] Obviously, the distribution of income within countries also varies. But income levels and trends are an important factor in assessing market value and attractiveness.

However, it is also important to understand that the economic world order has been subject to important and major changes in the twenty-first century, particularly regarding the impact of emerging markets like India and China. The term 'BRIC' (Brazil, Russia, India, China) is often used to describe the leading group of newly rich and rapidly expanding countries, but in reality the group is much larger than this and their characteristics are increasingly shared by countries like South Africa, Indonesia, Mexico and others. Interestingly, the degree of change is illustrated by the fact that there are now more individuals who are dollar-billionaires in the BRIC countries than there are in Europe.[57] Nonetheless, the paradox is that while the BRIC countries contribute more than half the world's growth, relative to population, they remain poor in terms of GDP per capita.

The impact of economic change at this level should not be underestimated. Recent years have seen an end to Western dominance of the global economy. In 2014, International Monetary Fund figures showed that China had overtaken the US as the world's largest economy, though China was unenthusiastic about revealing this fact.[58] Statistics in 2012 from the Centre for Economics and Business Research in London showed that Brazil in sixth place had overtaken the UK on that list. The same study suggests that by 2020, no European economy will be in the world top 20.

Interestingly, history repeats itself – the US's reign as largest world economic power began a little before 1890, when it supplanted the previous global giant: China. Throughout the 2000s the annual real growth in China's gross domestic product averaged 10.5 per cent compared to 1.7 per cent in the US in the same period, although some economists are sceptical about China's ability to maintain this rate of growth.[59] Nonetheless, by 2010, China was exporting as much every six hours as it did in the whole of 1978.[60] Economic change of this magnitude has clear implications for consumer buying power – millions of Chinese have entered the 'consumer class' for the first time.[61]

For example, it is estimated that the top five grocery markets in the world in order of value are: China, the US, India, Russia and Brazil, with the US showing lower growth than the others. Correspondingly, the five largest worldwide grocery retailers (Walmart, Carrefour, Tesco, Costco and Metro) – two American and three European companies – have been looking for aggressive growth strategies in these high-growth, expanding markets, while defending their home market position. Nonetheless, these are fiercely competitive markets for international retailers to tackle and success in the home market does not guarantee success in these emerging markets.[62] There is no doubt that the impact of economic change, the shift in the balance of power in the world economy and new patterns of globalisation are disrupting and reshaping whole industrial sectors.

Changes in consumer spending

Importantly, economic factors can have a dramatic effect on consumer spending and buying behaviour. For example, until fairly recently, American and European consumers spent freely, fuelled by income growth, easily available credit, a boom in the investment market, rapid increases in house values and other economic good fortune. They bought and bought, seemingly without caution, amassing record levels of debt. However, the free spending and high expectations of those days were dashed by the economic downturn, credit squeeze and recession of the late 2000s and early 2010s. Having led the way in voluntary reduction of spending deficits, the UK has entered a period of extreme austerity and is looking at a prolonged period of economic near-stagnation and high unemployment numbers.[63]

As a result, consumers have now adopted a back-to-basics frugality in their lifestyles and spending patterns that will most likely persist for years to come. They are buying less and looking for greater value in the things that they do buy. In turn, *value marketing* has become the watchword for many marketers. Marketers in all industries are looking for ways to offer today's more financially cautious buyers greater value – just the right combination of product quality and good service at a fair price.

In many markets in the Western world the new 'normal' for consumers has become one of thrift and caution in spending, and a new 'age of austerity'. Shoppers are suffering from what Bain & Company are calling 'luxury shame', and feeling guilty about buying indulgences. Add a scepticism and lack of trust in business, and the potential is for long-term shifts in consumer behaviour away from consumption towards austerity.[64] The 'Great Recession' has been followed by the 'New Caution', changing spending habits and lowering future growth.[65]

But some companies have prospered in harsher economic conditions. Successful marketing strategies in this new reality will depend on a deep understanding of how economic conditions have influenced consumer choices.

Income distribution

Marketers should pay attention to *income distribution* as well as income levels. Over the past several decades, the rich have grown richer, the middle class has shrunk and the poor have remained poor. The top 5 per cent of American earners capture 22 per cent of the country's adjusted gross income, and the top 20 per cent of earners capture 51 per cent of all income. In contrast, the bottom 40 per cent of American earners get just 11 per cent of the total income.[66]

The UK has a very high level of income inequality compared to the other developed countries – the national income share of people in the top 1 per cent rose from less than 6 per cent in the late 1970s to nearly 14 per cent in the mid-2010s. However, as a whole, income inequality in Europe is significantly smaller than that of the United States. Income is also spread unevenly across the UK's regions – the average household income in London is considerably higher than that in the North East, for example.[67]

One key to understanding demand in emerging markets like India, Africa and China is the growth of an affluent middle class with high disposable income and the willingness to spend. Nonetheless, while growing affluence characterises the emerging markets and provides important targets, for example for luxury brands like high-end motor cars and fashion clothing, this affluence tends to be concentrated in a relatively small proportion of the population. Across the world it is usual that the poorest half of the population controls less than half of the country's wealth, and deepening income inequality is a particular concern in India and China.[68] There are also major differences between the different emerging markets – for example the poor of China are substantially better off than the poor of India.

The new wealthy in the emerging markets are an attractive target for luxury brands like Versace, LVMH, Cartier and Coach, because these countries have a rapidly growing number of affluent people. Luxury property, furnishings and luxury cars dominate the spending profiles of the new rich. But not only are their purchase priorities different to those of the wealthy in other markets, they are much younger. However, emerging markets also have the largest income gap between rich and poor – it appears that with high economic growth, the rich are getting richer faster than the poor, increasing income inequality.

Unevenness in the distribution of income in a country creates a tiered market. For example, many retail fashion companies – such as Harrods and Harvey Nichols – aggressively target the very affluent. Others – such as Primark and Matalan – target those with more modest means. In fact, budget retailers are now the fastest-growing retailers in the UK. Still other companies tailor their marketing offers across a range of markets, from the affluent to the less affluent. Car-makers like Volkswagen excel in offering low-priced cars (such as under the Skoda brand) and very high-priced vehicles (Audi in the mass market and Bentley in the prestige market).

Changes in major economic variables, such as income, cost of living, interest rates, and savings and borrowing patterns have a large impact on the marketplace. Companies watch these variables through economic forecasting. Businesses do not have to be wiped out by an economic downturn or caught short in a boom. With adequate warning, they can take advantage of changes in the economic environment. However, marketers must maintain constant vigilance for significant changes in this turbulent economic environment.

The natural environment

The **natural environment** involves the physical environment and the natural resources that are needed as inputs by marketers or that are affected by marketing activities. At the most basic level, unexpected happenings in the physical environment – anything from weather to natural disasters – can affect companies and their marketing strategies.

Although companies can't prevent such natural occurrences, they should prepare for dealing with them. For example, shipping companies such as FedEx and UPS maintain corps of meteorologists on their staffs to anticipate weather conditions that might inhibit on-time deliveries around the world. 'Someone awaiting a package in Bangkok doesn't care if it snowed in Louisville, Kentucky', says a UPS meteorologist. 'They want their stuff.'[69]

At a broader level, environmental sustainability concerns have grown steadily over the past several decades. In many cities around the world, air and water pollution have reached dangerous levels. World concern continues to mount about the possibilities of global warming, and many environmentalists fear that we soon will be buried in our own rubbish.

Marketers should be aware of several trends in the natural environment. The first involves growing *shortages of raw materials*. Air and water may seem to be infinite resources, but some groups see long-term dangers. Air pollution chokes many of the world's large cities, and water shortages are already a big problem in many parts of the world. By 2030, more than one in three people in the world will not have enough water to drink.[70] Renewable resources, such as forests and food, also have to be used wisely. Non-renewable resources, such as oil, coal and various minerals, pose a serious problem. Firms making products that require these scarce resources face large cost increases even if the materials remain available.

A second environmental trend is *increased pollution*. Industry will almost always damage the quality of the natural environment. Consider the disposal of chemical and nuclear wastes; the dangerous mercury levels in the ocean; the quantity of chemical pollutants in the soil and food

Author comment
Today's enlightened companies are developing *environmentally sustainable* strategies in an effort to create a world economy that the planet can support indefinitely.

Natural environment The physical environment and the natural resources that are needed as inputs by marketers or that are affected by marketing activities.

supply; and the littering of the environment with non-biodegradable bottles, plastics and other packaging materials.

A third trend is *increased government intervention* in natural resource management. The governments of different countries vary in their concern and efforts to promote a clean environment. Some, such as the German government, vigorously pursue environmental quality. Others, especially many poorer nations, do little about pollution, largely because they lack the needed funds or political will.

In many countries business faces increased regulation and pressure from lobby groups to behave more responsibly towards the natural environment. Instead of opposing regulation, marketers should help develop solutions to the material and energy problems facing the world. Concern for the natural environment has spawned an **environmental sustainability** movement. Today, enlightened companies go beyond what government regulations dictate. They are developing strategies and practices that create a world economy that the planet can support indefinitely. Environmental sustainability means meeting present needs without compromising the ability of future generations to meet their needs.

Environmental sustainability
Developing strategies and practices that create a world economy that the planet can support indefinitely.

Many companies are responding to consumer demands with more environmentally responsible products. Others are developing recyclable or biodegradable packaging, recycled materials and components, better pollution controls and more energy-efficient operations. Consider Walmart, the largest retailer in the world, for example. Through its own environmental sustainability actions and its impact on the actions of suppliers, the American multinational retail corporation headquartered in Bentonville, Arkansas, has emerged in recent years as the world's super 'eco-nanny':[71]

> When it comes to sustainability, perhaps no company in the world is doing more good these days than Walmart. That's right – big, bad Walmart. The giant retailer, founded in 1962, operates a chain of hypermarkets, discount department stores and grocery stores, and is now one of the world's biggest crusaders for the cause of saving the world for future generations. For starters, Walmart is rolling out new high-efficiency stores, each one saving more energy than the last. These stores use wind turbines to generate energy, high-output linear fluorescent lighting to reduce what energy stores do use, and native landscaping to cut down on watering and fertiliser. Store heating systems burn recovered cooking oil from the deli fryers and motor oil from their Tire and Lube Express centres. All organic waste, including produce, meats and paper, is hauled off to a company that turns it into mulch for the garden. Walmart is committed to eventually using 100 per cent renewable energy in all of its stores and distribution centres (it's currently at 26 per cent) and sending zero waste to landfills (currently down to just 19 per cent).
>
> Walmart is not only greening up its own operations but has also laid down the eco-law to its vast network of suppliers to get them to do the same, asking them to examine the carbon life cycles of their products and rethink how they source, manufacture, package and transport these goods. It has developed the Walmart Sustainability Index programme, which helps suppliers understand, monitor and enhance the sustainability of their products and the supply chain. As a result, Walmart suppliers have cut energy, water, materials, toxic ingredients and other inputs while creating less waste and fewer emissions – for themselves as well as for Walmart stores and consumers. With its immense buying power, Walmart can humble even the mightiest supplier. When imposing its environmental demands on suppliers, Walmart has even more clout than government regulators. Whereas the EPA can only level nominal fines, Walmart can threaten a substantial chunk of a supplier's business.

Companies are learning that what's good for customer well-being and the planet can also be good business. For example, Walmart's eco-charge is about more than just doing the right thing. It also makes good business sense. More efficient operations and less wasteful products are not only good for the environment but also save Walmart money. Lower costs, in turn, let Walmart do more of what it has always done best – save customers money.

Many companies today are looking to do more than just good deeds. More and more, companies are making environmental sustainability a part of their core missions. For example, outdoor apparel and equipment maker Patagonia donates 1 per cent of its revenue annually to environmental causes and adheres fiercely to a 'five Rs' mantra: 'reduce, repair, reuse, recycle and reimagine'. But more than just implementing sustainability practices, Patagonia wants to 'reimagine a world where we take only what nature can replace'. It recently took sustainability to a whole new level when it told its customers, 'Don't buy our products'.[72]

It started a few years ago with a full-page *New York Times* ad on Black Friday, the day after Thanksgiving and busiest shopping day of the year, showing Patagonia's best-selling R2 jacket and pronouncing 'Don't Buy This Jacket.' Patagonia backed the ad with messaging in its retail stores and at its website and social media pages. To top things off, Patagonia customers received a follow-up email prior to Cyber Monday – the season's major online shopping day – reasserting the brand's buy less message. Here's part of what it said:

> **'Because Patagonia wants to be in business for a good long time – and leave a world inhabitable for our kids – we want to do the opposite of every other business today. We ask you to buy less and to reflect before you spend a dime on this jacket or anything else. The environmental cost of everything we make is astonishing. There is much to be done and plenty for us all to do. Don't buy what you don't need. Think twice before you buy anything. [Work with us] to reimagine a world where we take only what nature can replace.'**

The message is right on target with Patagonia's reason for being. It is calling for conscious consumption, asking customers to think before they buy and to stop consuming for consumption's sake. Coming from Patagonia, a company that spends almost nothing on traditional advertising, the paradoxical 'Don't Buy This Jacket' ad had tremendous impact. The campaign expressed the brand's deeply held philosophy of sustainability. The purpose was to increase awareness of and participation in the Patagonia Common Threads Initiative, which urges customers to take a pledge to work together with the company to consume more responsibly. Patagonia's conscious consumption solution seems pretty simple. Making, buying, repairing and reusing higher-quality goods results in less consumption, which in turn uses fewer resources and lowers costs for everyone. Patagonia has always been committed to the idea of quality as a cure for overconsumption. It makes durable products with timeless designs, products that customers can keep and use for a long time. Then, through programmes like its Worn Wear Initiative, Patagonia uses social media to let customers share stories about their long-lasting gear and to inspire people to keep their clothing in circulation for as long as possible.

Pushing conscious consumption doesn't mean that Patagonia wants customers to stop buying its products. To the contrary, like other for-profit brands, Patagonia really does care about doing well on Black Friday and the rest of the holiday season. As a company that sells products mostly for cold-weather activities, Patagonia reaps a whopping 40 per cent of its revenues during the final two months of the year. But to Patagonia, business is about more than making money. And according to BonDurant, the vice president of marketing for Patagonia, the 'Don't Buy This Jacket' campaign has more than paid for itself with the interest and involvement it created for the Common Threads Initiative. As an added bonus, however, the campaign also boosted sales. During the first year of the campaign, Patagonia's sales surged by almost a third.

The car-making business has also been under pressure to respond to environmental concerns, and has done so. *Hybrid* vehicles (combining electric and conventional fuel-powered engines) like the Toyota Prius are growing in popularity to some extent but account for less than 3 per cent of the global car market, because of their high price compared to conventional cars. *Electric* vehicles are now being offered by most large car groups – Nissan's new Leaf has been made in Sunderland since 2013 – but carmakers admit their limited ranges and higher prices will restrict sales. *Biofuels* to power cars have lost support because of environmental concerns over how the fuel is produced – though many big carmakers have cars that run on biofuels, and those than run on ethanol are a big market segment in sugar-rich Brazil. *Hydrogen fuel* cells have great future promise because they have zero exhaust emissions and can cover long distances – but there are environmental problems in producing the fuel and refuelling stations are expensive, limiting the number of vehicles likely to be sold. In fact, *engine downsizing* is one of the most cost- effective ways of cutting emissions, though lacking the glamour of new technologies – the UK government supported Ford's recent investment in a new generation of fuel-efficient engines in Britain. Nonetheless, sales of electric cars were so poor, that at one point there were more charging points in the UK than there were electric cars on the road, in spite of a government scheme offering grants toward the purchase of electric cars.[73]

The technological environment

Technological environment
Forces that create new technologies, creating new product and market opportunities.

The **technological environment** is perhaps the most dramatic force now shaping our destiny. Technology has released such wonders as antibiotics, robotic surgery, smartphones and the internet. It also has released such horrors as nuclear missiles and assault rifles. It has released such mixed blessings as the car, television and credit cards. Our attitude toward technology depends on whether we are more impressed with its wonders or its blunders.

New technologies can offer exciting opportunities for marketers. For example, what would you think about having tiny little transmitters implanted in all the products you buy that would allow tracking of the products from their point of production through use and disposal? How about a bracelet with a chip inserted that would let you make and pay for purchases, receive personalised special offers at retail locations, or even track your whereabouts or those of friends? Or how about 'beacon' technology that would do all those things using your smartphone? On the one hand, such technologies would provide many advantages to both buyers and sellers. On the other hand, they could be a bit scary. Either way, with the advent of such technologies as radio-frequency identification (RFID), GPS, Bluetooth and virtual reality, it's already happening.

Author comment

Technological advances are perhaps the most dramatic forces affecting today's marketing strategies. Just think about the tremendous impact of digital technologies on marketing. You'll see examples of the fast-growing world of online, mobile and social media marketing throughout every chapter, and we'll discuss them in detail in Chapter 17.

Many firms are already using RFID technology to track products and customers at various points in the distribution channel. For example, retailers encourage suppliers shipping products to its distribution centres to apply RFID tags to their pallets. And some retailers have now installed item-level RFID systems in their stores. Fashion and accessories maker Burberry even uses chips embedded in items and linked to smartphones to provide personalised, interactive experiences for customers in its stores and at runway shows.[74]

Disney is taking RFID technology to new levels with its cool MagicBand RFID wristband:[75]

> Wearing a MagicBand at The Walt Disney World Resort opens up a whole new level of Disney's famed magic. After registering for cloud-based MyMagic+ services, with the flick of your wrist you can enter a park or attraction, buy dinner or souvenirs, or even unlock your hotel room. But Disney has only begun to tap the MagicBand's potential for personalising guest experiences. Future applications could be truly magical. Imagine, for example, the wonder of a child who receives a warm hug from Mickey Mouse or a bow from Prince Charming, who then greets the child by name and wishes her a happy birthday. Imagine animatronics that interact with nearby guests based on personal information supplied in advance. You get separated from family or friends? No problem. A quick scan of your MagicBand at a nearby directory could pinpoint the locations of your entire party. Linked to your Disney phone app, the MagicBand could trigger in-depth information about park features, ride wait times, FastPass check-in alerts and your reservations schedule. Of course, the MagicBand also offers Disney a potential mother lode of digital data on guest activities and movements in minute detail, helping to improve guest logistics, services and sales. If all this seems too Big Brother-ish, there will be privacy options – for example, letting parents opt out of things like characters knowing children's names. In all, such digital technologies promise to enrich the Disney experience for both guests and the company.

The technological environment changes rapidly, creating new markets and opportunities. However, every new technology replaces an older technology. Transistors hurt the vacuum-tube industry, digital photography hurt the film business, and digital downloads and streaming are hurting the DVD and book businesses. When old industries fight or ignore new technologies, their businesses decline. Thus, marketers should watch the technological environment closely. Companies that do not keep up will soon find their products outdated. If that happens, they will miss new product and market opportunities.

As products and technologies become more complex, the public needs to know that these items are safe. Many countries have created agencies and complex regulations to ban potentially unsafe products, and to establish safety standards for consumer products and penalise companies that fail to meet them. This growing regulation has resulted in higher research and development costs and longer times between new product ideas and their introduction. Marketers should be aware of these regulations when applying new technologies and developing new products.

The political and social environment

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

Political environment Laws, government agencies and pressure groups that influence and limit various organisations and individuals in a given society.

Legislation regulating business

Even the strongest advocates of free-market economies agree that the system works best with at least some regulation. Well-conceived regulation can encourage competition and ensure fair markets for goods and services. Thus, governments develop *public policy* to guide commerce – sets of laws and regulations that limit business for the good of society as a whole. Almost every marketing activity is subject to a wide range of laws and regulations.

Author comment

Even the strongest free-market advocates agree that the system works best with at least some regulation. But beyond regulation, most companies want to be socially responsible. We'll dig deeper into marketing and social responsibility in Chapter 20.

Legislation affecting business around the world has increased steadily over the years. The United States and many other countries have many laws covering issues such as competition, fair trade practices, environmental protection, product safety, truth in advertising, consumer privacy, packaging and labelling, pricing and other important areas.

Understanding the public policy implications of a particular marketing activity is not a simple matter. Moreover, regulations are constantly changing; what was allowed last year may now be prohibited, and what was prohibited may now be allowed. Marketers must work hard to keep up with changes in regulations and their interpretations.

Business legislation has been enacted for a number of reasons. The first is to *protect companies* from each other. Although business executives may praise competition, they sometimes try to neutralise it when it threatens them. Therefore, laws are passed to define and prevent unfair competition.

The second purpose of government regulation is to *protect consumers* from unfair business practices. Some firms, if left alone, would make shoddy products, invade consumer privacy, mislead consumers in their advertising, and deceive consumers through their packaging and pricing. Rules defining and regulating unfair business practices are enforced by various agencies.

The third purpose of government regulation is to *protect the interests of society* against unrestrained business behaviour. Profitable business activity does not always create a better quality of life. Regulation arises to ensure that firms take responsibility for the social costs of their production or products. In other cases, laws exist to pursue and enforce *government policy* – the sanctions against Russia because of its incursions in the Ukraine; the Chinese government's crack-down on bribery and marketing transgressions, and control of internet access; the Indian government's desire to control inward investment and prevent the takeover of domestic firms by foreigners.

For example, IKEA in Sweden is keen to develop its furnishings business in India. In spite of local political controversy, after much wavering the Indian government has recently decided to allow foreign retailers to enter the country. The potential of the Indian market is attractive to many global retailers, including IKEA. Indeed, Mikael Ohlsson, chief executive of IKEA, told the press he had been dreaming of selling flat-pack furniture to India's rising middle class. However, in spite of New Delhi rapidly moving to open its market to foreign retailers for the first time, IKEA's strategy was stalled initially. Only in August 2018 did IKEA finally open its first store in India. The barrier was India's legal requirements for single-brand retailers to source 30 per cent of their goods from local small and medium sized companies in India.[76]

New laws and their enforcement will continue to increase. Business executives must watch these developments when planning their products and marketing programmes. Marketers need to know about the major laws protecting competition, consumers and society. They need to understand these laws at the local, state, national and international levels.

Increased emphasis on ethics and socially responsible actions

Written regulations cannot possibly cover all potential marketing abuses, and existing laws are often difficult to enforce. However, beyond written laws and regulations, business is also governed by social codes and rules of professional ethics.

Socially responsible behaviour

Enlightened companies encourage their managers to look beyond what the regulatory system allows and simply 'do the right thing'. These socially responsible firms actively seek out ways to protect the long-term interests of their consumers and the environment.

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

The boom in online, mobile and social media marketing has created a new set of social and ethical issues. Critics worry most about online privacy issues. There has been an explosion in the amount of personal digital data available. Users themselves supply some of it. They voluntarily place highly private information on social media sites, such as Facebook or LinkedIn, or on genealogy sites that are easily searched by anyone with a computer or a smartphone.

However, much of the information is systematically developed by businesses seeking to learn more about their customers, often without consumers realising that they are under the microscope. Legitimate businesses track consumers' online browsing and buying behaviour, and collect, analyse and share digital data from every move consumers make at their online sites. Critics worry that these companies may now know *too* much and might use digital data to take unfair advantage of consumers. Although most companies fully disclose their internet privacy policies and most try to use data to benefit their customers, abuses do occur. As a result, consumer advocates and policy makers are taking action to protect consumer privacy. In Chapters 4 and 20, we discuss these and other societal marketing issues in greater depth.

Cause-related marketing

To exercise their social responsibility and build more positive images, many companies are now linking themselves to worthwhile causes. These days, every product seems to be tied to some cause. Some companies are founded on cause-related missions. Under the concept of 'values-led business' or 'caring capitalism', their mission is to use business to make the world a better place. For example, Warby Parker – an American online marketer of low-priced prescription eyewear based in New York City – was founded with the hope of bringing affordable eyewear to the masses. The company sells 'eyewear with a purpose'. For every pair of glasses Warby Parker sells, it distributes a free pair to someone in need. The company also works with not-for-profit organisations that train low-income entrepreneurs to sell affordable glasses. 'We believe that everyone has the right to see', says the company.[77]

Cause-related marketing has become a primary form of corporate giving. It lets companies 'do well by doing good' by linking purchases of the company's products or services with benefiting worthwhile causes or charitable organisations. Beyond being socially admirable, Warby Parker's Buy a Pair, Give a Pair programme also makes good economic sense, for both the company and its customers. 'Companies can do good in the world while still being profitable', says Warby Parker co-founder Neil Blumenthal. 'A single pair of reading glasses causes, on average, a 20 per cent increase in income. Glasses are one of the most effective poverty alleviation tools in the world.'[78]

Cause-related marketing has also stirred some controversy. Critics worry that cause-related marketing is more a strategy for selling than a strategy for giving – that 'cause-related' marketing is really 'cause-exploitative' marketing. Thus, companies using cause-related marketing might find themselves walking a fine line between increased sales and an improved image and facing charges of exploitation. However, if handled well, cause-related marketing can greatly benefit both the company and the cause. The company gains an effective marketing tool while building a more positive public image. The charitable organisation or cause gains greater visibility and important new sources of funding and support. Spending on cause-related marketing in the United States skyrocketed from only $120 million in 1990 to $2 billion in 2016.[79]

Author comment

Cultural factors strongly affect how people think and how they consume, so marketers are keenly interested in the cultural environment.

The cultural environment

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

Cultural environment
Institutions and other forces that affect society's basic values, perceptions, preferences and behaviours.

The persistence of cultural values

People in a given society hold many beliefs and values. Their core beliefs and values have a high degree of persistence. These beliefs shape more specific attitudes and behaviours found in everyday life. *Core* beliefs and values are passed on from parents to children and are reinforced by schools, businesses, religious institutions and government.

Secondary beliefs and values are more open to change. Believing in marriage is a core belief; believing that people should get married early in life is a secondary belief. Marketers have some chance of changing secondary values but little chance of changing core values. For example, family-planning marketers could argue more effectively that people should get married later than not get married at all.

Shifts in secondary cultural values

Although core values are fairly persistent, cultural swings do take place. Consider the impact of popular music groups, movie personalities and other celebrities on young people's hairstyle and clothing norms. Marketers want to predict cultural shifts to spot new opportunities or threats. The major cultural values of a society are expressed in people's views of themselves and others as well as in their views of organisations, society, nature and the universe.

People's views of themselves

People vary in their emphasis on serving themselves versus serving others. Some people seek personal pleasure, wanting fun, change and escape. Others seek self-realisation through religion, recreation, or the avid pursuit of careers or other life goals. Some people see themselves as sharers and joiners; others see themselves as individualists. People use products, brands and services as a means of self-expression, and they buy products and services that match their views of themselves.

Marketers can position their brands to appeal to specific self-view segments. For example, consider Sperry, maker of storied Sperry Top-Sider boat shoes (the first American brand of boat shoes that was introduced into the boating and footwear markets):[80]

> Sperry first introduced its iconic Top-Sider shoes in 1935 as the perfect non-slip boat shoe for rough seas and slippery decks. That nautical legacy remains an important part of Sperry's positioning. The brand's recent 'Odysseys Await' marketing campaign confirms that the sure-footed shoes are built for adventurous soles who can't stay put. The campaign targets 'intrepid consumers' – active Millennials who view themselves as adventurous, authentic, bold and creative. 'There's a certain section of Millennials that really look at life as an opportunity', says a Sperry marketer. They 'want to have meaningful experiences and align with brands that provide opportunities for such'. The 'Odysseys Await' campaign reconnects the brand with the sea, featuring intrepid consumers having nautical adventures, jumping off boats, sailing and diving off cliffs. Headlines such as 'The best stories are written with your feet', 'Keep your laces tight and your plans loose', 'Try living for a living' and 'If Earth has an edge, find it' suggest that Sperry Top-Siders are more than just shoes. They are the embodiment of customers' self-views and lifestyles.

People's views of others

People's attitudes toward and interactions with others shift over time. In recent years, some analysts have voiced concerns that the digital age would result in diminished human interaction, as people buried themselves in social media pages or emailed and texted rather than interacting personally. Instead, today's digital technologies seem to have launched an era of what one trend watcher calls 'mass mingling'. Rather than interacting less, people are using social media and mobile communications to connect more than ever. Basically, the more people meet, network, text and socialise online, the more likely they are to eventually meet up with friends and followers in the real world.

However, these days, even when people are together, they are often 'alone together'. Groups of people may sit or walk in their own little bubbles, intensely connected to tiny screens and keyboards. One expert describes the latest communication skill as 'maintaining eye contact with someone while you text someone else; it's hard but it can be done', she says. 'Technology-enabled, we are able to be with one another, and also "elsewhere", connected to wherever we want to be'.[81] Thus, whether the new technology-driven communication is a blessing or a curse is a matter of much debate.

This new way of interacting strongly affects how companies market their brands and communicate with customers. Consumers increasingly tap digitally into networks of friends and online brand communities to learn about and buy products and to shape and share brand experiences. As a result, it is important for brands to participate in these networks too.

People's views of organisations

People vary in their attitudes toward corporations, government agencies, trade unions, universities and other organisations. By and large, people are willing to work for major organisations and expect them, in turn, to carry out society's work.

The past two decades have seen a sharp decrease in confidence in and loyalty toward business and political organisations and institutions in many developed countries. In the workplace, there has been an overall decline in organisational loyalty. Waves of company downsizings bred cynicism and distrust. In just the past decade, major corporate scandals, rounds of layoffs resulting from the recession, the financial meltdown triggered by Wall Street bankers' greed and incompetence, and other unsettling activities have resulted in a further loss of confidence in big business. Many people today see work not as a source of satisfaction but as a required chore to earn money to enjoy their non-work hours. This trend suggests that organisations need to find new ways to win consumer and employee confidence.

People's views of society

People vary in their attitudes toward their society – patriots defend it, reformers want to change it and malcontents want to leave it. People's orientation to their society influences their consumption patterns and attitudes toward the marketplace.

Consumers' national emotion is an interesting example of how people's view of society influences their consumption. For example, patriotism has been increasing gradually for the past two decades among many Western countries. One annual consumer survey shows that some brands are highly associated with patriotism, such as Jeep, Coca-Cola, Disney, Levi Strauss, Harley-Davidson, Gillette and Apple. Marketers respond with renewed 'Made in America' pitches and ads with patriotic themes. For example, last summer, for the fourth of July holiday, Coca-Cola launched a limited-edition red, white and blue flag can. Apple recently kicked off a $100 million 'Made in America' push with the introduction of a new high-end Mac Pro personal computer. The Mac Pro, 'the most powerful Mac ever', is built in Austin, Texas, with components made domestically. And Jeep's recent patriotic 'Portraits' Super Bowl ad – which featured famous and ordinary faces of Americans who've driven Jeeps through 75 years of wars, peace, boom times and bust – resonated strongly with Americans. 'We don't make Jeep', concludes the ad, 'you do'.[82] A similar push can be found in the UK, when manufacturers and retailers stress the 'Made in Britain' label in their promotions.

Although most such marketing efforts are tasteful and well received, they can sometimes prove tricky. Flag-waving promotions can be viewed as corny or as token attempts to cash in on the nation's emotions. For example, some critics note that, so far, Apple's 'Made in America' push hasn't had much real impact. The Mac Pro contributes less than 1 per cent of Apple's total revenues. More than 70 per cent of the company's revenues come from its iPhone and iPad products, both built in China. Marketers must take care when appealing to patriotism and other strong national emotions.

People's views of nature

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

This renewed love of things natural has created a sizeable and growing market of consumers who seek out everything from natural, organic and nutritional products to fuel-efficient cars and alternative medicines. For example, food producers have also found fast-growing markets for natural and organic products. It is interesting that even after severe economic downturn in the UK, research suggests that sales of ethical goods continue to rise – it seems British consumers refuse to sacrifice principle for price or convenience. This growth is sustained in part by the conversion of many brands like Cadbury's chocolate and Nestlé's Kit Kat bars to Fairtrade – guaranteeing minimum price and conditions for producers in emerging markets.[83]

People's views of the universe

Finally, people vary in their beliefs about the origin of the universe and their place in it. Although many people are dropping out of organised religion in the West, it doesn't mean that they are abandoning their faith. Some futurists have noted a renewed interest in spirituality, perhaps as a part of a broader search for a new inner purpose. People have been moving away from materialism and dog-eat-dog ambition to seek more permanent values – family, community, earth, faith – and a more certain grasp of right and wrong. This changing spiritualism affects consumers in everything from the television shows they watch and the books they read to the products and services they buy.

Responding to the marketing environment

Author comment

Rather than simply watching and reacting to the marketing environment, companies should take proactive steps.

Someone once observed, 'There are three kinds of companies: those who make things happen, those who watch things happen, and those who wonder what's happened.' Many companies view the marketing environment as an uncontrollable element to which they must react and adapt. They passively accept the marketing environment and do not try to change it. They analyse environmental forces and design strategies that will help the company avoid the threats and take advantage of the opportunities the environment provides.

Other companies take a *proactive* stance toward the marketing environment. Rather than assuming that strategic options are bounded by the current environment, these firms develop strategies to change the environment. Companies and their products often create and shape new industries and their structures, products such as Ford's Model T car, Apple's iPod and iPhone, Google's search engine and Amazon's online marketplace.

Even more, rather than simply watching and reacting to environmental events, proactive firms take aggressive actions to affect the publics and forces in their marketing environment. Such companies hire lobbyists to influence legislation affecting their industries and stage media events to gain favourable press coverage. They take to social media and run blogs to shape public opinion. They press lawsuits and file complaints with regulators to keep competitors in line, and they form contractual agreements to better control their distribution channels.

By taking action, companies can often overcome seemingly uncontrollable environmental events. For example, whereas some companies try to hush up negative talk about their products, others proactively counter false information. McDonald's did this when a photo went viral showing unappetising 'mechanically separated chicken' (also known as 'pink goop') and associating it with the company's Chicken McNuggets:[84]

> McDonald's quickly issued statements disclaiming the pink goop photo as a hoax and noting that McNuggets are made using only boneless white breast meat chicken in a process that never produces anything remotely resembling the weird pink substance. But McDonald's took its response an important step further. It created its own nearly three-minute social media video giving a tour of a company processing plant in Canada, showing the step-by-step process by which McNuggets are made. In the process, fresh chicken breasts are ground and seasoned, stamped into four nugget shapes (balls, bells, boots and bow ties), battered, flash-fried, frozen, packaged and shipped out to local McDonald's restaurants where they are fully cooked. There's not a trace of the gross pink goop anywhere in the process. The proactive video itself went viral, garnering more than 3.5 million YouTube views in less than six weeks. As a follow-up, McDonald's launched a campaign inviting consumers to submit questions about its food-making processes via Facebook, Twitter, YouTube and other social media. It then addressed the top concerns in a series of 'behind-the-scenes' webisodes.

Marketing management cannot always control environmental forces. In many cases, it must settle for simply watching and reacting to the environment. For example, a company would have little success trying to influence geographic population shifts, the economic environment or major cultural values. But whenever possible, smart marketing managers take a *proactive* rather than *reactive* approach to the marketing environment.

Learning outcomes review

In this and the next two chapters, you'll examine the environments of marketing and how companies analyse these environments to better understand the marketplace and consumers. Companies must constantly watch and manage the *marketing environment* to seek opportunities and ward off threats. The marketing environment consists of all the actors and forces influencing the company's ability to transact business effectively with its target market.

Objective 1 Describe the environmental forces that affect the company's ability to serve its customers (pp. 71–75)

The company's *microenvironment* consists of actors close to the company that combine to form its value delivery network or that affect its ability to serve customers. It includes the company's *internal environment* – its several departments and management levels – as it influences marketing decision making. *Marketing channel firms* – suppliers, marketing intermediaries, physical distribution firms, marketing services agencies and financial intermediaries – cooperate to create customer value. *Competitors* vie with the company in an effort to serve customers better. Various *publics* have an actual or potential interest in or impact on the company's ability to meet its objectives. Finally, five types of customer *markets* exist: consumer, business, reseller, government and international markets.

The *macroenvironment* consists of larger societal forces that affect the entire microenvironment. The six forces making up the company's macroenvironment are demographic, economic, natural, technological, political/social and cultural forces. These forces shape opportunities and pose threats to the company.

Objective 2 Explain how changes in the demographic and economic environments affect marketing decisions (pp. 75–87)

Demography is the study of the characteristics of human populations. Today's *demographic environment* shows a changing age structure, shifting family profiles, geographic population shifts, a better-educated and more white-collar population, and increasing diversity. The *economic environment* consists of factors that affect buying power and patterns. The economic environment is characterised by more frugal consumers who are seeking greater value – the right combination of good quality and service at a fair price. The distribution of income is also shifting. The rich have grown richer, the middle class has shrunk and the poor have remained poor, leading to a two-tiered market.

Objective 3 Identify the major trends in the firm's natural and technological environments (pp. 87–91)

The *natural environment* shows three major trends: shortages of certain raw materials, higher pollution levels and more government intervention in natural resource management. Environmental concerns create marketing opportunities for alert companies. The *technological environment* creates both opportunities and challenges. Companies that fail to keep up with technological change will miss out on new product and marketing opportunities.

Objective 4 Explain the key changes in the political and cultural environments (pp. 91–96)

The *political environment* consists of laws, agencies and groups that influence or limit marketing actions. The political environment has undergone changes that affect marketing worldwide: increasing legislation regulating business, strong government agency enforcement, and greater emphasis on ethics and socially responsible actions. The *cultural environment* consists of institutions and forces that affect a society's values, perceptions, preferences and behaviours. The environment shows trends toward new technology-enabled communication, a lessening trust of institutions, increasing patriotism, greater appreciation for nature, a changing spiritualism, and the search for more meaningful and enduring values.

Objective 5 Discuss how companies can react to the marketing environment. (p. 96)

Companies can passively accept the marketing environment as an uncontrollable element to which they must adapt, avoiding threats and taking advantage of opportunities as they arise. Or they can take a *proactive* stance, working to change the environment rather than simply reacting to it. Whenever possible, companies should try to be proactive rather than reactive.

Navigating the key terms

Objective 1
Marketing environment (p. 70)
Microenvironment (p. 71)
Macroenvironment (p. 71)
Marketing intermediaries (p. 72)
Public (p. 74)

Objective 2
Demography (p. 75)
Baby boomers (p. 76)
Generation X (p. 77)
Millennials (Generation Y) (p. 77)
Generation Z (p. 78)
Economic environment (p. 85)

Objective 3
Natural environment (p. 87)
Environmental sustainability (p. 88)
Technological environment (p. 90)

Objective 4
Political environment (p. 91)
Cultural environment (p. 93)

Discussion and critical thinking

Discussing the concepts

3.1 Name and describe the types of publics in a company's marketing environment. (AACSB: Communication)

3.2 What are marketing intermediaries, and are they important for marketers? (AACSB: Communication; Reflective thinking)

3.3 Describe Generation Z. What differentiates Gen Zers from other demographic groups, such as baby boomers, Generation X and Millennials? (AACSB: Communication; Reflective thinking)

3.4 Discuss the impact of the changing age structure of the population on consumer spending and buying behaviour. Why is this trend important to marketers? (AACSB: Communication; Reflective thinking)

3.5 Why should marketers pay close attention to the cultural environment? (AACSB: Communication)

Critical-thinking exercises

3.6 In 1965, more than 40 per cent of American adults were smokers. That percentage has now fallen to less than 18 per cent. Tobacco companies have dealt with this threat by developing new markets overseas and also developing alternative nicotine products such as electronic cigarettes (e-cigarettes). Research this product and the regulatory environment regarding this product, then write a report advising tobacco companies on the opportunities and threats posed by this technology. (AACSB: Communication; Reflective thinking)

3.7 Form a small group and discuss cultural trends in the United States. Research one of them in depth and create a presentation on the trend's impact on marketing. (AACSB: Communication; Reflective thinking)

3.8 Visit www.causemarketingforum.com to learn about companies that have won Halo Awards for outstanding cause-related marketing programmes. Present an award-winning case study to your class. (AACSB: Communication; Use of IT)

Mini-cases and applications

Online, mobile and social media marketing: sharing economy

Changes in the technological environment have created amazing opportunities for new business models while at the same time threatening traditional ones. For example, Airbnb has shaken up the hospitality industry by allowing people to rent out spare rooms or their entire homes to strangers. The Uber and Lyft ride-sharing businesses allow consumers to find a ride from people looking to earn extra money with their vehicles. And with Uber you don't have to worry about having enough cash or giving your credit card to the driver – payments and tips are all done through the Uber app. Traditional hotel and cab companies are crying foul, claiming that these businesses are not playing by the same regulatory rules to which they are subject. Others are concerned about safety amid reports of riders allegedly being attacked, kidnappings and driver accidents, questioning the thoroughness of background checks of the 160,000-plus Uber drivers around the world. Some counties, states and cities in the United States have banned Uber because of these issues.

3.9 Describe how Uber's business model works and the role technology has played in its success. What are the arguments for banning these types of businesses? What are the arguments for defending them? (AACSB: Communication; Use of IT; Reflective thinking)

3.10 Describe examples of two other businesses based on the sharing economy model and create a new business idea based on this concept. (AACSB: Communication; Reflective thinking)

Marketing ethics: how young is too young?

Walmart rolled out a cosmetics line aimed at girls as young as nine years old. According to the *Wall Street Journal*, Walmart introduced this line called geoGirl to meet the demands of 'tween' girls. The geoGirl line was developed free of chemicals (phthalates and parabens), synthetic colours and fragrances, allowing marketers to promote the 'environmentally friendly' product offering to parents. Capitalising on this demand trend, Target launched the Hello Kitty line. Tween boys are not to be left out: Axe markets a line of chocolate-scented body spray and Old Spice developed Swagger body wash. Recently, focus has been placed on girls' self-images as they near the teen years. Some child development experts say makeup for young girls places too much emphasis on appearance, while others say a little lipstick shouldn't cause much concern.

3.11 Is it an appropriate business strategy to use a popular movement such as environmentalism to market an unrelated product?

3.12 Apart from the question of placing undue emphasis on a child's appearance, what factors should marketers consider in developing campaigns for these types of products?

Marketing by numbers: tiny markets

Many marketing decisions boil down to numbers. An important question is this: what is the sales potential in a given market? If the sales potential in a market is not large enough to warrant pursuing that market, then companies will not offer products and services to that market, even though a need may exist. Consider the medical market segment of infants and children. You've probably heard of heart procedures, such as angioplasty and stents, that are routinely performed on adults. But such heart procedures, devices and related medications are not available for infants and children, despite the fact that thousands of children every year are born with heart defects that often require repair. This is a life or death situation for many young patients, yet doctors must improvise by using devices designed and tested on adults. For instance, doctors use an adult kidney balloon on an infant's heart because it is the appropriate size for a newborn's aortic valve. However, this device is not approved for the procedure. Why are specific devices and medicines developed for the multi-billion-euro cardiovascular market not also designed for children? It's a matter of economics – this segment comprising young consumers is just too small. One leading cardiologist attributed the discrepancy to a 'profitability gap' between the children's market and the much more profitable adult market for treating heart disease. While this might make good economic sense for companies, it is little comfort to the parents of these small patients. Certainly there is a need for medical products to save children's lives. Still, companies are not pursuing this market.

3.13 Using the chain ratio method described in Appendix 2, estimate the market sales potential for heart catheterisation products to meet the needs of the infant and child segment in a country or region of your choice (e.g., the UK or the EU). Assume that of children with heart defects each year, 60 per cent will benefit from these types of products but that only 50 per cent of their families have the financial resources to obtain such treatment (and they are not available free in national healthcare facilities). Also assume the average price for a device is €1,000. (AACSB: Communication; Analytical reasoning)

3.14 Research the medical devices market and compare the market potential you estimated to the sales of various devices. Are companies justified in not pursuing the infant and child segment? (AACSB: Communication; Reflective thinking)

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Company case

Fitbit: riding the fitness wave to glory

It was 2009. James Park and Eric Friedman were at a breaking point. They'd been flitting around Asia for months, setting up the supply chain for their company's first product, the Fitbit Tracker. Having raised capital to launch the product with nothing more than a circuit board in a balsa wood box, they were now on the verge of pushing the button to start the assembly line. But with thousands of orders to fill, they discovered that the antenna on the device wasn't working properly. They stuck a piece of foam on the circuit board and called it 'good enough'. Five thousand customers received shiny new Fitbit Trackers just in time for the holidays.

Getting a start-up company off the ground is challenging. Getting a hardware start-up to succeed is near impossible, especially when you're the pioneer. But with so many changes in the marketing environment, Park and Friedman knew they had something special. Pedometers had been selling for years, following personal fitness and wellness trends. But those devices were low-tech and limited in the information they provided consumers. And with the seemingly endless demand for high-tech gadgetry, Park and Friedman saw big potential for using sensors in small, wearable devices.

The two entrepreneurs were correct. In just seven years, Fitbit has marketed more than a dozen different products and sold millions of units In 2015 alone, the company shipped 21 million devices – almost double the previous year's number – ringing up $1.86 billion in revenues and $116 million in profits. Fitbit created what is now a fast-growing segment – wearable tech. Amid its best year to date, Fitbit went public with an initial public offering of $4.1 billion. How did the company go from a balsa wood box to sitting atop an exploding industry? To hear Park tell it, 'It was the right product at the right time at the right price point.'

A magical device

Although Park's response may seem simplistic, it's right on. Coming up with a product that delivers the right benefits to consumers at precisely the time they need them is the key to any new product launch. In Fitbit's case, consumers were hungry for this small device that could not only track steps taken but calculate distance walked, calories burned, floors climbed, and activity duration and intensity, all from an unobtrusive spot – clipped on a trouser pocket. What's more, the Fitbit Tracker could track sleep quality based on periods of restlessness, the amount of time before falling asleep and the amount of time actually sleeping.

Even more enticing to consumers, the device could upload data to a computer and make them available on the Fitbit website. At the site, users could overview their physical activity, set and track goals, and keep logs on food eaten and additional activities not tracked by the device. To top things off, the explosion of social media and sharing personal information went hand in hand with what users were uploading. By design, Park and Friedman put more into Fitbit's software than its own hardware, recognising that other hardware device companies like Garmin had short-changed the software aspect.

But Fitbit's success can also be attributed to new models. Recognising that gadgets have a limited life span and that competition would attempt to improve on its offerings, Fitbit has made development a constant process. From the original Tracker to its current Blaze smartwatch with GPS, heart-rate monitor and the ability to display smartphone notifications for calls, texts, calendar alerts, Fitbit has stayed ahead in giving consumers what they want.

An unexpected opportunity

Still, Fitbit's path to success has been challenging. One big challenge the company has faced from the start is customer retention. Like many diets and pieces of exercise equipment, users are drawn to the 'wow' factor of something that can improve their health and wellness but quickly fizzle out. And if users stop using a device, they are far less likely to purchase the 'new-and-improved' version, much less recommend it to anyone else. But an interesting thing happened as Fitbit got things rolling. The company received a flood of calls and messages from corporate human resource departments. Perplexed as to why businesses would want to buy Fitbit devices in bulk, the company assigned a point person to find out.

It turned out that corporate America was going through a push to enrol employees in wellness programmes. The reasons for this push extended far beyond concerns about employee health and well-being. Healthy employees provide major benefits for a company. They call in sick less often and are generally more productive. They also cost less in terms of health-care benefits. And although diet and exercise can't erase every poor health condition, they can have a big effect on health factors such as blood pressure, cholesterol levels and blood sugar levels – conditions related to common diseases such as heart disease, stroke and diabetes. So it's no wonder that companies have an incentive to do whatever they can to motivate employees to take better care of themselves.

As Fitbit talked to companies, it discovered that most were struggling to enrol even a small proportion of employees in their workforce wellness programmes – many had less than 20 per cent compliance. One problem was that – even as the latest fitness wearables from Fitbit and its competitors were showing up around offices everywhere – participation in corporate wellness programmes often required the use of a bulky corporate-issued tracker, better known as an analogue pedometer. 'Can you imagine asking engineers to wear a janky old pedometer and write down their steps?' mused Amy McDonough, Fitbit's corporate point person. Fitbit, of course, offered a much more high-tech option, letting individuals easily track more complex data and letting HR departments easily compile and analyse the data as well. Fitbit's bulk sales to corporations started rolling in.

Much to Fitbit's pleasant surprise, Fitbit products sold through corporations versus those sold to individuals had noticeably higher retention rates. Fitness trackers in corporate wellness programmes were often used in wellness challenges – maintain a minimum of 10,000 steps a day and get free annual leave days or a discount on health insurance premiums. It might seem logical that people would stop using their devices once a challenge ended. But when IBM gave out 40,000 Fitbits to employees over a two-year period, it found not only that 96 per cent of employees routinely logged their health data and eating habits but that 63 per cent of employees continued to wear their Fitbits months after the challenge concluded.

Other companies noted even greater tangible benefits. Cloud-services start-up Appirio bought Fitbit devices for 400 employees. Armed with data from the wearables, Appirio was able to convince its health insurance provider, Anthem, that the increased health benefits were translating into lower health-care costs. This gave Appirio the leverage to negotiate lower premiums, shaving $280,000 off its annual bill.

Today, Fitbit's well division offers tools specifically designed for employers, such as dashboards, dedicated service support and webinars. Corporate clients include BP America, Kimberly-Clark, Time Warner and Barclays. Target offered Fitbit Zip trackers to 335,000 of its employees. Corporate sales currently account for 10 per cent of Fitbit revenues. But the corporate share of the sales will increase, as adoption in that sector is growing at a faster rate than in consumer markets. Founder Park claims that the use of Fitbits in employee wellness programmes is having an impact not only on health and well-being but on job safety as well. Companies have also experienced improvements in office cultures as a result of the unified effort among co-workers to achieve fitness goals together – a factor that is also likely boosting retention numbers in the corporate setting.

Encountering hurdles

With high growth rates and plenty of market potential, it would seem that the sky is the limit for Fitbit. But Fitbit still faces numerous obstacles. For starters, privacy issues have increased as technology creates new ways to gather and share information. In Fitbit's early days, information logged by users was public by default. That meant that as users integrated their information into social networks, their fitness, eating, sleeping and, in some cases, sexual activities were being posted for all to see. That was easily remedied by making 'private' the default setting. But general concerns about what happens with uploaded personal data remain, even amid assurances from Fitbit that it does not analyse individual data or sell or share consumer data.

But other privacy matters haven't been so easily managed. Fitness trackers and the data they generate are not regulated. That means that any organisation bound by compliance with the U.S. Health Insurance Portability and Accountability Act (HIPAA) has had to tread lightly when adopting a digital tracking device. Fitbit has always been proactive on privacy and information security issues, leading the industry by working with Congress on legislation in this area. Fitbit recently achieved HIPAA compliance, which goes a long way toward putting employers' fears about privacy and security to rest.

But other concerns remain on the part of both employers and employees. Even as Fitbit and its corporate customers do all they can to allay privacy concerns, many employees have expressed concerns that companies will misuse the data. Concern about what data are being collected and how they are being used has led some employees to wonder whether their Fitbits could be telling employers if they are recovering from a wild night of partying, calling in sick when they really aren't, feeling nervous in a meeting or even if they become pregnant.

Although the overall benefits of integrating a Fitbit device into wellness programmes and the associated challenges seem clear, there are negative outcomes as well. Health experts point to the potential for a cultural divide between the 'dos' and the 'do nots'. Employees with disabilities, chronic ailments or even unhealthy habits may opt out of such programmes. Particularly in programmes that use leader boards and group incentives, the result can be to celebrate the fit but demoralise those who are not. And rewards given to those who participate as well as those who succeed are viewed as penalties for those who opt out.

Cheaters are also a concern. Yes, some participants in wellness programmes have found ways to fool their Fitbits. For example, a dog can trigger 13,000 to 30,000 steps per day with a Fitbit attached to its collar, easily exceeding the standard 10,000-step goal. Social media sites have erupted with shared practices. 'Want to cheat your Fitbit? Try a puppy or a power drill', suggests one tweet with a link to instructions. Other methods for logging steps include putting it in the dryer, shaking the fist, attaching it to small children, playing the piano, conducting music and whisking a bowl of chocolate-chip cookie batter. Even the vibrations from riding a Harley or a lawnmower can do the trick.

Beyond these concerns that stand in the way of more widespread acceptance and use, perhaps Fitbit's greatest challenge is competition. With a dominant market share in the rapidly growing product category that it created, you might think the Fitbit has it made. However, as digital technologies advance on all fronts, it has become apparent that a fitness tracker is not a product. It's a feature. That became painfully apparent when the Apple Watch hit the market. The Apple Watch wowed the public as a wrist-worn extension of the iPhone with practically unlimited app potential. Its fitness tracking features seemed to minimise those of Fitbit's products. And if Apple can jump Fitbit's train as one simple addition to a far more robust product, what other companies and devices might make their way into Fitbit's territory? And on the software and analytics side, Apple Health and Google Fit seem poised to corner the market with compatibility across mobile platforms.

But Fitbit is hard at work differentiating its wares and positioning itself as more than just a maker of fitness trackers. It has already introduced its own smartwatch. And its 'next big leap' is to move beyond fitness tracking into medical diagnosis. By partnering with organisations that can link Fitbit's products with more detailed clinical research, Fitbit devices could soon replace blood glucose meters and even alert users to dangerous health conditions and disease. If Fitbit can successfully position itself on strengths that competitors have a hard time replicating, the sky may be the limit.

Questions for discussion

1 What microenvironmental factors have affected Fitbit since it opened for business?

2 What macroenvironmental factors have affected Fitbit?

3 How should Fitbit overcome the threats and obstacles it faces?

4 What factors in the marketing environment not mentioned in this case could affect Fitbit?

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Chapter Four

Managing marketing information to gain customer insights

Chapter preview

In this chapter, we continue our exploration of how marketers gain insights into consumers and the marketplace. We look at how companies develop and manage information about important marketplace elements: customers, competitors, products and marketing programmes. To succeed in today's marketplace, companies must know how to turn mountains of marketing information into fresh customer insights that will help them engage customers and deliver greater value to them.

Let's start with a story about marketing research and customer insights in action. In order to tailor its products to the market it operates in, Italian chocolate and confectionary manufacturer Ferrero derives fresh insights on customers and the marketplace from marketing information. The company's ability to use this information and capitalise on it by improving decision making and tailoring their offerings to the local market has been a key success factor in major and growing markets such as India.

Learning outcomes

- **Objective 1** You will be able to explain the importance of information in gaining insights about the marketplace and customers.
  Marketing information and customer insights (pp. 109–110)
- **Objective 2** You will be able to define the marketing information system and discuss its parts.
  Assessing information needs and developing data (pp. 110–113)
- **Objective 3** You will be able to outline the steps in the marketing research process.
  Marketing research (pp. 113–125)
- **Objective 4** You will be able to explain how companies analyse and use marketing information.
  Analysing and using marketing information (pp. 125–128)
- **Objective 5** You will be able to discuss the special issues some marketing researchers face, including public policy and ethics issues.
  Other marketing information considerations (pp. 128–132)

Ferrero: managing marketing information and customer insights

Ferrero SpA is an Italian manufacturer of branded chocolate and confectionery products, and the third biggest chocolate producer and confectionery company in the world. It was founded in 1946 in Alba, Italy, by Pietro Ferrero and is still privately owned by the Ferrero family. In the updated listings for the year 2016, Ferrero was named the most reputable company in the food-and-beverages sector in Reputation Institute's Global RepTrak 100, which ranks the world's most reputable companies on innovation, governance and citizenship. Its recent revenue is over €8.75 billion, a 12 per cent rise from the previous year. The company employs just over 33,000 people worldwide. Because of its consistent commitment to innovation and customer focus, the company has outperformed its competitors in many markets.

The firm concentrates on meeting high standards; thus, it manufactures only in places where it is sure it can deliver consistently and establish a secure retail supply chain. The company strives to understand market preferences and has a proven track record of successfully managing marketing information and gaining customer insights. A prime example of this is when it created a new market for premium chocolate in India with the help of sophisticated marketing analysis.

When Ferrero entered India in 2004, the country did not really have a ready market for premium chocolates. Since India is a very price-sensitive country, most brands offer product at low prices in small packs. Market-leader Cadbury had been selling its flagship brand, Dairy Milk, at an entry price of €0.06 for over a decade. That has changed today due to Ferrero's sophisticated and ongoing analysis of the local market and its customers that paved the way for a new product segment in that region. Premium chocolates now make up about 27 per cent of the market in India. Besides Ferrero, several companies compete in this segment, including Cadbury, Nestlé, Mars, Hershey and Lindt. Cadbury, with its Celebrations, Bourneville and Silk brands, is the market leader, with more than 60 per cent share in the premium segment and 70 per cent overall.

Within just a decade, Ferrero has garnered a 6 per cent share of the Indian chocolate market. More notably, it is credited with developing the premium segment. When Ferrero launched its Rocher chocolates, the only competing brand was Cadbury Celebrations, which was priced at between €1.31 and €2.32 per box. However, Ferrero has managed to launch their product at €3.98 (per box of 12 chocolates) and make it work, even at such a steep price point. So, how did the Italian confectionery giant do it?

The company rolled out Rocher chocolates across India in 2007 and followed this up in 2009 with Tic Tac and Kinder Joy, an egg-shaped chocolate for children that comes with a toy. In October 2011, it opened a factory at Baramati, in the state of Maharashtra. The factory produces one million Kinder Joy eggs and 20 million pellets of Tic Tac daily. Though the company still imports Rocher, it has made India its centre for Asia and exports half its local production. Ferrero set up its branch office in Chennai because this region offered contrasting cultures with different needs and wants.

Ferrero sensed as early as 2004 that there was a set of consumers in India willing to pay a premium price for a box of chocolates. To gain and manage the appropriate marketing information and customer insights, Ferrero did not hire any market research firm when it was test-marketing Rocher. Instead, it decided to go to the market on its own

While Ferrero SpA is an Italian firm, they use local insights into consumers to tailor their products to local needs.

Source: monticello/Shutterstock

to better understand the Indian customer. The company set up a specific customer insights team as a centre of excellence in market research. This team provided deep insight into the local market; across all relevant aspects, from the launch of new products to changing packaging, developing and modifying recipes, and finding the ideal communication channels. In order to better understand the customer and their potential needs and wants as well as their habits, the Ferrero customer insights team travelled to Nagpur and smaller markets in the interior. They also visited consumer homes to understand consumer habits and aspirations. As a result, Ferrero not only realised that Indians were open to buying an expensive box of chocolates, even if it was sold in a *kirana* store (a small neighbourhood retail store in the Indian subcontinent), but they also discovered that consumers would buy expensive chocolate mostly during festivals, when they generally give sweets as gifts.

As a consequence, Ferrero supplies Rocher round the year to modern retail stores such as Food Bazaar, but *kirana* stores get these chocolates typically during the festival season (from October to March). During the summer months, Ferrero distributors do not usually allow *kirana* stores to stock more than three to four boxes so that quality is not compromised because of a lack of refrigeration facilities. The logic is that it is better not to be present at all than give the consumer a stale product. By 2014, despite being available mostly during festivals, Ferrero Rocher had captured 14 per cent share in the box chocolate category. In India, where the sheer variety of sweets is vast, where recipes vary from state to state, Ferrero has managed to lodge itself in the minds of the people as a luxury and exclusive product, and people are consuming and gifting these chocolates during local festivals in addition to other occasions when local sweets are consumed. It is worth emphasising that Ferrero's growth comes despite a 30 per cent import duty on chocolate.

Nestlé recently launched its premium brand Alpino at €0.39 a piece, for round chocolates that look like Ferrero Rocher. Although both Cadbury and Nestlé sell premium brands, they derive the major share of their revenue from mass-market products: Ferrero's strategy is different: it does not even plan to make cheaper variants of Tic Tac and Kinder Joy, but successfully pursues a premium strategy instead. Tic Tac is priced at €0.13 while most mouth-freshener candies cost €0.01. Kinder Joy is pitched as a healthy product that contains more milk than cocoa, to target mothers conscious of their children's health.

The success behind Ferrero's product launches lies in its ability to manage marketing information and gain customer insights. New flavours of products are introduced only after conducting thorough research on Indian requirements and preferences. After further in-depth marketing research, the company successfully introduced an Indian flavour, 'Elaichi Mint', to its Tic Tac brand in late 2014 to suit the local palate. This is the first time that the brand has introduced a local flavour in the market especially to cater to the Indian audience. The new flavoured Tic Tac mint has the strong flavour of cardamom and has the tag line 'The Desi Mint'. This condiment is widely used in India for its health benefits and as a mouth freshener after meals.

The Indian chocolate market has been growing at a rate of more than 15 per cent over the last seven years and is projected to grow at an even higher rate in the future. Ferrero's objective is to sell Tic Tac and Kinder Joy at 1.1 million retail stores in the next two to three years, up from 38,000 at present. Although Nestlé and Cadbury together account for the majority of the chocolate market, Ferrero is expected to overtake Nestlé in the next few years with the increasing popularity of Ferrero Rocher and Kinder Joy. The company's ability to capitalise on its management of the marketing information by gaining customer insights and using them to improve decision making will definitely prove to be a valuable asset in this endeavour.[1]

As the Ferrero story highlights, good products and marketing programmes begin with good customer information. Companies also need an abundance of information on competitors, resellers, and other actors and marketplace forces. But more than just gathering information, marketers must *use* the information to gain powerful *customer and market insights*.

Marketing information and customer insights

To create value for customers and build meaningful relationships with them, marketers must first gain fresh, deep insights into what customers need and want. Such customer insights come from good marketing information. Companies use these customer insights to develop a competitive advantage.

For example, when it began, social media site Pinterest needed to differentiate itself from the dozens, even hundreds, of existing social networking options.[2]

Pinterest's research uncovered a key customer insight: many people want more than just Twitter or Facebook-like places to swap messages and pictures. They want a way to collect, organise and share things on the internet, related to their interests and passions. So Pinterest created a social scrapbooking site where people can create and share digital pinboards – theme-based image collections of things that inspire them. 'Pinterest is your own little internet of only the things you love', says the company.

Thanks to this unique customer insight, Pinterest has been wildly popular. Today, more than 100 million active monthly Pinterest users collectively pin more than 5 million articles a day and view more than 2.5 billion Pinterest pages a month. In turn, more than a half-million businesses use Pinterest to engage and inspire their customer communities. For example, H&M has half a million Pinterest followers, Swarovski has 1.5 million followers, the United Colours of Benetton has 1.2 million followers, while Victoria's Secret has around half a million followers. Such followers are valuable – Sephora, for example, has found that its nearly 595,000 Pinterest followers spend 15 times more than its Facebook fans.

Although customer and market insights are important for building customer value and engagement, these insights can be very difficult to obtain. Customer needs and buying motives are often anything but obvious – consumers themselves usually can't tell you exactly what they need and why they buy. To gain good customer insights, marketers must effectively manage marketing information from a wide range of sources.

Author comment

Marketing information by itself has little value. The value is in the *customer insights* gained from the information and how marketers use these insights to make better decisions.

Big data The huge and complex data sets generated by today's sophisticated information generation, collection, storage and analysis technologies.

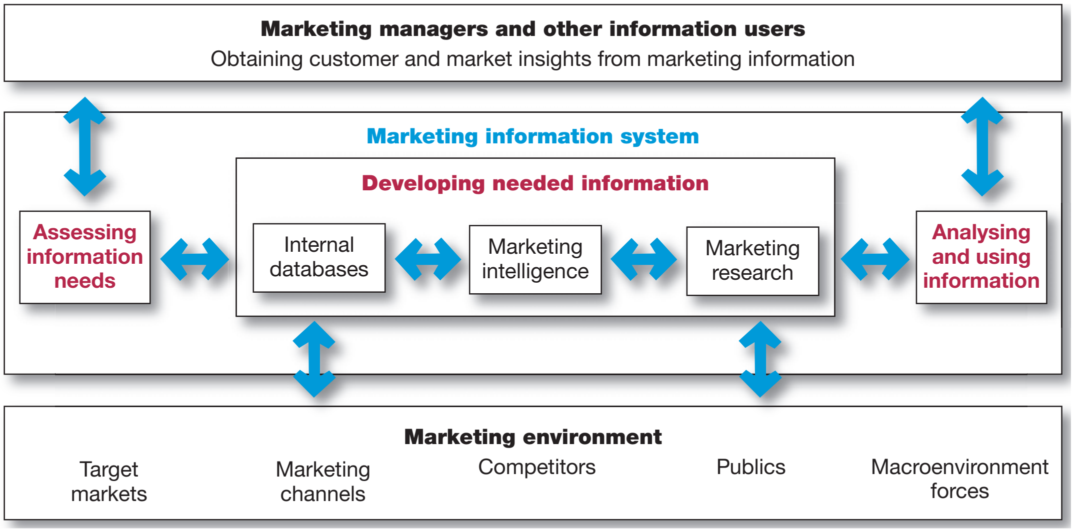
Marketing information and today's 'big data'

With the recent explosion of information technologies, companies can now generate and find marketing information in great quantities. The marketing world is filled to the brim with information from innumerable sources. Consumers themselves are now generating tons of marketing information. Through their smartphones, PCs and tablets – via online browsing and blogging, apps and social media interactions, texting and video, and geolocation data – consumers now volunteer a tidal wave of bottom-up information to companies and to each other.

Far from lacking information, most marketing managers are overloaded with data and often overwhelmed by it. This problem is summed up in the concept of **big data**. The term *big data* refers to the huge and complex data sets generated by today's sophisticated information generation, collection, storage and analysis technologies. Every year, the people and systems of the world generate about a trillion gigabytes of information. That's enough data to fill 2.47 trillion good old CD-ROMs, a stack tall enough to go to the moon and back four times. A full 90 per cent of all the data in the world has been created in just the past two years.[3]

Pinterest's unique insight into the internet generation allowed them to fulfil the needs of consumers wanting to present themselves and their interests via organised online displays of images.

Source: photobyphotoboy/Shutterstock



This chapter is all about managing marketing information to gain customer insights. And this important figure organises the entire chapter. Marketers start by assessing user information needs and then use internal data, marketing intelligence and marketing research processes. Finally, they make the information available to users in the right form at the right time.

Figure 4.1 The marketing information system

Big data presents marketers with both big opportunities and big challenges. Companies that effectively tap this glut of data can gain rich, timely customer insights. However, accessing and sifting through so much data is a daunting task. For example, when a large consumer brand such as Nestlé or Bosch monitors online discussions about its brand in tweets, blogs, social media posts and other sources, it might take in a stunning 6 million public conversations a day, more than 2 billion a year. That's far more information than any manager can digest. Thus, marketers don't need *more* information; they need *better* information. And they need to make better *use* of the information they already have.

Managing marketing information

Customer insights Fresh marketing information-based understandings of customers and the marketplace that become the basis for creating customer value, engagement and relationships.

The real value of marketing information lies in how it is used – in the **customer insights** that it provides. Based on such thinking, companies ranging from Vodaphone, IBM and Samsung to Google and American insurance company GEICO have restructured their marketing information and research functions. They have created *customer insights teams*, whose job it is to develop actionable insights from marketing information and work strategically with marketing decision makers to apply those insights.

Marketing information system (MIS) People and procedures dedicated to assessing information needs, developing the needed information, and helping decision makers to use the information to generate and validate actionable customer and market insights.

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

Figure 4.1 shows that the MIS begins and ends with information users – marketing managers, internal and external partners, and others who need marketing information and insights. First, it interacts with these information users to assess information needs. Next, it interacts with the marketing environment to develop needed information through internal company databases, marketing intelligence activities and marketing research. Finally, the MIS helps users to analyse and use the information to develop customer insights, make marketing decisions, and manage customer engagement and relationships.

Assessing marketing information needs

The marketing information system primarily serves the company's marketing and other managers. However, it may also provide information to external partners, such as suppliers, resellers or marketing services agencies. For example, Asda/Walmart's Retail Link system gives key suppliers access to information on everything from customers' buying patterns and store inventory levels to how many items they've sold in which stores in the past 24 hours.[4]

A good marketing information system balances the information users would *like* to have against what they really *need* and what is *feasible* to offer. Some managers will ask for whatever information they can get without thinking carefully about what they really need. And in this age of big data, some managers will want to collect and store vast amounts of digital data simply because technology lets them. But too much information can be as harmful as too little. In contrast, other managers may omit things they ought to know, or they may not know to ask for some types of information they should have. The MIS must monitor the marketing environment to provide decision makers with the information and insights they should have to make key marketing decisions.

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

Author comment

The marketing information system begins and ends with users – assessing their information needs and then delivering information and insights that meet those needs.

Developing marketing information

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

Author comment

The problem isn't *finding* information; in this 'big data' age, the world is bursting with information from a glut of sources. The real challenge is to find the *right* information – from inside and outside sources – and turn it into customer insights.

Internal data

Many companies build extensive **internal databases**, collections of consumer and market information obtained from data sources within the company's network. Information in an internal database can come from many sources. The marketing department furnishes information on customer characteristics, in-store and online sales transactions, and web and social media site visits. The customer service department keeps records of customer satisfaction or service problems. The accounting department provides detailed records of sales, costs and cash flows. Operations reports on production, shipments and inventories. The sales force reports on reseller reactions and competitor activities, and marketing channel partners provide data on sales transactions. Harnessing such information can provide powerful customer insights and competitive advantage.

Internal databases
Collections of consumer and market information obtained from data sources within the company network.

The European Advertising Standards Alliance (EASA) 'promotes responsible advertising in commercial communications by means of effective self-regulation, while being mindful of national differences in culture, as well as legal and commercial practice'.[5] EASA guidelines commit to providing consumers with transparency about targeted advertising, protection for children and easier ways for consumers to complain if they feel their data have been misused. The standards for online advertising using tracking cookies include an icon, to be appended to banners and other internet ads, linking to further information about targeting and giving consumers the opportunity to opt out of such tracking at youronlinechoices.eu. EASA's members consist of both self-regulatory organisations and advertising associations – including most of Europe's key regulatory associations from the Advertising Standards Authority in the UK to Stichting Reclame Code (SRC) in. the Netherlands to the Asociación para la Autorregulación de la Comunicación Comercial (AUTOCONTROL) in Spain. Companies committing to the system include Google, Microsoft, AOL and Yahoo, the last of which is already using a similar icon system on some of its sites. Publishers including *The Guardian*, *The Telegraph*, Yell and the *Financial Times* also participate. The EASA hopes that in the area of targeted advertising, its self-regulatory system will avoid the need for regular pop-ups or other clunky mechanisms to grant that permission. National industry bodies already checking that advertising does not mislead or offend, such as the UK's Advertising Standards Authority, will be enlisted to enforce the new rules. 'EASA's Best Practice Recommendation provides European consumers with clear information and innovative ways to manage their choices concerning online behavioural advertising, as well as making available the use of the tried and tested national self-regulatory organisations if consumers wish to further complain', said Angela Mills Wade, vice-chairman of the EASA.[6]

Internal databases can usually be accessed more quickly and cheaply than other information sources, but they also present some problems. Because internal information is often collected for other purposes, it may be incomplete or in the wrong form for making marketing decisions. Data also ages quickly; keeping the database current requires a major effort. Finally, managing and mining the mountains of information that a large company produces require highly sophisticated equipment and techniques.

Competitive marketing intelligence

Competitive marketing intelligence The systematic monitoring, collection and analysis of publicly available information about consumers, competitors and developments in the marketing environment.

Competitive marketing intelligence is the systematic monitoring, collection and analysis of publicly available information about consumers, competitors and developments in the marketplace. The goal of competitive marketing intelligence is to improve strategic decision making by understanding the consumer environment, assessing and tracking competitors' actions, and providing early warnings of opportunities and threats. Marketing intelligence techniques range from observing consumers first-hand to quizzing the company's own employees, benchmarking competitors' products, online research and monitoring social media buzz.

Good marketing intelligence can help marketers gain insights into how consumers talk about and engage with their brands. Many companies send out teams of trained observers to mix and mingle personally with customers as they use and talk about the company's products. Other companies – such as Philips, Mastercard, Kraft and Marriott – have set up sophisticated digital command centres that routinely monitor brand-related online consumer and marketplace activity.

Companies also need to actively monitor competitors' activities. They can monitor competitors' web and social media sites. For example, Amazon's Competitive Intelligence arm routinely purchases merchandise from competing sites to analyse and compare their assortment, speed and service quality. Companies can use the internet to search specific competitor names, events or trends and see what turns up. And tracking consumer conversations about competing brands is often as revealing as tracking conversations about the company's own brands.

Firms use competitive marketing intelligence to gain early insights into competitor moves and strategies, and to prepare quick responses. For example, Samsung routinely monitors real-time social media activity surrounding the introduction of Apple's latest iPhones, iPads and other devices to quickly shape marketing responses for its own Galaxy S smartphones and tablets. At the same time that Apple CEO Tim Cook is onstage unveiling the latest much-anticipated new models, Samsung marketing strategists are huddled around screens in a war room hundreds of miles away watching the introductions unfold. They carefully monitor not only each new device feature as it is presented but also the gush of online consumer commentary flooding blogs and social media channels. Even as the real-time consumer and competitive data surge in, the Samsung team is drafting responses. Within only a few days, just as Apple's new models are hitting store shelves, Samsung is already airing TV, print and social media responses that re-channel the excitement toward its own Galaxy line.

Mastercard and most progressive companies carefully monitor what people are saying about them and their products in a range of online forums.
Source: ESB Professional/Shutterstock

Much competitor intelligence can be collected from people inside the company – executives, engineers and scientists, purchasing agents and the sales force. The company can also obtain important intelligence information from suppliers, resellers and key customers. Intelligence seekers can also pore through any of thousands of online databases. Some are free. For example, the European Patent Office provides free access to over

70 million patent documents and Europages is a free directory of 3 million European suppliers available in 26 European languages.[7] For a fee, companies can also subscribe to any of the more than 3,000 online databases and information search services, such as Kompass, Hoover's and LexisNexis. Today's marketers have an almost overwhelming amount of competitor information only a few keystrokes away.

The intelligence game goes both ways. Facing determined competitive marketing intelligence efforts by competitors, most companies take steps to protect their own information. One self-admitted corporate spy advises that companies should try conducting marketing intelligence investigations of themselves, looking for potentially damaging information leaks. They should start by 'vacuuming up' everything they can find in the public record, including job postings, court records, company advertisements and blogs, web pages, press releases, online business reports, social media postings by customers and employees, and other information available to inquisitive competitors.[8]

The growing use of marketing intelligence also raises ethical issues. Some intelligence-gathering techniques may involve questionable ethics. Clearly, companies should take advantage of publicly available information. However, they should not stoop to snoop. With all the legitimate intelligence sources now available, a company does not need to break the law or accepted codes of ethics to get good intelligence.

Marketing research

In addition to marketing intelligence information about general consumer, competitor and marketplace happenings, marketers often need formal studies that provide customer and market insights for specific marketing situations and decisions. For example, Heineken N.V. and the UniCredit Group want to know what appeals will be most effective in their UEFA Champions League Football advertising. Google wants to know how web searchers will react to a proposed redesign of its site. And Aéroports de Paris wants to know how many and what kinds of people want to use airports near Paris and when they wish to do so. In such situations, managers will need marketing research.

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

Some large companies have their own research departments that work with marketing managers on marketing research projects. In addition, these companies – like their smaller counterparts – frequently hire outside research specialists to consult with management on specific marketing problems and to conduct marketing research studies. Sometimes firms simply purchase data collected by outside firms to aid in their decision making.

The marketing research process has four steps (see Figure 4.2): defining the problem and research objectives, developing the research plan, implementing the research plan, and interpreting and reporting the findings.

Author comment

Whereas marketing intelligence involves actively scanning the general marketing environment, marketing research involves more focused studies to gain customer insights related to specific marketing decisions.

Marketing research The systematic design, collection, analysis and reporting of data relevant to a specific marketing situation facing an organisation.

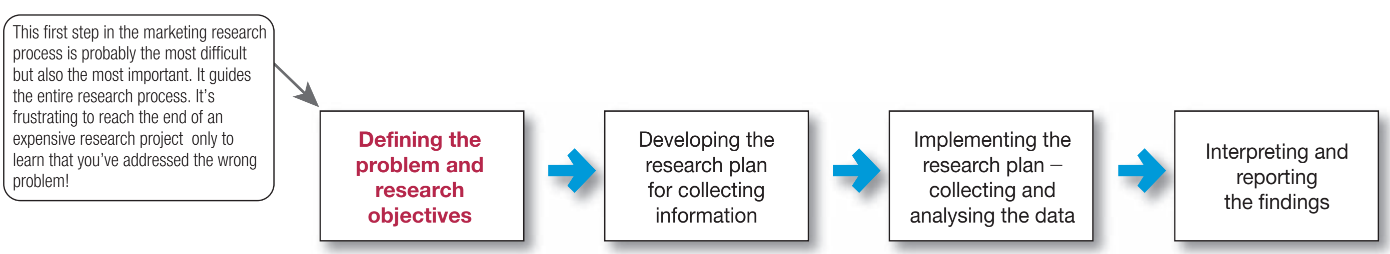


Figure 4.2 The marketing research process

Defining the problem and research objectives

Exploratory research Marketing research to gather preliminary information that will help define problems and suggest hypotheses.

Descriptive research Marketing research to better describe marketing problems, situations or markets, such as the market potential for a product or the demographics and attitudes of consumers.

Causal research Marketing research to test hypotheses about cause-and-effect relationships.

Marketing managers and researchers must work together closely to define the problem and agree on research objectives. The manager best understands the decision for which information is needed, whereas the researcher best understands marketing research and how to obtain the information. Defining the problem and research objectives is often the hardest step in the research process. The manager may know that something is wrong without knowing the specific causes.

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

The statement of the problem and research objectives guides the entire research process. The manager and the researcher should put the statement in writing to be certain that they agree on the purpose and expected results of the research.

Developing the research plan

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

Research objectives must be translated into specific information needs. For example, suppose that Red Bull wants to know how consumers would react to a proposed new vitamin-enhanced water drink that would be available in several flavours and sold under the Red Bull name. Red Bull currently dominates the worldwide energy drink market with more than 43 per cent of the market share worldwide – it sold more than 6.8 billion cans last year alone. The brand promotes heavily Red Bull coloured Editions flavoured energy drinks and Red Bull Total Zero, an energy drink for calorie-averse consumers.[9] A new line of enhanced, fizzless waters – akin to Glacéau's vitaminwater – might help Red Bull leverage its strong brand position even further. The proposed research might call for the following specific information:

- The demographic, economic and lifestyle characteristics of current Red Bull customers. (Do current customers also consume enhanced water products? Are such products consistent with their lifestyles? Or would Red Bull need to target a new segment of consumers?)
- The characteristics and usage patterns of the broader population of enhanced-water users: What do they need and expect from such products, where do they buy them, when and how do they use them, and what existing brands and price points are most popular? (The new Red Bull product would need strong, relevant positioning in the crowded enhanced-water market.)
- Retailer reactions to the proposed new product line: Would they stock and support it? Where would they display it? (Failure to get retailer support would hurt sales of the new drink.)
- Forecasts of sales and profits of both the new and current Red Bull products. (Will the new enhanced waters create new sales or simply take sales away from current Red Bull products? Will the new product increase Red Bull's overall profits?)

Red Bull's marketers will need these and many other types of information to decide whether or not to introduce the new product and, if so, the best way to do it.

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

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

A design by Red Bull to add a line of enhanced waters to its already successful mix of energy and cola drinks would call for market research that provides a mountain of information!

Source: Clari Massimiliano/Shutterstock

Secondary data Information that already exists somewhere, having been collected for another purpose.

Primary data Information collected for the specific purpose at hand.

Gathering secondary data

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

Companies can buy secondary data from outside suppliers. For example, Nielsen sells shopper insight data from a consumer panel of more than 250,000 households in 25 countries worldwide, with measures of trial and repeat purchasing, brand loyalty and buyer demographics. Experian Simmons carries out a full spectrum of consumer studies that provide a comprehensive view of the American consumer. The MONITOR service by The Futures Company sells information on important social and lifestyle trends. These and other firms supply high-quality data to suit a wide variety of marketing information needs.[10]

Using *commercial online databases*, marketing researchers can conduct their own searches of secondary data sources. General database services such as ProQuest and LexisNexis put an incredible wealth of information at the fingertips of marketing decision makers. Beyond commercial services offering information for a fee, almost every industry association, government agency, business publication and news medium offers free information to those tenacious enough to find their websites or apps.

Internet search engines can also be a big help in locating relevant secondary information sources. However, they can also be very frustrating and inefficient. For example, a Red Bull marketer Googling 'enhancedwater products' would come up with more than 900,000 hits. Still, well-structured, well-designed online searches can be a good starting point to any marketing research project.

Secondary data can usually be obtained more quickly and at a lower cost than primary data. Also, secondary sources can sometimes provide data an individual company cannot collect on its own – information that either is not directly available or would be too expensive to collect. For example, it would be too expensive for Red Bull's marketers to conduct a continuing retail store audit to find out about the market shares, prices and displays of competitors' brands. But those marketers can buy the InfoScan service from SymphonyIRI Group, which provides this information based on scanner and other data from 34,000 retail stores.[11]

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

Primary data collection

Secondary data provide a good starting point for research and often help to define research problems and objectives. In most cases, however, the company must also collect primary data. Table 4.1 shows that designing a plan for primary data collection calls for a number of decisions on *research approaches*, *contact methods*, the *sampling plan* and *research instruments*.

Research approaches

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

Observational research

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

Observational research involves gathering primary data by observing relevant people, actions and situations. For example, food retailer Aldi might evaluate possible new store locations by checking traffic patterns, neighbourhood conditions, and the locations of competing Lidl, Tesco, Carrefour and other retail chains.

Researchers often observe consumer behaviour to glean customer insights they can't obtain by simply asking customers questions. For instance, Fisher-Price has established an observation lab in which it can observe the reactions little tots have to new toys. The Fisher-Price Play Lab is a sunny, toy-strewn space where lucky kids get to test Fisher-Price prototypes under the watchful eyes of designers who hope to learn what will get them worked up into a new-toy frenzy. In the lab, some 3,500 kids participate each year testing 1,200 products annually. 'Our designers watch and learn from how [children] play', says a Fisher-Price child research manager. 'It really helps us make better products.'[12]

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

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

A wide range of companies now use **ethnographic research**. Ethnographic research involves sending observers to watch and interact with consumers in their 'natural environments'. The observers might be trained anthropologists and psychologists or company researchers and managers. Consider this example:[13]

Rank Group, the company behind Grosvenor casinos and Mecca bingo, employs immersive market research to better understand its customers. Rank sends senior staff into the homes of customers to probe daily habits that would sometimes seem to have little to do with its products and services. In addition to long interviews, researchers photograph the subjects at home, travel with them on their journeys to bingo clubs or casinos and observe them throughout their visits. Unlike other companies, however, Rank wants its top executives to take part. Ian Burke, chief executive, has already spent a day following a couple from their home to one of the company's casinos and observing them there. 'At Mecca, there are already back-to-floor initiatives [in which head office staff work at the clubs]', said Jon McPherson, Rank's group head of insight and analytics. 'But immersion with a customer is very different from seeing things through the eyes of the employee.' The push follows a year in which Rank stemmed a decline in Mecca revenues by getting customers to spend more per visit – in part through new offerings, such as food and drink table service and 'After Dark' bingo, a looser form of the game. Luring more people in is the next task – and one Mr Burke has said cannot be accomplished without a better insight into customers. Mr McPherson hopes even to involve Rank Interactive, the group's online division. 'We have good technology for measuring how people move around a [web] page, but we don't know if people come home, put the children in bed, make a cup of tea and then sit down at the computer.'

FT *Source*: Jacobs, R. (2011) Rank sets out to discover home truths, *Financial Times*, 7 February

Table 4.1 Planning primary data collection

Research approaches	Contact methods	Sampling plan	Research instruments
Observation	Mail	Sampling unit	Questionnaire
Survey	Telephone	Sample size	Mechanical instruments
Experiment	Personal	Sampling procedure	
	Online		

Global branding firm Landor launched Landor Families, an ongoing ethnographic study that has followed 11 French families intensely for the past seven years. Landor researchers visit the families twice a year in their homes, diving deeply into both their refrigerators and their food shopping behaviours and opinions. The researchers also shop with the families at their local supermarkets and look over their shoulders while they shop online. The families furnish monthly online reports detailing their shopping behaviours and opinions. The Landor Families study provides rich behavioural insights for Landor clients such as Danone, Kraft Foods and Procter & Gamble. Today's big data analytics can provide important insights into the whats, whens and wheres of consumer buying. The Landor Families programme is designed to explore the whys. According to Landor, 'There is no better way to understand people than to observe them in real life.'[14]

Observational and ethnographic research often yields the kinds of details that just don't emerge from traditional research questionnaires or focus groups. Whereas traditional quantitative research approaches seek to test known hypotheses and obtain answers to well-defined product or strategy questions, observational research can generate fresh customer and market insights that people are unwilling or unable to provide. It provides a window into customers' unconscious actions and unexpressed needs and feelings.

However, some things simply cannot be observed, such as attitudes, motives or private behaviour. Long-term or infrequent behaviour is also difficult to observe. Finally, observations can be very difficult to interpret. Because of these limitations, researchers often use observation along with other data collection methods.

Survey research

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

Survey research Gathering primary data by asking people questions about their knowledge, attitudes, preferences and buying behaviour.

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

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

Experimental research

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

Experimental research Gathering primary data by selecting matched groups of subjects, giving them different treatments, controlling related factors and checking for differences in group responses.

For example, before adding a new sandwich to its menu, Hard Rock Café might use experiments to test the effects on sales of two different prices it might charge. It could introduce the new sandwich at one price in one city and at another price in another city. If the cities are similar and if all other marketing efforts for the sandwich are the same, then differences in sales in the two cities could be related to the price charged.

Contact methods

Information can be collected by mail, by telephone, by personal interview or online. Each contact method has its own particular strengths and weaknesses.

Mail, telephone and personal interviewing

Mail questionnaires can be used to collect large amounts of information at a low cost per respondent. Respondents may give more honest answers on a mail questionnaire than to an unknown interviewer in person or over the phone. Also, no interviewer is involved to bias respondents' answers. However, mail questionnaires are not very flexible; all respondents answer the same questions in a fixed order. And mail surveys usually take longer to complete and response rates are often low. As a result, more and more marketers are now shifting to faster, more flexible and lower-cost email, online and mobile phone surveys.

Telephone interviewing is one of the best methods for gathering information quickly, and it provides greater flexibility than mail questionnaires. Interviewers can explain difficult questions and, depending on the answers they receive, skip some questions or probe on others. Response rates tend to be higher than with mail questionnaires, and interviewers can ask to speak to respondents with the desired characteristics or even by name.

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

Personal interviewing takes two forms: individual interviewing and group interviewing. *Individual interviewing* involves talking with people in their homes or offices, on the street or in shopping malls. Such interviewing is flexible. Trained interviewers can guide interviews, explain difficult questions and explore issues as the situation requires. They can show subjects actual products, packages, advertisements or videos, and observe reactions and behaviour. However, individual personal interviews may cost three to four times as much as telephone interviews.

Focus group interviewing

Group interviewing consists of inviting small groups of people to meet with a trained moderator to talk about a product, service or organisation. Participants normally are paid a small sum for attending. A moderator encourages free and easy discussion, hoping that group interactions will bring out deeper feelings and thoughts. At the same time, the moderator 'focuses' the discussion – hence the name **focus group interviewing**.

Focus group interviewing
Personal interviewing that involves inviting small groups of people to gather for a few hours with a trained interviewer to talk about a product, service or organisation. The interviewer 'focuses' the group discussion on important issues.

In traditional focus groups, researchers and marketers watch the focus group discussions from behind a one-way mirror and video-record sessions for later study. Through videoconferencing and internet technology, marketers in far-off locations can look in and listen, even participate, as a focus group progresses.

Focus group interviewing has become one of the major qualitative marketing research tools for gaining fresh insights into consumer thoughts and feelings. In focus group settings, researchers not only hear consumer ideas and opinions, they also can observe facial expressions, body movements, group interplay and conversational flows. However, focus group studies present some challenges. They usually employ small samples to keep time and costs down, and it may be hard to generalise from the results. Moreover, consumers in focus groups are not always open and honest about their real feelings, behaviours and intentions in front of other people.

To overcome these problems, many researchers are tinkering with the focus group design. Some companies are changing the environments in which they conduct focus groups to help consumers relax and elicit more authentic responses. For example, Lexus hosts 'An Evening with Lexus' dinners in customers' homes with groups of luxury car buyers to learn up close and personal why they did or did not buy a Lexus. Other companies use *immersion groups* – small groups of consumers who interact directly and informally with product designers without a focus group moderator present.

Individual and focus group interviews can add a personal touch as opposed to more numbers-oriented, big data research. They can provide rich insights into the motivations and feelings behind the numbers and analytics. 'Focus groups are the most widely used qualitative research tool,' says one analyst, 'and with good reason. They foster fruitful discussion and can provide unique insight into customers' and potential customers' needs, wants, thoughts, and feelings.' Things really come to life when you hear people say them.[15]

Online marketing research

The internet has had a dramatic impact on how marketing research is conducted. Increasingly, researchers are collecting primary data through **online marketing research**: internet and mobile surveys, online focus groups, consumer tracking, experiments, and online panels and brand communities.

Online marketing research Collecting primary data through internet and mobile surveys, online focus groups, consumer tracking, experiments, and online panels and brand communities.

Online research can take many forms. A company can use the internet or mobile technology as a survey medium: It can include a questionnaire on its web or social media sites or use email or mobile devices to invite people to answer questions. It can create online panels that provide regular feedback or conduct live discussions or online focus groups. Researchers can also conduct online experiments. They can experiment with different prices, headlines or product features on different web or mobile sites or at different times to learn the relative effectiveness of their offers. They can set up virtual shopping environments and use them to test new products and marketing programmes. Or a company can learn about the behaviour of online customers by following their clickstreams as they visit the online site and move to other sites.

The internet is especially well suited to *quantitative* research – for example, conducting marketing surveys and collecting data. The vast majority of Europeans now use the internet, making it a fertile channel for reaching a broad cross-section of consumers.[16] As response rates for traditional survey approaches decline and costs increase, the internet is quickly replacing mail and the telephone as the dominant data collection methodology.

Internet-based survey research offers many advantages over traditional phone, mail and personal interviewing approaches. The most obvious advantages are speed and low costs. By going online, researchers can quickly and easily distribute surveys to thousands of respondents simultaneously via email or by posting them on selected online and mobile sites. Responses can be almost instantaneous, and because respondents themselves enter the information, researchers can tabulate, review and share research data as the information arrives.

Online research also usually costs much less than research conducted through mail, phone or personal interviews. Using the internet eliminates most of the postage, phone, interviewer and data-handling costs associated with the other approaches. Moreover, sample size and location have little impact on costs. Once the questionnaire is set up, there's little difference in cost between 10 respondents and 10,000 respondents on the internet, or between local or globally distant respondents.

Its low cost puts online research well within the reach of almost any business, large or small. In fact, with the internet, what was once the domain of research experts is now available to almost any would-be researcher. Even smaller, less sophisticated researchers can use online survey services such as Snap Surveys (www.snapsurveys.com) and SurveyMonkey (www.surveymonkey.com) to create, publish and distribute their own custom online or mobile surveys in minutes.

Internet-based surveys also tend to be more interactive and engaging, easier to complete and less intrusive than traditional phone or mail surveys. As a result, they usually garner higher

Focus group reach: using cameras and two-way sound systems allows marketers in a far-off boardroom to listen in, and remote-control cameras to focus on individuals or groups.
Source: Andrey_Popov/ Shutterstock

response rates. The internet is an excellent medium for reaching the hard-to-reach consumer – for example, the often-elusive teen, single, affluent and well-educated audiences. It's also good for reaching people who lead busy lives, from working mothers to on-the-go executives. Such people are well represented online, and they can respond in their own space and at their own convenience.

Just as marketing researchers have rushed to use the internet for quantitative surveys and data collection, they are now also adopting *qualitative* internet-based research approaches, such as online focus groups, blogs and social networks. The internet can provide a fast, low-cost way to gain qualitative customer insights.

Online focus groups
Gathering a small group of people online with a trained moderator to chat about a product, service or organisation and gain qualitative insights about consumer attitudes and behaviour.

A primary qualitative internet-based research approach is **online focus groups**. For example, online research firm FocusVision offers its InterVu service, which harnesses the power of the internet to conduct focus groups with participants at remote locations, anywhere in the world, at any time. Using their own webcams, InterVu participants can log on to focus sessions from their homes or offices and see, hear and react to each other in real-time, face-to-face discussions.[17] Such focus groups can be conducted in any language and viewed with simultaneous translation. They work well for bringing together people from different parts of the country or world at low cost. Researchers can view the sessions in real time from just about anywhere, eliminating travel, lodging and facility costs. Finally, although online focus groups require some advance scheduling, results are almost immediate.

Although growing rapidly, both quantitative and qualitative internet-based research have some drawbacks. One major problem is controlling who's in the online sample. Without seeing respondents, it's difficult to know who they really are. To overcome such sample and context problems, many online research firms use opt-in communities and respondent panels.

Alternatively, many companies have now developed their own 'insight communities' from which they obtain customer feedback and insights. Consider Adidas:[18]

> When Adidas developed a Facebook fan page, it quickly attracted 2 million users. Ditto for its pages on Twitter and YouTube. But monitoring and analysing postings by two million members in public online communities is not realistic, so the sporting goods giant created its own private online community called Adidas Insiders, inviting only the most active users on its public pages to join. Through online conversations with and among Adidas Insiders, company marketers can quickly gather real-time consumer feedback about brand perceptions, product ideas and marketing campaigns. Adidas Insiders are surprisingly willing – and even anxious – to be involved. 'It's a great help to [us] spending time with consumers that love the brand as much as we do', says Adidas's director of digital media.

Similarly, women's magazine *Allure* formed its own insight community – called Beauty Enthusiasts, now 35,000 members strong – from which it solicits feedback both on its own content and on advertisers' brands. When Beauty Enthusiast members first join the community, they provide detailed information about their demographics, product needs and preferences. Brands can then interact online with specific segments of the Beauty Enthusiasts community about brand perceptions, product ideas, beauty trends and marketing moves. Says one analyst, 'The feedback combines the precision of quantitative research with the qualitative results of focus groups, as people write their reactions to products in their own words.'[19]

Online customer social networks – such as Adidas Insiders – can help companies gain customer insights. Such is the strength of Adidas's draw that Adidas Insiders are surprisingly willing and even anxious to be involved!

Source: hurricanehank/Shutterstock

Online behavioural and social tracking and targeting

Thus, in recent years, the internet has become an important tool for conducting research and developing customer insights. But today's marketing researchers are going even further – well beyond online surveys, focus groups and online communities. Increasingly, they are listening to and watching consumers by actively mining the rich veins of unsolicited, unstructured, 'bottom-up' customer information already coursing around the internet. Whereas traditional marketing research provides more logical consumer responses to structured and intrusive research questions, online listening provides the passion and spontaneity of unsolicited consumer opinions.

Tracking consumers online might be as simple as scanning customer reviews and comments on the company's brand site or on shopping sites such as Amazon, QVC or BestBuy. Or it might mean using sophisticated online-analysis tools to deeply analyse the mountains of consumer brand-related comments and messages found in blogs or on social media sites. Listening to and engaging customers online can provide valuable insights into what consumers are saying or feeling about a brand. It can also provide opportunities for building positive brand experiences and relationships. Many companies now excel at listening online and responding quickly and appropriately. As noted previously, more and more companies are setting up social media command centres with which they scour the digital environment and analyse brand-related comments and conversations to gain marketing insights.

Information about what consumers do while trawling the vast digital expanse – what searches they make, the online and mobile sites they visit, how they shop and what they buy – is pure gold to marketers. And today's marketers are busy mining that gold. Then, in a practice called **behavioural targeting**, marketers use the online data to target ads and offers to specific

Behavioural targeting Using online consumer tracking data to target advertisements and marketing offers to specific consumers.

consumers. For example, if you place a smartphone in your Amazon shopping cart but don't buy it, you might expect to see some ads for that very type of phone the next time you visit your favourite sports site to catch up on the latest scores.

The newest wave of web analytics and targeting takes online eavesdropping even further – from *behavioural* targeting to *social* targeting. Whereas behavioural targeting tracks consumer movements across online sites, social targeting also mines individual online social connections and conversations from social networking sites. Research shows that consumers shop a lot like their friends and are much more likely to respond to ads from brands friends use. So, instead of just having a SportsDirect.com ad for running shoes pop up because you've recently searched online for running shoes (behavioural targeting), an ad for a specific pair of running shoes pops up because a friend that you're connected to via Twitter just bought those shoes from SportsDirect.com last week (social targeting).

Online listening, behavioural targeting and social targeting can help marketers to harness the massive amounts of consumer information swirling around the internet. However, as marketers get more adept at trawling blogs, social networks and other internet and mobile domains, many critics worry about consumer privacy. At what point does sophisticated online research cross the line into consumer stalking? Proponents claim that behavioural and social targeting benefit more than abuse consumers by feeding back ads and products that are more relevant to their interests. But to many consumers and public advocates, following consumers online and stalking them with ads feels more than just a little creepy.

Regulators and others are stepping in. Neelie Kroes, Vice-President of the European Commission has recommended the creation of a 'Do Not Track' system (the online equivalent to the 'Do Not Call' registry) – which would let people opt out of having their actions monitored online. However, progress has been mixed. Meanwhile, many major internet browsers and social media have heeded the concerns by adding extended privacy features to their services.

Sampling plan

Sample A segment of the population selected for marketing research to represent the population as a whole.

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

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

Finally, *how* should the people in the sample be *chosen* (what *sampling procedure*)? Table 4.2 describes different kinds of samples. Using *probability samples*, each population member has a known chance of being included in the sample, and researchers can calculate confidence limits for sampling error. But when probability sampling costs too much or takes too much time, marketing researchers often take *nonprobability samples* even though their sampling error cannot be measured. These varied ways of drawing samples have different costs and time limitations as well as different accuracy and statistical properties. Which method is best depends on the needs of the research project.

Research instruments

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

Table 4.2 Types of samples

Probability sample	
Simple random sample	Every member of the population has a known and equal chance of selection.
Stratified random sample	The population is divided into mutually exclusive groups (such as age groups) and random samples are drawn from each group.
Cluster (area) sample	The population is divided into mutually exclusive groups (such as blocks) and the researcher draws a sample of the groups to interview.
Nonprobability sample	
Convenience sample	The researcher selects the easiest population members from which to obtain information.
Judgement sample	The researcher uses his or her judgement to select population members who are good prospects for accurate information.
Quota sample	The researcher finds and interviews a prescribed number of people in each of several categories.

Questionnaires

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

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

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

Mechanical instruments

Although questionnaires are the most common research instrument, researchers also use mechanical instruments to monitor consumer behaviour. For example, Nielsen Media Research attaches people meters to television sets in selected homes to record who watches which programmes. Retailers use checkout scanners to record shoppers' purchases. Other marketers use mobile phone GPS technologies to track consumer movements in and near their stores.

Still other researchers apply *neuromarketing*, using EEG and MRI technologies to track brain electrical activity to learn how consumers feel and respond. Neuromarketing measures, often combined with *biometric* measures (such as heart rates, respiration rates, sweat levels, and facial and eye movements), can provide companies with insights into what turns consumers on and off regarding their brands and marketing. For example, research firm Nielsen and the Ad Council used neuromarketing to improve the effectiveness of an ad for the Shelter Pet Project, a public service campaign focused on increasing adoption rates for pets in shelters:[20]

Using neuroscience methods, Nielsen charted how people's brains responded to an existing Shelter Pet Project public service ad and the ad's canine star, Jules the dog. Researchers used a combination of EEG and eye-tracking measurements to determine the second-by-second, scene-by-scene impact of the ad on viewer attention, emotional engagement and memory activation. They discovered that viewer attention and emotional engagement jumped when Jules was on the screen. They also learned that the end of the ad caused confusion, with Jules, the logo and the website URL all competing for viewer attention. The creative team re-edited the ad, increasing Jules's onscreen moments and sharpening the ad's ending and call to action. A second round of neuroscience tests showed that the recrafted ad held viewers' attention better, kept them more consistently engaged and improved ad recall. As a result, in the first three months after the launch of the refreshed ad, traffic to the Shelter Pet Project website more than doubled, a change that may have real life-or-death implications for shelter pets.

Companies ranging from Daimler AG, BMW and Honda UK to Unilever now hire neuromarketing research companies such as NeuroFocus and EmSense to help figure out what people are really thinking.[21]

Thirty men and women are studying a sporty silver test model of a next-generation Hyundai. The 15 men and 15 women are asked to stare at specific parts of the vehicle, including the bumper, the windshield and the tyres. Electrode-studded caps on their heads capture the electrical activity in their brains as they view the car for an hour. That brainwave information is recorded in a hard drive each person wears on a belt. Hyundai believes that their brain activity will show preferences that could lead to purchasing decisions. 'We want to know what consumers think about a car before we start manufacturing thousands of them', says Hyundai's manager of brand strategy. He expects the car maker will tweak the exterior based on the EEG reports, which track activity in all parts of the brain.

Similarly, eBay's PayPal began pitching its online payment service as 'fast' after brainwave research showed that speed turns consumers on more than security and safety, earlier themes used in eBay advertising campaigns. Recently, *New Scientist* approached the world's leading neurological testing company, NeuroFocus, to evaluate three different cover designs for the August issue. 'We worked with NeuroFocus to select an appealing cover design for *New Scientist* using their neuromarketing technology', said Graham Lawton, deputy editor. 'This issue of the magazine achieved strong UK newsstand sales, making it the second highest selling issue of the year, which is very unusual for the normally quiet month of August. This represents a 12 per cent increase over the same issue in the previous year and is much higher than we would expect for a similar cover story at that time of year, so we would certainly say the experiment was a big success.'[22]

Although neuromarketing techniques can measure consumer involvement and emotional responses second by second, such brain responses can be difficult to interpret. Thus, neuromarketing is usually used in combination with other research approaches to gain a more complete picture of what goes on inside consumers' heads.

Implementing the research plan

The researcher next puts the marketing research plan into action. This involves collecting, processing and analysing the information. Data collection can be carried out by the company's marketing research staff or outside firms. Researchers should watch closely to make sure that the plan is implemented correctly. They must guard against problems with data collection techniques and technologies, data quality and timeliness.

Researchers must also process and analyse the collected data to isolate important information and insights. They need to check data for accuracy and completeness and code them for analysis. The researchers then tabulate the results and compute statistical measures.

Interpreting and reporting the findings

The market researcher must now interpret the findings, draw conclusions and report them to management. The researcher should not try to overwhelm managers with numbers and fancy statistical techniques. Rather, the researcher should present important findings and insights that are useful in the major decisions faced by management.

However, interpretation should not be left only to researchers. Although they are often experts in research design and statistics, the marketing manager knows more about the problem and the decisions that must be made. The best research means little if the manager blindly accepts faulty interpretations from the researcher. Similarly, managers may be biased. They might tend to accept research results that show what they expected and reject those that they did not expect or hope for. In many cases, findings can be interpreted in different ways, and discussions between researchers and managers will help point to the best interpretations. Thus, managers and researchers must work together closely when interpreting research results, and both must share responsibility for the research process and resulting decisions.

Analysing and using marketing information

Author comment

We've talked generally about managing customer relationships throughout the book. But here, *customer relationship management* (CRM) has a much narrower data-management meaning. It refers to capturing and using customer data from all sources to manage customer interactions, engage customers and build customer relationships.

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

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

Customer relationship management (CRM)

The question of how best to analyse and use individual customer data presents special problems. In the current *big data* era, most companies are awash in information about their customers and the marketplace. Still, smart companies capture information at every possible customer *touchpoint*. These touchpoints include customer purchases, sales force contacts, service and support calls, web and social media site visits, satisfaction surveys, credit and payment interactions, market research studies – every contact between a customer and a company.

Unfortunately, this information is usually scattered widely across the organisation or buried deep in separate company databases. To overcome such problems, many companies are now turning to **customer relationship management (CRM)** to manage detailed information about individual customers and carefully manage customer touchpoints to maximise customer loyalty.

Customer relationship management (CRM)
Managing detailed information about individual customers and carefully managing customer touchpoints to maximise customer loyalty.

CRM consists of sophisticated software and analysis tools from companies such as Salesforce.com, Oracle, Microsoft and SAS that integrate customer and marketplace information from all sources, analyse it and apply the results to build stronger customer relationships. CRM integrates everything that a company's sales, service and marketing teams know about individual customers, providing a 360-degree view of the customer relationship. For example, MetLife recently developed a CRM system that it calls 'The MetLife Wall':[23]

One of the biggest customer service challenges for MetLife's sales and service reps used to be quickly finding and getting to customer information – different records, transactions and interactions stored in dozens of different company data locations and formats. The MetLife Wall solves that problem. The Wall uses a Facebook-like interface to serve up a consolidated view of each MetLife customer's service experience. The innovative CRM system draws customer data from 70 different MetLife systems containing 45 million customer agreements and 140 million transactions. It puts all of a given customer's information and related links into a single record on a single screen, updated in near real time. Now, thanks to The MetLife Wall – with only a single click instead of the 40 clicks it used to take – sales and service reps can see a complete view of a given customer's various policies, transactions, and claims filed and paid along with a history of all the interactions the customer has had with MetLife across the company's many touch-points, all on a simple timeline. The Wall has given a big boost to MetLife's customer service and cross-selling efforts. According to a MetLife marketing executive, it's also had 'a huge impact on customer satisfaction'.

By using CRM to understand customers better, companies can provide higher levels of customer service and develop deeper customer relationships. They can use CRM to pinpoint high-value customers, target them more effectively, cross-sell the company's products and create offers tailored to specific customer requirements.

Marketing analytics The analysis tools, technologies and processes by which marketers dig out meaningful patterns in big data to gain customer insights and gauge marketing performance.

Big data and marketing analytics

As noted at the start of the chapter, today's big data can yield big results. But simply collecting and storing huge amounts of data has little value. Marketers must sift through the mountains of data to mine the gems – the bits that yield customer insights. As one marketing executive puts it, 'It's actually [about getting] *big insights* from big data. It's throwing away 99.999 per cent of that data to find things that are actionable'. Says another data expert, '*right* data trumps *big* data'.[24] That's the job of *marketing analytics*.

Marketing analytics consists of the analysis tools, technologies and processes by which marketers dig out meaningful patterns in big data to gain customer insights and gauge marketing performance.[25] Marketers apply marketing analytics to the large and complex sets of data they collect from web, mobile and social media tracking; customer transactions and engagements; and other big data sources. For example, Netflix maintains a bulging customer database and uses sophisticated marketing analytics to gain insights, which it then uses to fuel recommendations to subscribers, decide what programming to offer and even develop its own exclusive content in the quest to serve its customers better.

Companies like Netflix use very sophisticated marketing analytics to generate insights into the needs, wants and demands of their consumers.
Source: Andrey_Popov/Shutterstock

Another good example of marketing analytics in action comes from food products giant Kraft. Kraft Food Groups has a treasure trove of marketing data, gathered from years of interactions with customers and from its social media monitoring hub called Looking Glass. Looking Glass tracks consumer trends, competitor activities and more than 100,000 brand-related conversations daily in social media and on blogs. Kraft also reaps data from customer interactions with its *Kraft Food & Family* magazine, email communications, and the more than 100 web and social media sites that serve its large brand portfolio. In all, Kraft has 18 years' worth of customer data across 22,000 different attributes.

Kraft applies high-level marketing analytics to this wealth of data to mine nuggets of customer insight. Then it uses these insights to shape big data-driven marketing strategies and tactics, from developing new products to creating more focused and personalised web, mobile and social media content. For example, Kraft's analytics have identified more than 500 custom target segments. Within these segments, Kraft knows in detail what consumers need and like. Says one analyst, it knows 'their dietary [characteristics and] restrictions – gluten free, a diabetic, low calorie, big snacks, feeding a big family, whether they are new cooks'. Kraft uses this knowledge to personalise digital interactions with individual customers, down to the fine details. 'If Kraft knows you're not a bacon user,' says the analyst, 'you will never be served a bacon ad.' Thus, sophisticated analytics let Kraft target the right customer with the right message in the right medium at the right moment.

The benefits of customer relationship management and big data analytics don't come without costs or risks. The most common mistake is to view CRM and marketing analytics as technology processes only. Or they get buried in the big data details and miss the big picture.[26] Yet technology alone cannot build profitable customer relationships. Companies can't improve customer relationships by simply installing some new software. Instead, marketers should start with the fundamentals of managing customer relationships and *then* employ high-tech data and analytics solutions. They should focus first on the R – it's the *relationship* that CRM is all about.

Distributing and using marketing information

Marketing information has no value until it is used to make better marketing decisions. Thus, the marketing information system must make information readily available to managers and others who need it, when they need it. In some cases, this means providing managers with regular performance reports, intelligence updates and reports on the results of research studies.

But marketing managers may also need access to non-routine information for special situations and on-the-spot decisions. For example, a sales manager having trouble with a large customer may want a summary of the account's sales and profitability over the past year. Or a brand manager may want to get a sense of the amount of the social media buzz surrounding the recent launch of a new product. These days, therefore, information distribution involves making information available in a timely, user-friendly way.

Many firms use company *intranet* and internal CRM systems to facilitate this process. These systems provide ready access to research and intelligence information, customer transaction and experience information, shared reports and documents, and more. For example, the CRM system at Cablecom, Switzerland's largest cable operator, uncovered that unhappy customers were most likely to quit after about nine months. So, it ran a feedback programme targeting people who had been customers for seven months. The data from the programme was analysed and more than 100 churn indicators identified – their exact nature is a closely guarded secret – but they have enabled the company to identify customers who may be about to leave. The 'customer retention team' is then activated before it's too late. In pilot studies, the technology has allowed Cablecom to reduce churn rates from 19 per cent to just 2 per cent.[27]

In addition, companies are increasingly allowing key customers and value-network members to access account, product and other data on demand through *extranets*. Suppliers, customers, resellers and select other network members may access a company's extranet to update their accounts, arrange purchases and check orders against inventories to improve customer service. For example, SkyHawke Tech Ltd produces one of the world's most popular portable golf GPS rangefinders, called the SkyCaddie. Working with Mesacom Tech Ltd of the UK, SkyHawke established an extranet for the broad range of graphic designers, media organisations and publishers involved in different campaigns, which produce a huge number of files and other materials. This extranet eases the administrative burden on the firm by allowing suppliers and designers to take responsibility for updating their content.[28]

Thanks to modern technology, today's marketing managers can gain direct access to a company's information system at any time and from virtually anywhere. They can tap into the system from a home office, customer location, airport or the local coffee bar – any place they can connect on a laptop, tablet or smartphone. Such systems allow managers to get the information they need directly and quickly and tailor it to their own needs.

Author comment

We finish this chapter by examining three special marketing information topics.

Other marketing information considerations

This section discusses marketing information in two special contexts: marketing research in small businesses and non-profit organisations and international marketing research. Then we look at public policy and ethics issues in marketing research.

Marketing research in small businesses and non-profit organisations

Just like larger firms, small businesses and non-profit organisations need market information and the customer insights that it can provide. However, large-scale research studies are beyond the budgets of most small organisations. Still, many of the marketing research techniques discussed in this chapter can be used by smaller organisations in a less formal manner and at little or no expense. Consider how one small business owner conducted market research on a shoestring before even opening his doors:[29]

> After a string of bad experiences with his local dry cleaner, Robert Byerley decided to open his own dry-cleaning business. But before jumping in, he conducted plenty of market research. He needed a key customer insight: how would he make his business stand out from the others? To start, Byerley spent an entire week online, researching the dry-cleaning industry. To get input from potential customers, using a local marketing firm, Byerley held focus groups on the store's name, look and brochure. He also took clothes to the 15 best competing cleaners in town and had focus group members critique their work. Based on his research, he made a list of features for his new business. First on his list: quality. His business would stand behind everything it did. Not on the list: cheap prices. Creating the perfect dry-cleaning establishment simply didn't fit with a discount operation.
>
> With his research complete, Byerley opened Bibbentuckers, a high-end dry cleaner positioned on high-quality service and convenience. It featured a bank-like drive-through area with kerb-side delivery. A computerised barcode system read customer cleaning preferences and tracked clothes all the way through the cleaning process. Byerley added other differentiators, such as decorative awnings, TV screens and refreshments (even 'candy for the kids and a doggy treat for your best friend'). 'I wanted a place. . . that paired five-star service and quality with an establishment that didn't look like a dry cleaner', he says. The market research yielded results. Today, Bibbentuckers is a thriving eight-store operation.

Thus, small businesses and non-profit organisations can obtain good marketing insights through observation or informal surveys using small convenience samples. Also, many associations, local media and government agencies provide special help to small organisations. For example, in the UK the Department for Business, Energy and Industrial Strategy offers dozens of free publications and a website that give advice on topics ranging from starting, financing and expanding a small business to ordering business cards. The European Commission supports the European Small Business portal provides a wealth of helpful material and resources. Other excellent web resources for small businesses include the European Council for Small Business and Entrepreneurship (www.ecsb.org/) and at the statistical office of the European Commission (https://ec.europa.eu/eurostat/en). Finally, small businesses can collect a considerable amount of information at very little cost online. They can check out online product and service review sites, use internet search engines to research specific companies and issues, and scour competitor and customer web, mobile and social media sites.

In summary, secondary data collection, observation, surveys and experiments can all be used effectively by small organisations with small budgets. However, although these informal research methods are less complex and less costly, they still must be conducted with care. Managers must think carefully about the objectives of the research, formulate questions in advance, recognise the biases introduced by smaller samples and less skilled researchers, and conduct the research systematically.[30]

International marketing research

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

In many foreign markets, the international researcher may have a difficult time finding good secondary data. Whereas marketing researchers can obtain reliable secondary data from dozens of domestic research services, many countries have almost no research services at all. Some of the largest international research services operate in many countries. For example, The Nielsen Company (the world's largest marketing research company) has offices in more than 100 countries, from Wavre, Belgium to Oxford, UK, to Nicosia, Cyprus.[31] However, most research firms operate in only a relative handful of countries. Thus, even when secondary information is available, it usually must be obtained from many different sources on a country-by-country basis, making the information difficult to combine or compare.

Because of the scarcity of good secondary data, international researchers often must collect their own primary data. However, obtaining primary data may be no easy task. For example, it can be difficult simply to develop good samples. Researchers can use current telephone directories, email lists, census tract data and any of several sources of socio-economic data to construct samples. However, such information is largely lacking in many countries.

Once the sample is drawn, the researcher usually can reach most respondents easily by phone, by mail, online or in person. However, reaching respondents is often not so easy in other parts of the world. Researchers in some parts of the world cannot rely on telephone, internet and mail data collection; most data collection is door to door and concentrated in three or four of the largest cities. In some countries, few people have phones or personal computers. In Europe, the World Bank lists over 80 per cent of the population as having access to the internet. In the Kyrgyz Republic the level is about 34 per cent, while in Somalia it is around 2 per cent.[32] In some countries, the postal system is notoriously unreliable. In Brazil, for instance, an estimated 30 per cent of the mail is never delivered; in Russia, mail delivery can take several weeks. In many developing countries, poor roads and transport systems make certain areas hard to reach, making personal interviews difficult and expensive.[33]

Cultural differences from country to country cause additional problems for international researchers. Language is the most obvious obstacle. For example, questionnaires must be prepared in one language and then translated into the languages of each country researched. Responses then must be translated back into the original language for analysis and interpretation. This adds to research costs and increases the risks of error. Even within a given country, language can be a problem. For example, in India, English is the language of business, but consumers may use any of 14 'first languages', with many additional dialects.

Translating a questionnaire from one language to another is anything but easy. Many idioms, phrases and statements mean different things in different cultures. For example, a Danish executive noted, 'Check this out by having a different translator put back into English what you've translated from English. You'll get the shock of your life. I remember [an example in which] "out of sight, out of mind" had become "invisible things are insane"'.[34]

Consumers in different countries also vary in their attitudes toward marketing research. People in one country may be very willing to respond; in other countries, non-response can be a major problem. Customs in some countries may prohibit people from talking with strangers. In certain cultures, research questions often are considered too personal. For example, in many Muslim countries, mixed-gender focus groups are taboo, as is video-recording female-only focus groups. In some countries, even when respondents are *willing* to respond, they may not be *able* to because of high functional illiteracy rates.

Despite these problems, as global marketing grows, global companies have little choice but to conduct these types of international marketing research. Although the costs and problems associated with international research may be high, the costs of not doing it – in terms of missed opportunities and mistakes – might be even higher. Once recognised, many of the problems associated with international marketing research can be overcome or avoided.

Public policy and ethics in marketing research

Most marketing research benefits both the sponsoring company and its consumers. Through marketing research, companies gain insights into consumers' needs, resulting in more satisfying products and services and stronger customer relationships. However, the misuse of marketing research can also harm or annoy consumers. Two major public policy and ethics issues in marketing research are intrusions on consumer privacy and the misuse of research findings.

Intrusions on consumer privacy

Many consumers feel positive about marketing research and believe that it serves a useful purpose. Some actually enjoy being interviewed and giving their opinions. However, others strongly resent or even mistrust marketing research. They don't like being interrupted by researchers. They worry that marketers are building huge databases full of personal information about customers. Or they fear that researchers might use sophisticated techniques to probe our deepest feelings, track our internet and mobile device usage, or peek over our shoulders as we shop and then use this knowledge to manipulate our buying. A recent survey showed that more than 90 per cent of consumers feel that they have lost control over the collection and use by companies of their personal data and the information they share on social media sites.[35]

When mining customer information, marketers must be careful not to cross over the privacy line. But there are no easy answers when it comes to marketing research and privacy. For example, is it a good or bad thing that some retailers use mannequins with cameras hidden in one eye to record customer demographics and shopping behaviour in order to serve them better? Should we applaud or resent companies that monitor consumer posts on Facebook, Twitter, Instagram, YouTube or other social media in an effort to be more responsive? Should we worry when marketers track consumers' mobile phone usage to issue location-based information, ads and offers? Consider this example:[36]

> Germany's SAP's Consumer Insight 365 service helps mobile service providers to 'extract data about subscribers [and their] mobile-centric lifestyles'. It ingests as many as 300 mobile web surfing, text messaging, phone call and other mobile events per day for each of 20 to 25 million mobile subscribers across multiple carriers. The data tell marketers in detail where customers are coming from and where they go. According to one analyst, by combining the mobile data with other information, the service can tell businesses 'whether shoppers are checking out competitor prices on their phones or just emailing friends. It can tell them the age ranges and genders of people who visited a store location between 10 a.m. and noon, and link location and demographic data with shoppers' web browsing histories. Retailers might use the information to arrange store displays to appeal to certain customer segments at different times of the day, or to help determine where to open new locations.' Although such information can help marketers target customers with more useful offers, it might be 'a little too close for comfort' from a consumer privacy viewpoint.

Increasing consumer privacy concerns have become a major problem for the marketing research industry. Companies face the challenge of unearthing valuable but potentially sensitive consumer data while also maintaining consumer trust. At the same time, consumers wrestle with the trade-offs between personalisation and privacy. They want to receive relevant, personalised offers that meet their needs, but they worry or resent that companies may track them too closely. The key question: when does a company cross the line in gathering and using customer data?

A study by TRUSTe, an organisation that monitors the privacy practices of websites, found that more than 90 per cent of respondents view online privacy as a 'really' or 'somewhat' important issue. More than 75 per cent agreed with the statement, 'The internet is not well regulated, and naïve users can easily be taken advantage of.' And 66 per cent of consumers do not want marketers to track their online behaviour and tailor advertisements to their interests. So it is no surprise that they are now less than willing to reveal personal information on websites.[37]

The marketing research industry is considering several options for responding to this problem. The European Federation of Associations of Market Research Organisations and ESOMAR have recently jointly suggested a range of amendments to the European Commission's Directive 95/46/EC that deals with data protection. The industry also has considered adopting broad standards, perhaps based on the ESOMAR and International Chamber of Commerce worldwide code of ethical practice (the ICC/ESOMAR International Code on Market and Social Research). This code outlines researchers' responsibilities to respondents and the general public. For example, it says that researchers should make their names and addresses available to participants. It also bans companies from representing activities such as database compilation or sales and promotional pitches as research.

Most major companies – including Shell, Siemens, Deutsche Telekom, IBM and Microsoft – have now appointed a chief privacy officer (CPO), whose job is to safeguard the privacy of consumers who do business with the company. IBM's CPO claims that her job requires 'multidisciplinary thinking and attitude'. She needs to get all company departments, from technology, legal and accounting to marketing and communications working together to safeguard customer privacy.[38]

In the end, if researchers provide value in exchange for information, customers will gladly provide it. For example, Amazon's customers do not mind if the firm builds a database of products they buy as a way to provide future product recommendations. This saves time and provides value. Similarly, Bizrate users gladly complete surveys rating online seller sites because they can view the overall ratings of others when making purchase decisions. The best approach is for researchers to ask only for the information they need, use it responsibly to provide customer value and avoid sharing information without a customer's permission.

Misuse of research findings

Research studies can be powerful persuasion tools; companies often use study results as claims in their advertising and promotion. Today, however, many research studies appear to be little more than vehicles for pitching the sponsor's products. In fact, in some cases, research surveys appear to have been designed just to produce the intended effect. For example, UK phone and broadband provider TalkTalk claimed that customers could save €160 per year. Their television advertisements exhorted customers to 'join our customers who are already saving an average of over £140 (€160) a year'. Competitors complained that such claims were misleading exaggerations as they were based on average savings of TalkTalk customers and not on the savings that could be achieved by new target customers. While TalkTalk argued that the on-screen text of their claims was surrounded by question marks (and thus was a question rather than a definitive statement), the UK Advertising Standards Authority heavily criticised TalkTalk's approach.

Few advertisers openly rig their research designs or blatantly misrepresent the findings – most abuses tend to be more subtle 'stretches'. Or disputes arise over the validity, interpretation and use of research findings. Almost any research results can be variously interpreted depending on the researchers' bias and viewpoints.

Recognising that surveys can be abused, several associations – including the European Society for Opinion and Market Research, European Marketing Association, the Academy of Marketing, the American Marketing Association, the Marketing Research Association and the Council of American Survey Research Organizations (CASRO) – have developed codes of research ethics and standards of conduct. For example, the *CASRO Code of Standards and Ethics for Market, Opinion and Social Research* outlines researcher responsibilities to respondents, including confidentiality, privacy and avoidance of harassment. It also outlines major responsibilities in reporting results to clients and the public.[39]

In the end, however, unethical or inappropriate actions cannot simply be regulated away. Each company must accept responsibility for policing the conduct and reporting of its own marketing research to protect consumers' best interests as well as its own.

Learning outcomes review

To create value for customers and build meaningful relationships with them, marketers must first gain fresh, deep insights into what customers need and want. Such insights come from good marketing information. As a result of the recent explosion of 'big data' and digital technologies, companies can now obtain great quantities of information, often even too much. Consumers themselves are now generating a tidal wave of bottom-up information through their smartphones, PCs and tablets via online browsing and blogging, apps and social media interactions, and texting and video. The challenge is to transform today's vast volume of consumer information into actionable customer and market insights.

Objective 1 Explain the importance of information in gaining insights about the marketplace and customers (pp. 109–110)

The marketing process starts with a complete understanding of the marketplace and consumer needs and wants. Thus, the company needs to turn sound consumer information into meaningful *customer insights* by which it can produce superior value for its customers. The company also requires information on competitors, resellers and other actors and forces in the marketplace. Increasingly, marketers are viewing information not only as an input for making better decisions but also as an important strategic asset and marketing tool.

Objective 2 Define the marketing information system and discuss its parts (pp. 110–113)

The *marketing information system* (*MIS*) consists of people and procedures for assessing information needs, developing the needed information, and helping decision makers use the information to generate and validate actionable customer and market insights. A well-designed information system begins and ends with users.

The MIS first *assesses information needs*. The MIS primarily serves the company's marketing and other managers, but it may also provide information to external partners. Then the MIS *develops information* from internal databases, marketing intelligence activities and marketing research. *Internal databases* provide information on the company's own operations and departments. Such data can be obtained quickly and cheaply but often need to be adapted for marketing decisions. *Marketing intelligence* activities supply everyday information about developments in the external marketing environment, including listening and responding to the vast and complex digital environment. *Market research* consists of collecting information relevant to a specific marketing problem faced by the company. Last, the marketing information system helps users analyse and use the information to develop customer insights, make marketing decisions and manage customer relationships.

Objective 3 Outline the steps in the marketing research process (pp. 113–125)

The first step in the marketing research process involves *defining the problem and setting the research objectives*, which may be exploratory, descriptive or causal research. The second step consists of *developing a research plan* for collecting data from primary and secondary sources. The third step calls for *implementing the marketing research plan* by gathering, processing and analysing the information. The fourth step consists of *interpreting and reporting the findings*. Additional information analysis helps marketing managers apply the information and provides them with sophisticated statistical procedures and models from which to develop more rigorous findings.

Both *internal* and *external* secondary data sources often provide information more quickly and at a lower cost than primary data sources, and they can sometimes yield information that a company cannot collect by itself. However, needed information might not exist in secondary sources. Researchers must also evaluate secondary information to ensure that it is *relevant*, *accurate*, *current* and *impartial*.

Primary research must also be evaluated for these features. Each primary data collection method – *observational*, *survey* and *experimental* – has its own advantages and disadvantages. Similarly, each of the various research contact methods – mail, telephone, personal interview and online – has its own advantages and drawbacks.

Objective 4 Explain how companies analyse and use marketing information (pp. 125–128)

Information gathered in internal databases and through marketing intelligence and marketing research usually requires more analysis. To analyse individual customer data, many companies have now acquired or developed special software and analysis techniques – called *customer relationship management* (*CRM*) – that integrate, analyse and apply the mountains of individual customer data to gain a 360-degree view of customers and build stronger the customer relationships. They apply *marketing analytics* to dig out meaningful patterns in big data, gain customer insights and gauge marketing performance.

Marketing information has no value until it is used to make better marketing decisions. Thus, the MIS must make the information available to managers and others who make marketing decisions or deal with customers. In some cases, this means providing regular reports and updates; in other cases, it means making non-routine information available for special situations and on-the-spot decisions. Many firms use company intranets and extranets to facilitate this process. Thanks to modern technology, today's marketing managers can gain direct access to marketing information at any time and from virtually any location.

Objective 5 Discuss the special issues some marketing researchers face, including public policy and ethics issues (pp. 128–132)

Some marketers face special marketing research situations, such as those conducting research in small business, non-profit or international situations. Marketing research can be conducted effectively by small businesses and non-profit organisations with limited budgets. International marketing researchers follow the same steps as domestic researchers but often face more and different problems. All organisations need to act responsibly concerning major public policy and ethical issues surrounding marketing research, including issues of intrusions on consumer privacy and misuse of research findings.

Navigating the key terms

Objective 1
Big data (p. 109)
Customer insights (p. 110)
Marketing information system (MIS) (p. 110)

Objective 2
Internal databases (p. 111)
Competitive marketing intelligence (p. 112)

Objective 3
Marketing research (p. 113)
Exploratory research (p. 114)
Descriptive research (p. 114)
Causal research (p. 114)
Secondary data (p. 115)
Primary data (p. 115)
Observational research (p. 116)
Ethnographic research (p. 116)
Survey research (p. 117)
Experimental research (p. 117)
Focus group interviewing (p. 118)
Online marketing research (p. 119)
Online focus groups (p. 120)
Behavioural targeting (p. 121)
Sample (p. 122)

Objective 4
Customer relationship management (CRM) (p. 125)
Marketing analytics (p. 126)

Discussion and critical thinking

Discussing the concepts

4.1 What is *big data*, and what opportunities and challenges does it provide for marketers? (AACSB: Communication; Reflective thinking)

4.2 Explain how marketing intelligence differs from marketing research. Which is more valuable to a company? Why? (AACSB: Communication; Reflective thinking)

4.3 What is customer relationship management (CRM)? How are firms integrating this information into their marketing and general business practices? Provide an example of CRM in a firm. (AACSB: Communication; Reflective thinking)

4.4 Marketers make heavy use of both primary and secondary data. What is primary data? What is secondary data? What are the possible benefits or drawbacks of using each of these data types? (AACSB: Communication; Reflective thinking)

4.5 What are the similarities and differences when conducting research in another country versus the domestic market? What research strategies might a company use to address the differences in various markets? (AACSB: Communication; Reflective thinking)

Critical-thinking exercises

4.6 In a small group, identify a problem faced by a local business or charitable organisation and propose a research project addressing that problem. Develop a research proposal that implements each step of the marketing research process. Discuss how the research results will help the business or organisation. (AACSB: Communication; Reflective thinking)

4.7 Suppose you are conducting market research for your favourite soft drink brand. Sales have been lagging for two quarters, and you are determined to find out why. You decide to host an in-person focus group to gain customer insights into your brand's current product offerings. You are also interested in obtaining feedback on a new product that your brand plans to launch in the next six months. Determine the make-up of your focus group. Who should be invited to the focus group, and why? What types of information would you want to obtain? Identify possible questions to present to the focus group. (AACSB: Communication; Reflective thinking)

4.8 Conduct an online search to learn more about the marketing research industry. Develop a presentation describing the variety of jobs in the marketing research field along with the compensation for those jobs. create a graphical representation to communicate your findings. (AACSB: Communication; Use of IT; Reflective thinking)

Mini-cases and applications

Online, mobile and social media marketing: the trail you leave behind

Marketers are always interested in collecting as much valuable data as possible regarding customer likes, preferences and trends. Web activity and social media platforms such as Twitter, Facebook, Instagram and various blog sites are gold mines for marketers. All of these access points create information that can be aggregated and used to a company's competitive advantage, which allows firms to stay in tune with what is currently trending in the marketplace. Businesses can also use these same access points to track competitor activity, which can then be used in competitive marketing intelligence.

4.9 Have you ever thought about the data you leave behind for marketers to collect? Marketers are always looking for digital footprints, which are traceable sources of online activities. Visit www.internetsociety.org/your-digital-footprint-matters and review the various resources available. Select one of the tutorials and present what you learned from the video. (AACSB: Communication; Use of IT; Reflective thinking)

4.10 After reviewing the tutorials on http://www.internetsociety.org/your-digital-footprint-matters, do you plan to alter your online habits? Are you concerned about your digital footprint and the data trail you leave behind, and do you plan to actively manage them? Why or why not? (AACSB: Communication; Use of IT; Reflective thinking)

Marketing ethics: metadata

Everyone generates metadata when using technologies such as computers and mobile devices to search, post, tweet, play, text and talk. What many people don't realise, however, is that this treasure trove of date, time and location information can be used to identify them without their knowledge. For example, in analysing more than a million anonymous credit card transactions, researchers were able to link 90 per cent of the transactions to specific users with just four additional bits of metadata, such as user locations based on apps, the timing of an activity such as a tweet on Twitter or playing a mobile game. Since there are more mobile devices than there are people in Europe and 60 per cent of purchases are made with a credit card, marketing research firms are gobbling up all sorts of metadata that will let them tie a majority of purchase transactions to specific individuals.

4.11 Describe at least four applications you use that provide location, time and date information that can be tied to your identity. (AACSB Communication; Reflective thinking)

4.12 Debate whether it is ethical for marketers to use metadata to link individual consumers with specific credit card transactions. (AACSB: Communication; Ethical reasoning)

Marketing by numbers: the value of information

Conducting research is costly, and the costs must be weighed against the value of the information gathered. Consider a company faced with a competitor's price reduction. Should the company also reduce price in order to maintain market share, or should the company maintain its current price? The company has conducted some preliminary research showing the financial outcomes of each decision under two competitor responses: the competition maintains its price or the competition lowers its price further. The company feels pretty confident that the competitor cannot lower its price further and assigns that outcome a probability (p) of 0.7, which means the other outcome would have only a 30 per cent chance of occurring ($1 - p = 0.3$). These outcomes are shown in the table below:

	Competitive response	
Company action	**Maintain price $p = 0.7$**	**Reduce price $(1 - p) = 0.3$**
Reduce price	€160,000	€120,000
Maintain price	€180,000	€100,000

For example, if the company reduces its price and the competitor maintains its price, the company would realise €160,000, and so on. From this information, the expected monetary value (EMV) of each company action (reduce price or maintain price) can be determined using the following equation:

$$\text{EMV} = (p)\,(\text{financial outcome}_p) + (1 - p)\,(\text{financial outcome}_{(1-p)})$$

The company would select the action expected to deliver the greatest EMV. More information might be desirable, but is it worth the cost of acquiring it? One way to assess the value of additional information is to determine the expected value of perfect information (EMVPI), calculated using the following equation:

$$\text{EMV}_{\text{PI}} = \text{EMV}_{\text{certainty}} - \text{EMV}_{\text{best alternative}}$$

where,

$$\text{EMV}_{\text{certainty}} = (p)\,(\text{highest financial outcome}_p) + (1 - p)\,(\text{highest financial outcome}_{(1-p)})$$

If the value of perfect information is more than the cost of conducting the research, then the research should be undertaken (that is, $\text{EMV}_{\text{PI}} >$ cost of research. However, if the value of the additional information is less than the cost of obtaining more information, the research should not be conducted.

4.13 Calculate the expected monetary value (EMV) of both company actions. Which action should the company take? (AACSB: Communication; Analytical reasoning)

4.14 What is the expected value of perfect information (EMVPI)? Should the research be conducted? (AACSB: Communication; Analytical reasoning)

Video case

Nielsen

see www.pearsoned.co.uk/kotler

Most people know Nielsen as the TV ratings company. In reality, however, Nielsen is a multi-platform market research company that has been evolving constantly since 1923. Its goal is to measure and track a wide range of consumer activity in order to establish a 360-degree view of individuals and market segments. To accomplish this, Nielsen has to follow consumers wherever they may be – watching TV, online, in their homes or in stores.

How does Nielsen track all this activity? The veteran research firm has established effective methods of recording consumer activity, from retail scanner data to household panels to monitoring social networks. As data are captured, they are transferred to a Nielsen data warehouse, where they are matched to the right individual and added to the terabytes of information Nielsen already possesses. Through data sorting and analytics, Nielsen cuts through billions of daily transactions to deliver clear consumer insights to clients.

After viewing the video featuring Nielsen, answer the following questions:

4.15 What is Nielsen's expertise?

4.16 Providing a real-world example, describe how Nielsen might discover a consumer insight.

4.17 What kinds of partnerships might Nielsen need to form with other companies in order to accomplish its goals?

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Company case

Holland & Barrett: choosing the good life!

Dr Eleri Rosier, Cardiff University

Even within today's dismal retailing environment, Holland & Barrett continues to be one of the world's leading health and wellness retailers and the largest in Europe, supplying its customers with a wide range of vitamins, minerals, health supplements, specialist foods and natural beauty products. With over 145 years of experience in the industry, their brand is a familiar sight in almost every major city and town across the UK and is becoming increasingly more visible further afield, in markets as diverse as the Netherlands and Malta to the UAE, China and India.

Physical retail outlets have suffered badly recently, with an ever-growing number of high-street shop closures in 2018. Despite this, Holland & Barrett grew its revenues by over 7 per cent during the 2018 financial year on the back of strong sales growth of nearly 4 per cent, along with 32 per cent growth in digital sales and new store space, adding 34 new stores in the UK and Ireland during the year. Consumer interest in personal health and wellness is accelerating, and as innovation in technology is improving consumers' access to health-related information, Holland & Barrett has worked hard to keep pace with its customers' changing needs.

Their chain of health food shops now operates 1,077 stores in five countries including 830 stores and concessions in the UK and Ireland (of which 38 are 'store in store' concepts with Tesco), and 247 stores internationally in the Netherlands, Belgium and Sweden. Holland & Barrett also has over 400 franchised locations in 11 countries. During the year Holland & Barrett also acquired Halsa for Alla Sverige in Sweden, providing a platform for further growth in the Scandinavian region.

Holland & Barrett was formed in 1870 by Alfred Slapps Barrett and Major William Holland, who bought a grocery store and developed their business into two shops; a grocery store and a clothing store. In the 1920s, Alfred Button & Sons bought the business and kept the name Holland & Barrett. Holland and Barrett has since changed hands several times. Notably, Lloyds Pharmacy purchased Holland & Barrett in 1992, after which NBTY, formerly known as Nature's Bounty Inc., an American manufacturer of vitamins and nutritional supplements, acquired Holland & Barrett in 1997. Private American equity firm the Carlyle Group subsequently bought NBTY in 2010. It was, more recently, acquired by L1 Retail, a fund headed up by Russian oil billionaire Mikhail Fridman, in August 2017.

In 2018, to prepare the business for a more ambitious future, Holland & Barrett made significant investments in strengthening the business with several important additions to its senior management team. Former Homebase and Argos boss John Walden was hired as the retailer's new chairman. Walden said Holland & Barrett 'must change quickly' to adapt to the current retail climate. He added that he was also optimistic about the brand's opportunities for sustained growth.

Another addition was Starbucks' ex-vice-president of technology Mark Fabes in a brand-new chief information officer role that will comprise the driving of customer, brand and business insights across Holland & Barrett's stores, website and loyalty scheme. Fabes's role was created to improve the analysis of customer information and shopping habits to create better targeted promotions and communications both online and in-store. According to Fabes 'one of the biggest areas of focus in retail in the next couple of years will be about having a comprehensive 360-degree view of your customer'. Moving forward, the overarching aim for Holland & Barrett is to leverage deeper knowledge of how their customers engage with their business across all touchpoints, helping them reach decisions that create a truly blended experience across all onmichannels. Along with this, the firm also hired former Sainsburys/Argos technology boss, George Goley, as its first chief technology officer who said that, 'as a business, we need to be at the forefront of the rapidly advancing technology that is helping our customers meet their health and wellness goals by investing heavily in delivering more speed in the retail experience, greater convenience in service and delivery, and increasing personalisation in our brand and product propositions, both in store and online'.

Technology is dramatically reshaping the retail landscape as consumers increasingly use mobile and other internet devices to communicate, learn and transact. Under their new leadership, Holland & Barrett has begun what will be a transformative journey to meet customers' health and wellness needs in a digitally dominated future. It initiated improvements to its capabilities across the business with this end in mind – technology, data, retail standards, merchandising, marketing and supply chain – and have experienced significant digital sales growth during the year of 32.2 per cent.

According to its company report, one of Holland & Barrett's competitive strengths is its specialist health and wellness knowledge. Over the years Holland & Barrett has invested significantly in the creation of an online repository of health and wellness information, and training of its staff across all areas of its customers' health and wellness needs. This ensures that its customers have access to clear, concise and up-to-date information to help them confidently make informed decisions. Also, to make training more accessible and tailored to the needs of their customers, in 2017 Holland & Barrett launched the Hive e-learning platform, which allows employees to undertake and update their training digitally, with flexible ease of access. In 2018 alone, 1,874 employees gained a qualification through the Hive, covering key knowledge areas in relation to product features, benefits and cautions along with nutritional value, lifestyle choice and focused customer advice.

As we have seen, under new leadership, Holland & Barrett has been expanding its store footprint and digital operations in recent years, fuelled by a rise in popularity for vegan, gluten-free and other alternative diets. Mintel states that, 'the market for vegan products is booming, in line with growing consumer concerns about the ethical and environmental impact of animal-related products and a desire to buy products that align with the issues people care about'. In 2018, UK sales of luxury vegan beauty products climbed 38 per cent with the vegan trend growing fast in both fashion and beauty products. M+LKPLUS, the gourmet nut milk brand from *The Apprentice* finalist Camilla Ainsworth, recently confirmed its first exclusive nationwide listing with Holland & Barrett, following the Managing Director, Steve Carson's, appearance on the show to help Lord Sugar judge the final episode, and marks an exciting partnership for the health giant, which is rapidly expanding its offering with innovative new vegan products. The retailer is also to open vegan stores in 2019 and aims to take on brands like the Body Shop and Lush with a major expansion into cruelty-free beauty. Peter Aldis, the chief executive, said he plans to test two vegan-only stores. They will sell beauty products, such as ethical make-up, and cosmetics and foods such as vegan ice cream and sports nutrition powders. With demand on the rise, Holland & Barrett is seeking to stock 500 more vegan foods this year. They have already introduced vegan nail bars with Zoya vegan polishes in around 50 of their stores as well as Beauty Kitchens where customers can mix their own cruelty-free body scrubs. The retailer has also removed beauty products with parabens and foaming agents, which are considered harmful to the environment, and are phasing out gelatine from all its vitamin pills.

New global chief marketing officer, ex-Bacardi and Unilever exec Caroline Hipperson, is putting transparency at the heart of Holland & Barrett branding. 'For us it's about being genuine, ethical and true. There's equal parts wonder and science to what we do, so we're very inquisitive about nature but equally obsessed with the science behind it', Hipperson states, while launching their campaign to encourage transparency within the Manuka honey industry, using a blend of TV, social media and in-store activations to promote the fact that all Manuka honey stock sold within its walls will meet the same standard set by the New Zealand government, introducing 'certified' packaging for each jar. The retailer's 'Wonder of Honey' drive followed on from the its 'No Compromise' beauty initiative in 2018, which aimed to start a 'clean living' movement by encouraging customers to buy sustainable and ethical beauty products in-store. In a fragmented market, where health shops are moving online, Hipperson also wants to increase the share of direct e-commerce accounts for Holland & Barrett's sales. Due to increasing competition from national supermarkets (e.g., Sainsbury's is due to introduce wellness hubs in seven of its stores in 2019 in a move to take on high-street health food stores) and online traders, the company is continuing to invest in its in-store and online capabilities.

Looking forward to the future for Holland and Barrett, under their new ownership, chief executive Peter Aldis is confident that they are well positioned to drive transformation in the face of digital disruption, 'we expect that 2019 will also be a year of continued investment in the business to provide our customers with the most trusted and innovative range of health and wellness solutions'.

Questions for discussion

1. How have Holland & Barrett mined their big data to use market information more effectively?
2. What should Holland & Barrett do now to enhance their customer relationship management?
3. How can Holland & Barrett use marketing information and customer insights to ensure that all their growth strategies have succeeded?

Sources: F. Briggs, 'M+LKPLUS from *The Apprentice* finalist Camilla Ainsworth lands nationwide listing with Holland & Barrett', *The Retail Times*, 17 December 2018; S. Butler, 'Holland & Barrett to offer beauty products in vegan-only shops', *Guardian*, 3 August 2018; M. Calnan, 'Holland and Barrett hires George Goley as first Tech Chief', *The Grocer*, 29 October 2018; J. Espinoza, 'Mikhail Fridman fund to buy Holland & Barrett for £1.8bn', *Financial Times*, 25 June 2017; Holland & Barrett, *Preliminary Results Announcement*, 14 November 2018; E. Jahshan, 'Holland & Barrett taps former Homebase boss for chairman role', *Retail Gazette*, 14 November 2018; E. Jahshan, 'Holland & Barrett raids Starbucks ranks for new CIO', *Retail Gazette*, 21 September 2017; Mintel (2010) *Health Food Retailing UK Consumer Market Research Report*; R. Stewart, 'Holland & Barrett CMO on bringing transparency to wellness: "we don't make up stories"', *The Drum*, 3 August 2018; B. Stevens, 'Sainsbury's to take on Holland & Barrett with dedicated "wellness hubs"', *Retail Gazette*, 30 November 2018.

Chapter Five

Consumer markets and buyer behaviour

Chapter preview

You've studied how marketers obtain, analyse and use information to develop customer insights and assess marketing programmes. In this chapter, we take a closer look at the most important element of the market-place – customers. The aim of marketing is to engage customers and affect how they think and act. To affect the *whats*, *whens* and *hows* of buyer behaviour, marketers must first understand the *whys*. In this chapter, we look at *final consumer* buying influences and processes. In the next chapter, we'll study the buyer behaviour of *business customers*. You'll see that understanding buyer behaviour is an essential but very difficult task.

To get a better sense of the importance of understanding consumer behaviour, we begin by first looking at Jack Wills, the UK-founded clothing brand. What makes Jack Wills buyers so loyal? Just what is it that makes the student-types flock to their stores, their events and parties? Partly, it's the way the clothes look and feel. But at the core, customers buy from Jack Wills because the brand itself is a part of their own self-expression and lifestyle. It's a part of what the loyal Jack Wills customer is.

Learning outcomes

- **Objective 1** You will be able to define the consumer market and construct a simple model of consumer buyer behaviour.
  Model of consumer behaviour (pp. 143–144)
- **Objective 2** You will be able to name the four major factors that influence consumer buyer behaviour.
  Characteristics affecting consumer behaviour (pp. 144–157)
- **Objective 3** You will be able to list and define the major types of buying decision behaviour and the stages in the buyer decision process.
  Buying decision behaviour and the buyer decision process (pp. 157–159)
- **Objective 4** You will be able to describe the adoption and diffusion process for new products.
  The buyer decision process for new products (pp. 159–164)

Jack Wills: the university outfitters

Jack Wills stresses itself as the outfitters for university students.
Source: Kumar Sriskandan/Alamy Stock Photo

It's a holiday weekend and the sun is out in Rock, the Cornish resort in the south of the UK. However, the teenagers in Rock are not heading for the sand and surf but toward a newly-opened clothes shop, Jack Wills. Outside, there are bright flashes of colour – shopping bags in the Jack Wills signature colours of pink and navy-blue stripes. The teenagers are all wearing branded Jack Wills clothing: denim mini-skirts worn over leggings, zip-up hoodies, vests, shirts and shorts. To the embarrassment of their parents and the admiration of their friends, some boys are wearing their trousers 'fashionably' low, the better to display 'Jack Wills' on the elastic of their underpants.

There is something cultish about its fans' devotion to the Jack Wills brand. Visit any upmarket university, boarding school or resort town, and the teens will be there, buying Jack Wills' expensive preppy sportswear (€89 for a hooded sweatshirt and up to €30 for a pair of socks). Jack Wills ('university outfitters') isn't just on the high street. The firm sponsors Bath rugby, has sponsored polo events, the Badminton Horse Trials and university balls (including in the past both the St. Andrews Kate Kennedy Charity May Ball and the Keble College, Oxford, May ball) and puts on between-season 'tours' in university towns (giving away bespoke T-shirts for each town, plus mugs, underpants and other coveted trinkets).

The company is one of a number of brands, including the more-established US label Abercrombie & Fitch, that target teenagers with money and sell them 'preppy' or 'surf-inspired' casual clothes. It prides itself on its stealth marketing and its very direct relationship with its consumers.

Jack Wills shuns advertising in favour of social media and organised events. About 850,000 Facebook followers, 266,000 Instagram followers and 142,000 Twitter followers tune in to watch videos of its sponsored events on its YouTube channel. Among its employees, there is a team monitoring followers' tweets and replying to questions. 'We get hundreds of mentions every day on Twitter and we reply to 90 per cent of them', says marketing manager Freddie Wyatt. 'People ask a question and we'll tweet back an answer along with a video. It's one-to-one contact.' The firm generates buzz for its various collections by each year sending out four catalogues, or handbooks as they're known, to a huge UK readership to coincide with UK school terms (although many customers also use the Jack Wills app).

The first Jack Wills opened in Salcombe, Devon in the south of the UK, in 1999. Having just graduated, Peter Williams, then 23, became lifestyle-brand obsessed. He picked the sleepy resort of Salcombe because 'I'd been once in summer and it really just registered something.

When I started thinking about a premium brand I dredged up this vision of what I remembered in Salcombe. I thought, "What if you could create a brand that could bottle what being at a British university was all about and all the cool amazing stuff that goes with that?" It's such a uniquely cherished part of your life. I thought if you could create a brand that epitomised that it would be very compelling.'

He joined forces with Robert Shaw, a university friend then working at a marketing firm, and they scraped together about €50,000 of their own capital from savings, credit cards and loans. They set up Jack Wills (named after Williams' grandfather, Jack Williams) as a summer shop on Fore Street (it's still there and has expanded into the two neighbouring sites). They sold vintage-inspired T-shirts and sweaters bearing the Jack Wills lettering, while sleeping above the shop.

George Wallace, head of MHE Retail, a retail consultancy. says Jack Wills has 'created a very classy lifestyle brand with a very tribal following. They've got quite a narrow position – it's very public school – but they've got that group to buy in to it in a very big way. They've created something that persuades parents to pay premium prices for reasonable quality, and at very high margins. The worry is if this very fickle group falls out of love with them. It's such a volatile market. If they do, the fall could be spectacular, although I don't see that happening any time soon.'

Jack Wills also taps into the allure of 'privilege' as a selling point. Mat Bickley, founder of retail consultancy JOYN LONDON, says: 'Posh is cool again, it's like the 1980s. If you look at all the celebrity endorsements, the bands, the actors and faces of Burberry even now, they're all 'society' or public school educated.' There are now around 80 Jack Wills shops. Most stores are in the UK but there are two in in Ireland and the brand has opened a dozen stores in the US. It is also expanding into Asia and the Middle East, with Jack Wills open in Dubai, Kuwait, Beirut and Hong Kong. Recently, Jack Wills took a pop-up store in Heathrow Terminal 5 complete with a branded Land Rover, while in 2015 they opened stores in Singapore and Macau with their revitalised signature Jack Wills branded Land Rover.

Williams says 'we're still very grassroots about things'. Grassroots are at the heart of everything Jack Wills is about, and its attention to its customers – its community – is what sets it apart from other shops selling to teenagers. Its tweeds, vintage hoodies and print prairie dresses are pleasant but they are not cutting-edge, individual or high fashion. Their sameness reinforces membership of an exclusive friendship group.

Events in the real world make the brand, which even sounds like a friend, into a companion for the good times. Jack Wills has also sponsored match-day wear for the varsity rugby union match between Oxford and Cambridge universities watched by many thousands of students, ex-students and teenagers for many years. Jack Wills also invited teams from Harvard, Yale, Oxford and Cambridge universities, and the UK public schools Eton and Harrow, played against each other with thousands of fans looking on. The company is the official sponsor. Max Reyner, insight editor at LSN Global, says: 'Events are key here and are taking over from social networking, which is still important for awareness but is seen as less cool to teens now, as parents join sites like Facebook. They used to be private spaces. With the events they have a sense of ownership. The fact that Jack Wills doesn't advertise also helps. Teens like the idea of discovery. The whole feel of Jack Wills is like you're in a club and you're shutting out the parents.'

One of Jack Wills' key innovations is its 'Seasonnaires' programme. The company recruits young good-looking people who seem cool and appear outgoing as summer-long interns. These 'influencers' attracted by the tagline 'Work Hard, Live Louder', attend parties and circulate with guests, handing out free goods and merchandise. This summer a group of Seasonnaires, who are paid and given free clothing by the brand, will travel targeted locations, hosting parties on the beach and in local clubs and pubs, giving out free Jack Wills gifts. When inviting people to apply Jack Wills say 'winners should expect to spend their summer hanging out on the beach, sailing and surfing during the day, and hosting parties in town at night'.

So far Jack Wills has been able to crystallise the essence of a particular group and sell it back to them to wear at the beach and in the nightclub. And those customers seem very, very happy about it. Says Isabelle, 15, standing outside the new Jack Wills in Rock, bedecked head-to-toe in Jack Wills merchandise. 'I like that Jack Wills feels British. I get the catalogue, everyone in my school does. I love their Facebook page too.'[1]

The Jack Wills story shows that factors at many levels affect consumer buying behaviour. Buying behaviour is never simple, yet understanding it is an essential task of marketing management. **Consumer buyer behaviour** refers to the buying behaviour of final consumers – individuals and households that buy goods and services for personal consumption. All of these final consumers combine to make up the **consumer market**. The European consumer market consists of more than 516 million people with €17.9 trillion worth of spending power each year, making it one of the most attractive consumer markets in the world.[2]

Consumers around the world vary tremendously in age, income, education level and tastes. They also buy an incredible variety of goods and services. How these diverse consumers relate with each other and with other elements of the world around them affects their choices among various products, services and companies. Here we examine the fascinating array of factors that affect consumer behaviour.

Consumer buyer behaviour The buying behaviour of final consumers – individuals and households that buy goods and services for personal consumption.

Consumer market All the individuals and households that buy or acquire goods and services for personal consumption.

Model of consumer behaviour

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

The central question for marketers is this: how do consumers respond to various marketing efforts the company might use? The starting point is the stimulus–response model of buyer behaviour shown in Figure 5.1. This figure shows that marketing and other stimuli enter the consumer's 'black box' and produce certain responses.

Marketing stimuli consist of the four Ps: product, price, place and promotion. Other stimuli include major forces and events in the buyer's environment: economic, technological, social and cultural. All these inputs enter the buyer's black box, where they are turned into a set of buyer responses – the buyer's attitudes and preferences, brand engagements and relationships, and what he or she buys, when, where and how much.

Marketers want to understand how the stimuli are changed into responses inside the consumer's black box, which has two parts. First, the buyer's characteristics influence how he or she perceives and reacts to the stimuli. These characteristics include a variety of cultural, social, personal and psychological factors. Second, the buyer's decision process itself affects his or her behaviour. This decision process – from need recognition, information search and alternative evaluation to the purchase decision and post-purchase behaviour – begins long before the actual purchase decision and continues long after.

Author comment

Despite the simple-looking model in Figure 5.1, understanding the *whys* of buying behaviour is very difficult. Says one expert, 'The mind is a whirling, swirling, jumbled mass of neurons bouncing around . . . '

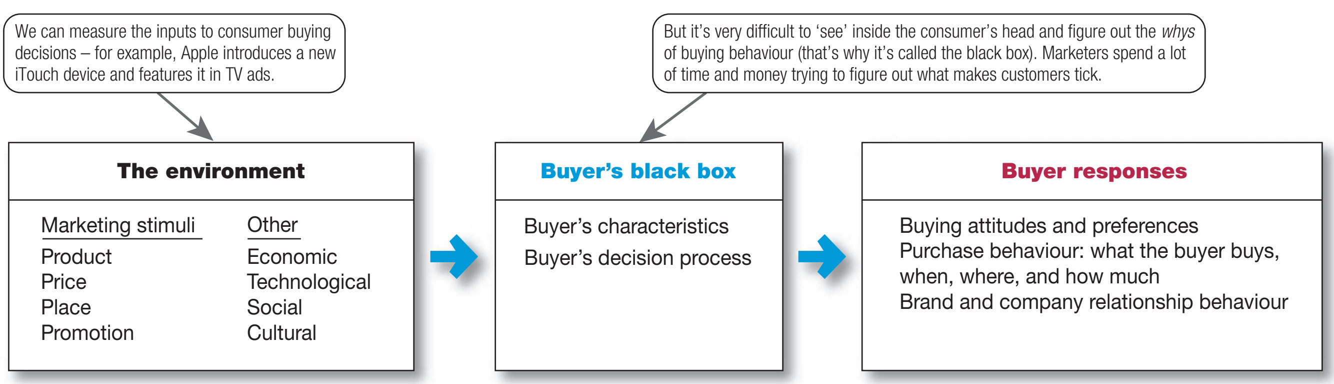


Figure 5.1 The model of buyer behaviour

We look first at buyer characteristics as they affect buyer behaviour and then discuss the buyer decision process.

Characteristics affecting consumer behaviour

Author comment

Many levels of factors affect our buying behaviour – from broad cultural and social influences to motivations, beliefs and attitudes lying deep within us.

Consumer purchases are influenced strongly by cultural, social, personal and psychological characteristics, as shown in Figure 5.2. For the most part, marketers cannot control such factors, but they must take them into account.

Cultural factors

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

Culture

Culture The set of basic values, perceptions, wants and behaviours learned by a member of society from family and other important institutions.

Culture is the most basic cause of a person's wants and behaviour. Human behaviour is largely learned. Growing up in a society, a child learns basic values, perceptions, wants and behaviours from his or her family and other important institutions. A European child normally is exposed to the following values: achievement and success, freedom, individualism, hard work, activity and involvement, efficiency and practicality, material comfort, youthfulness, and fitness and health. Every group or society has a culture, and cultural influences on buying behaviour may vary greatly from both county to county and country to country.

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

Subculture

Subculture A group of people with shared value systems based on common life experiences and situations.

Each culture contains smaller **subcultures**, or groups of people with shared value systems based on common life experiences and situations. Subcultures include nationalities, religions, racial groups and geographic regions. Many subcultures make up important market segments, and

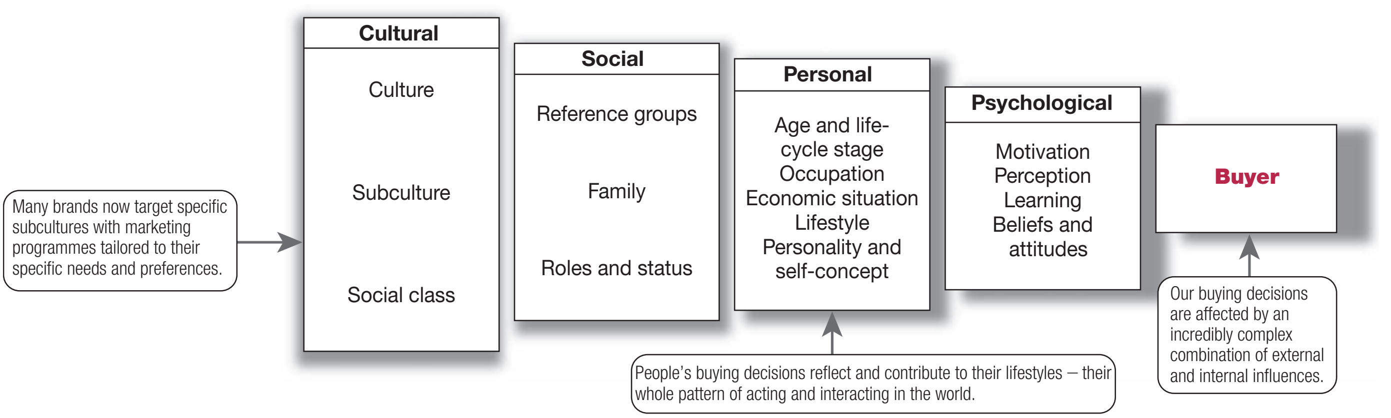


Figure 5.2 Factors influencing consumer behaviour

marketers often design products and marketing programmes tailored to their needs. Across Europe many thousands of subcultures exist from cybergoths to bodybuilders to naturists to bikers to fundamental Christians. While subcultures are distinct, they are not mutually exclusive (which suggests that somewhere there is a subculture of cybergoth bodybuilders who ride motorbikes to church in the nude). Two contrasting examples of subcultures are gamers and mature consumers.

Gamers

Originally the term 'gamer' referred to young people playing role-playing games and war games (epitomised by players of the phenomenally successful Dungeons and Dragons dice-based, role-playing game). However, today the label of gamer is attributed to anybody who enjoys playing or learning about video games – both on and offline. According to a recent study[3] around 25 per cent of Europe's population can be considered gamers (that is, playing computer games at least once a week) with the worldwide video game marketplace set to rise in value from €9.6billion in 2018 to over €11.6billion by the end of 2022.[4] While we might be unfairly tempted to stereotype gamers as adolescents with poor social skills and pale skin tones, recent research for the Interactive Software Federation of Europe by Game Vision Europe defies such narrow-mindedness: [5]

- Gamers are 55 per cent male and 45 per cent female (video gaming being far from the male-only preserve as is often portrayed in the press).
- 51 per cent of gamers are under 35 but 11 per cent are between 55 and 64 years old.
- Gaming is most popular among the young, however almost 49 per cent of gamers are over 35 years old.
- 35 per cent of gamers have purchased a game in the past 12 months.
- In the Nordic countries many parents play video games with their children (56 per cent in Denmark, 55 per cent in Norway, 50 per cent in Finland and 47 per cent in Sweden).
- Across the EU 36 per cent of parents play video games with children to spend time with them, with 34 per cent of parents arguing that video gaming is a fun activity for all the family.
- Around 46 per cent of parents argue that playing video games encourages their children to be more creative.
- Nevertheless, 29 per cent of European parents use parental control software to manage the gaming habits of their 6–9-year-olds.

The image of pale, male and socially inept video game players sitting alone in their bedrooms simply doesn't match the facts about European gamers. In particular, game makers and players have focused on the social aspect of gaming extensively over the last decade. Most of the biggest games are multiplayer games, be they team based games like Psyonix's *RocketLeague* game (essentially car-based football) to the ever popular versions of *Mario Kart* where gamers from around the world compete to race against each other to FIFA's hugely popular (and very playable!) versions of football games where players compete to win World Cups and Champions Leagues. The linking of video gaming to physical sports is a key future trend in Europe. Sports fanatic Europeans can not only watch their favourite sports but can also join in via online gaming. Industry commentators argue that such is the growth in what have become known as 'eSports', that the market for such gaming could generate more than €1.3 billion worldwide by 2020.[6]

Another trend for European gamers is the strong push toward augmented reality and virtual reality technology. Although much hyped, virtual reality gaming is a relatively small segment of the gaming market. Nonetheless, companies like Oculus and PlayStation sell millions of headsets per year and future European gamers are likely to be wearing virtual reality headsets. Similarly,

Over 25 per cent of Europeans can be thought of as gamers, be they fighters on Fortnite or tennis players on WiiFit.
Source: Rawpixel.com/Shutterstock

breakthrough games like *Pokemon Go* have successfully integrated augmented reality into gaming and into wider society. Indeed, for months in 2016–17, TV and press reports were replete with stories of obsessive gamers chasing digital *Pokemon Go* creatures around neighbourhoods, parks and estates.[7]

Whatever the future may hold for the European gamers it seems likely that video gaming will continue to grow and the that the gamer subculture will become an increasingly important. Driven by explosions of interest like *Pokemon Go* in 2016–17 and *Fortnite Battle Royal* in 2018–19, gaming seems on an upward trend that will evolve and develop into a myriad of subcultures and groups based on game form, gamer location, game type and game genre.

Mature consumers

As the population ages, mature consumers are becoming a very attractive market. By 2019, when all the baby boomers will be 55-plus, people aged 50–75 will account for 40 per cent of adult consumers. The over-55s (sometimes called the grey market or silver surfers) hold approximately 80 per cent of the wealth in the UK. By 2030, adults aged 65 and older will represent nearly 20 per cent of the population. Whereas in 1960 where most European countries had three 0–14-year-olds for each person over 65, by 2060 it is forecasted that each 0–14-year-old will be matched by two people over 65. Importantly, these mature consumer segments boast the most expendable cash. The 50-plus consumer segment now accounts for nearly 50 per cent of all consumer spending, more than any current or previous generation. They have 2.5 times the discretionary buying power of those aged 18–34. As one marketing executive puts it, they have 'assets, not allowances'. Despite some financial setbacks resulting from the recent economic crisis, mature consumers remain an attractive market for companies in all industries, from pharmaceuticals, furniture, groceries, beauty products and clothing to consumer electronics, travel and entertainment, and financial services.[8]

For decades, many marketers stereotyped mature consumers as doddering, impoverished shut-ins who are less willing to change brands. One problem: brand managers and advertising copywriters tend to be younger. 'Ask them to do an ad targeting the 50-plus demographic,' bemoans one marketer, 'and they'll default to a grey-haired senior living on a beach trailed by an ageing golden retriever.' For example, in a recent survey, advertising professionals regarded the term *over the hill* as meaning people over 57. In contrast, baby boomer respondents related the term to people over 75.[9]

The idea that all mature consumers spend their days knitting, feeding ducks and slowly walking around supermarkets is, at best, dated.
Source: ITAR-TASS News Agency/Alamy Stock Photo

As a group, however, mature consumers are anything but 'stuck in their ways'. To the contrary, a recent AARP study showed that older consumers for products such as stereos, computers and mobile phones are more willing to shop around and switch brands than their younger counterparts. For example, notes one expert, 'some 25 per cent of Apple's iPhones – the epitome of cool, cutting-edge product – have been bought by people over 50'.[10] Mature consumers are increasingly going online (67 per cent versus 14 per cent in 2000), possess a smartphone (42 per cent versus 18 per cent in 2013) and actively use social media (34 per cent versus 27 per cent in 2013). However, mature people appear in only around 6 per cent of all advertising.[11]

In reality, people whose ages would seem to place them squarely in the 'old' category usually don't act old or see themselves that way. Thanks to advances in longevity, people are redefining what the mature life stage means. 'They're having a second middle-age before becoming elderly', says a generational marketing expert. Marketers need to appeal to these consumers in a vibrant but authentic way.[12]

Today's mature consumers create an attractive market for travel agents and holiday firms. Indeed, mature consumers are more likely than younger consumers to take longer (and more expensive) holidays. A good example of a firm catering to this market is Solitair who specialise in holidays for single people. Recognising the volume of mature consumers who are single, Solitair have developed a range of holidays exclusively for single consumers with the aim 'to rejuvenate the energy level of our travellers above 50 years during their singles holidays'. Their promotional material claims that 'we make sure that we not only cater you the best services but the adventure and fun which our over 50s travellers seek during their singles trips. With our Singles Holidays Over 50, you get to enjoy beaches, cruises and many adventurous activities like skiing holidays, scuba diving, sailing, and even mountaineering.'[13]

A total marketing strategy

Beyond targeting specific subcultural segments such as gamers or silver surfers with specially tailored efforts, many marketers now embrace a **total market strategy** – the practice of integrating themes and cross-cultural perspectives within their mainstream marketing. Examples are general-market commercials for IKEA, Marks & Spencer and John Lewis that feature interracial and blended families and couples.[14] A total market strategy appeals to consumer similarities across subcultural segments, rather than differences.[15]

Total market strategy Integrating themes and cross-cultural perspectives within a brand's mainstream marketing, appealing to consumer similarities across subcultural segments, rather than differences.

Many marketers are finding that insights gleaned from narrow, subcultural consumer segments can influence their broader markets. For example, today's youth-oriented lifestyle is influenced heavily by black and ethnic minority entertainers. So it follows that consumers expect to see many different cultures and ethnicities represented in the advertising and products they consume. For instance, McDonald's takes cues from these cultures and subcultures to develop menus and advertising in hopes of encouraging mainstream consumers to buy smoothies, mocha drink, and snack wraps as avidly as they consume hip-hop and rock'n'roll.

Social class

Almost every society has some form of social class structure. **Social classes** are society's relatively permanent and ordered divisions whose members share similar values, interests and behaviours. Social scientists have identified seven social classes: upper upper class, lower upper class, upper middle class, middle class, working class, upper lower class and lower lower class.

Social class Relatively permanent and ordered divisions in a society whose members share similar values, interests and behaviours.

Social class is not determined by a single factor, such as income, but is measured as a combination of occupation, income, education, wealth and other variables. In some social systems, members of different classes are reared for certain roles and cannot change their social positions. In Europe however, the lines between social classes are not fixed and rigid; people can move to a higher social class or drop into a lower one.

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

In the UK, the British Broadcasting Company (commonly known as the BBC) worked with some university professors to undertake the largest ever study of social class in order to develop a more contemporary view of social class.

Social factors

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

Groups and social networks

Group Two or more people who interact to accomplish individual or mutual goals.

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

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

Word-of-mouth influence The impact of the personal words and recommendations of trusted friends, family, associates and other consumers on buying behaviour.

Word-of-mouth influence can have a powerful impact on consumer buying behaviour. The personal words and recommendations of trusted friends, family, associates and other consumers tend to be more credible than those coming from commercial sources, such as advertisements or salespeople. One recent study found that only 49 per cent of consumers reported that they trust or believe advertising, whereas 72 per cent said they trusted family and friends, and 72 per cent said they trust online reviews.[16] Most word-of-mouth influence happens naturally: Consumers start chatting about a brand they use or feel strongly about one way or the other. Often, however, rather than leaving it to chance, marketers can help to create positive conversations about their brands.

Opinion leader A person within a reference group who, because of special skills, knowledge, personality or other characteristics, exerts social influence on others.

Marketers of brands subjected to strong group influence must figure out how to reach **opinion leaders** – people within a reference group who, because of special skills, knowledge, personality or other characteristics, exert social influence on others. Some experts call this group the *influentials* or *leading adopters*. When these influentials talk, consumers listen. Marketers try to identify opinion leaders for their products and direct marketing efforts toward them.

Buzz marketing involves enlisting or even creating opinion leaders to serve as 'brand ambassadors' who spread the word about a company's products. Consider Mercedes-Benz's award-winning 'Take the Wheel' influencer campaign:[17]

> Mercedes-Benz wanted get more people talking about its all-new, soon-to-be-launched CLA model, priced at €29,900 and aimed at getting a new generation of younger consumers into the Mercedes brand. So it challenged five of Instagram's most influential photographers – everyday Gen Y consumers whose stunning imagery had earned them hundreds of thousands of fans – to each spend five days behind the wheel of a CLA, documenting their journeys in photos shared via Instagram. The photographer who got the most Likes got to keep the CLA. The short campaign really got people buzzing about the car, earning 87 million social media impressions and more than 2 million Likes. Ninety per cent of the social conversation was positive. And when Mercedes launched the CLA the following month, it broke sales records.

Many companies turn everyday customers into brand evangelists. For instance, Philips turned users into brand ambassadors for its novel Wake-up Light lighting system:[18]

Philips' Wake-up Light tapped into most people's desire to be woken naturally and gently each morning.

Source: napatsorn aungsirichinda/Shutterstock

A few years ago, Philips launched the first Wake-up Light – a bedside lighting system that simulated a natural sunrise, helping people to wake up more naturally and happily. At first, however, Philips had difficulty explaining the complex benefits of the wake-up concept to sceptical consumers. The solution: create knowledgeable consumer advocates who could explain the product to others. Philips did this through an award-winning integrated media campaign called 'Wake up the Town', in which it supplied the Wake-up Light to 200 residents in Longyearbyen, Norway – the northern-most town in the Arctic Circle. The town's 2,000 residents experience complete darkness 24 hours a day for 11 straight weeks each year. As you might imagine, waking up and starting the day in total darkness can be physically and mentally challenging. As the social experiment progressed, Philips asked consumers who used the Wake-up Light to honestly share their experiences on an interactive website, in blog posts and on Facebook. Philips also arranged media interviews and posted video mini-documentaries on the site. The three-month word-of-mouth campaign paid off handsomely as potential buyers followed the stories of those using the light. Of the 200 participants in 'Wake up the Town', 87 per cent reported they were waking up feeling more refreshed, alert and ready for the day; 98 per cent reported that they would continue to use the Wake-up Light. During the campaign, purchase consideration in target markets in Sweden and the Netherlands grew by 17 per cent and 45 per cent, respectively. Unit demand grew by 29 per cent.

Over the past several years, a new type of social interaction has exploded onto the scene – online social networking. **Online social networks** are online communities where people socialise or exchange information and opinions. Social networking communities range from blogs (Consumerist, Engadget, Gizmodo, Zen Habits) and message boards (Craigslist) to social media sites (Facebook, Twitter, YouTube, Instagram, Snapchat, LinkedIn) and even communal shopping sites (Amazon and Etsy). These online forms of consumer-to-consumer and business-to-consumer dialogue have big implications for marketers.

Online social networks
Online social communities – blogs, online social media, brand communities and other online forums – where people socialise or exchange information and opinions.

Marketers are working to harness the power of these new social networks and other 'word-of-web' opportunities to promote their products and build closer customer relationships. Instead of throwing more one-way commercial messages at consumers, they hope to use digital, mobile and social media to become an interactive part of consumers' conversations and lives.

For example, Red Bull has an astounding 44 million Likes on Facebook; Twitter and Facebook are the primary ways it communicates with college students. Brands ranging from Guinness and IKEA to Real Madrid C.F. are tweeting on Twitter. H&M connects with customers via the company's Facebook and YouTube pages, has a specific H&M iPad/iPhone App and a host of enthusiast groups.

Other marketers are working to tap the army of self-made influencers already plying the internet – independent bloggers. Believe it or not, there are now almost as many people making a living as bloggers as there are lawyers. The key is to find bloggers who have strong networks of relevant readers, a credible voice and a good fit with the brand. For example, you'll no doubt cross paths with the likes of climbers and skiers blogging for Patagonia, bikers blogging for Harley-Davidson, UK beer drinkers blogging for the Campaign for Real Ale and foodies blogging for food retailing or restaurant chains. Indeed, companies such as Unilever, Asda/Walmart, McDonald's and Disney, plus brands such as Hewlett-Packard, Nutella, Pampers and Crayola often work with influential 'mom bloggers' or 'social media moms', turning them into brand advocates. Indeed, to support such activities, an industry has sprung up linking brands with 'mom' bloggers.[19]

Even Bermuda uses social media extensively. The Bermuda Tourism Authority maintains Facebook, Instagram, Pinterest, Twitter, YouTube and other social media pages; two mobile apps, including the Bermuda's Very Own Mobile Events App; and a Discovering Bermuda blog featuring 'Posts from Paradise'. It also hires popular users of social media such as Instagram and trendy Tastemade – which features quirky videos about restaurants – to the island and urges them to post about their visits.[20]

We will dig deeper into online and social media as marketing tools in Chapter 17. However, although much current talk focuses on the digital, mobile and social media, most brand conversations still take place the old-fashioned way – face to face. So effective word-of-mouth marketing programmes usually begin with generating person-to-person brand conversations and integrating both offline and online social influence strategies. The goal is to get customers involved with brands and then help them share their brand passions and experiences with others in both their real and digital worlds.

Family

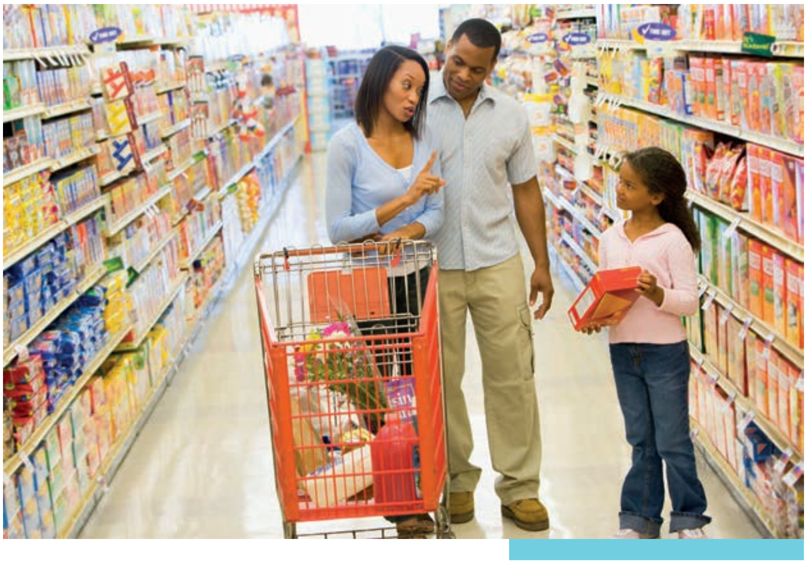
Family members can strongly influence buyer behaviour. The family is the most important consumer buying organisation in society, and it has been researched extensively. Marketers are interested in the roles and influence of the husband, wife and children on the purchase of different products and services.

Husband–wife involvement varies widely by product category and by stage in the buying process. Buying roles change with evolving consumer lifestyles. For example, in Europe, the wife was often considered the main purchasing agent for the family in the areas of food, household products and clothing. But with 71 per cent of all mothers now working outside the home and the willingness of husbands to do more of the family's purchasing, all this has changed in recent years. Recent surveys show that 41 per cent of men are now the primary grocery shoppers in their households, 39 per cent handle most of their household's laundry, and about one-quarter say they are responsible for all of their household's cooking. At the same time, today women outspend men three to two on new technology purchases and influence more than 80 per cent of all new car purchases.[21]

Such shifting roles signal a new marketing reality. Marketers in industries that have traditionally sold their products to only women or only men – from groceries and personal care products to cars and consumer electronics – are now carefully targeting the opposite sex. Other companies are showing their products in 'modern family' contexts.

For example, today women account for 50 per cent of all technology purchases. So consumer electronics companies are increasingly designing products that are easier to use and more appealing to female buyers:[22]

> Consumer electronics engineers and designers are bringing a more feminine sensibility to products historically shaped by masculine tastes, habits and requirements. Designs are more 'feminine and softer', rather than masculine and angular. But many of the new touches are more subtle, like the wider spacing of the keys on a Sony netbook computer. It accommodates the longer fingernails that women tend to have. Some of the latest mobile phones made by LG Electronics have the cameras' automatic focus calibrated to arms' length. The company observed that young women are fond of taking pictures of themselves with a friend. This isn't so much the case with men. Nikon and Olympus recently introduced lines of lighter, more compact and easy-to-use digital, single-lens reflex cameras that were designed with women in mind because they tend to be a family's primary keeper of memories.



Pester power by children is a big influence on parental shopping.
Source: MBI/Alamy Stock Photo

Children may also have a strong influence on family buying decisions. For example, in the UK the Office for National Statistics predict that children under 16 years of age will increase to over 13 million by 2026. Between the ages of seven and fifteen these children will spend around €8,885 in pocket money per year and contribute around €6.5 billion to the UK economy. Meanwhile each child will cost parents around €255,000 to clothe, feed and educate them to the age of 21.[23] In the US, 50 million children wield an estimated €1 trillion in annual purchasing power in direct and indirect spending.[24] Children also influence their families' spend on them in areas such as food, clothing, entertainment and personal care items. One study found that kids significantly influence family decisions about everything from where they take holidays to what cars and mobile phones they buy.[25]

For example, to encourage families to take their children out to eat again following the recession, casual restaurants reached out to children with everything from sophisticated children's menus and special deals to a wealth of kid-focused activities. In the UK, at Pizza Hut children eat free all day and every day over the summer with the purchase of an adult entrée or main course. To encourage parents to take holidays with their children, Forte Village in Sardinia even offer a dedicated children's restaurant, children's pool, complimentary kids clubs for children of all ages, a Chelsea Football Club Academy, rugby coaching, numerous water sports and even a special pool lagoon designed just for children.[26]

Roles and status

A person belongs to many groups – family, clubs, organisations, online communities. The person's position in each group can be defined in terms of both role and status. A role consists of the activities people are expected to perform according to the people around them. Each role carries a status reflecting the general esteem given to it by society.

People usually choose products appropriate to their roles and status. Consider the various roles that a working mother plays. In her company, she may play the role of a brand manager; in her family, she plays the role of wife and mother; at her favourite sporting events, she plays the role of avid fan. As a brand manager, she will buy the kind of clothing that reflects her role and status in her company. At the game, she may wear clothing supporting her favourite team.

Personal factors

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

Occupation

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

For example, Ede and Ravenscroft is a London bespoke tailor established in 1689. For over 300 years they have produced ceremonial gowns in the UK, including the gowns for 12 royal coronations. Indeed, they are currently appointed as robe makers to Her Majesty Queen Elizabeth

II, His Royal Highness The Duke of Edinburgh and His Royal Highness The Prince of Wales. However, Ede and Ravenscroft are probably best known as the dressers of the legal profession of barristers (not only in the UK but also across the world). The original Ede created the bespoke legal robes that barristers are required to wear during court appearances while Ravenscroft made the individually-tailored legal wigs that barristers must wear when appearing in court.[27]

Motivation: an ageing baby boomer who buys a sporty convertible might state that they simply like the feel of the wind through their thinning hair but at a deeper level might be buying the car to feel young, virile and independent again.

Source: Juice Images/Alamy Stock Photo

Age and life stage

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

Consumer information giant Acxiom's PersonicX life-stage segmentation system places households into distinct consumer segments and life-stage groups, based on specific consumer behaviour and demographic characteristics. PersonicX includes life-stage groups with names such as *Beginnings*, *Taking Hold*, *Cash & Careers*, *Jumbo Families*, *Transition Blues*, *Our Turn*, *Golden Years* and *Active Elders*. For example, the *Taking Hold* group consists of young, energetic, well-funded couples and young families who are busy with their careers, social lives and interests, especially fitness and active recreation. *Transition Blues* are blue-collar, less-educated, mid-income consumers who are transitioning to stable lives and talking about marriage and children.

'Consumers experience many life-stage changes during their lifetimes', say Acxiom. 'As their life stages change, so do their behaviours and purchasing preferences. Marketers who are armed with the data to understand the timing and makeup of life-stage changes among their customers will have a distinct advantage over their competitors.'[28]

In line with today's tougher economic times, Acxiom has also developed a set of economic life-stage segments, including groups such as *Squeaking By*, *Eye on Essentials*, *Tight with a Purpose*, *It's My Life*, *Full Speed Ahead*, and *Potential Rebounders*. The *Potential Rebounders* are those more likely to loosen up on spending sooner. This group appears more likely than other segments to use online research before purchasing electronics, appliances, home decor and jewellery. Thus, home improvement retailers appealing to this segment should have a strong online presence, providing pricing, features and benefits, and product availability.

Life-stage segmentation provides a powerful marketing tool for marketers in all industries to better find, understand and engage consumers. Armed with data about the make-up of consumer life stages, marketers can create targeted, actionable personalised campaigns based on how people consume and interact with brands and the world around them.

Economic situation

A person's economic situation will affect his or her store and product choices. Marketers watch trends in spending, personal income, savings and interest rates. In today's more value-conscious times, most companies have taken steps to create more customer value by redesigning, repositioning, and repricing their products and services. For example: [29]

Across Europe, retailers are facing a new reality: cash-strapped shoppers and rising costs. But it is mainly retailers that have traditionally relied on selling a high number of cheap items, from €1 T-shirts to €5 jeans, that are taking the biggest hit. 'What we are seeing is the end of the volume-driven market,' says Richard Hyman, strategic retail adviser to Deloitte. Stubbornly high inflation has been a feature of the economic downturn, exacerbated recently by rising fuel and food prices. Those with the lowest incomes are being hit hardest, as they spend a higher proportion of their money on essential items. At the same time, the costs that retailers themselves face are rising, from increases in cotton and wool prices, to rising wages in south-east Asia, although there has been some relief on cotton recently. There are also signs that younger customers, who have driven demand at companies such as the UK's ASOS, are now starting to feel the pinch. All retailers are faced with the unpalatable choice of passing higher costs on to customers, or taking a hit to their profits. Primark, owned by Associated British Foods, has decided not to pass inflation fully on to its customers in order to protect its long-term reputation for value. Also at the value end of the market, Sweden's Hennes & Mauritz has also refused to pass on higher input costs to consumers. In contrast, retailers that serve older, or more affluent customers, such as Marks and Spencer, or offer more cutting-edge fashion, such as Spain's Inditex, are faring better. There is no value sector to speak of in Italy, given Italians' desire for top-end luxury. But some mid-market players, such as Gap, Banana Republic and Inditex's Zara have recently opened in the Italian market, with what are often higher prices than in their domestic markets, and are doing well. Inditex, the world's biggest clothing retailer by sales, can ship garments from its headquarters in northern Spain to stores within two weeks, allowing it to quickly interpret emerging trends. It can react within the fashion season – responding for example to a demand for bold colours – rather than creating a collection, and placing orders, months in advance. Being on trend provides real pricing power, although Inditex has said that it is keeping its prices stable. The strategy, and Inditex's international reach, has given the group a performance that soars above the rest of the troubled Spanish clothing market.

Similarly, in line with worldwide economic trends, smartphone makers who once offered only premium-priced phones are now offering lower-priced models for consumers both at home and in the world's emerging economies. Microsoft's Nokia division recently targeted emerging markets with lower-end Lumia models priced well under €100. And Apple introduced a lower-end, lower-priced version of its iPhone, the iPhone 5C. As their more affluent Western markets have become saturated and more competitive, the phone makers hope that their lower-priced phones will help them to compete effectively in less-affluent emerging Eastern markets such as China and Southeast Asia against low-cost smartphone makers such as Chinese giant Xiaomi.[30]

Lifestyle

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

Lifestyle A person's pattern of living as expressed in his or her activities, interests and opinions.

When used carefully, the lifestyle concept can help marketers understand changing consumer values and how they affect buyer behaviour. Consumers don't just buy products; they buy the values and lifestyles those products represent. For example, Triumph doesn't just sell motorcycles; it sells an independent, 'Go your own way' lifestyle, Smirnoff vodka says consumers should 'Be There' and Adidas encourage consumers to 'Own the Game.' Says one marketer, 'People's product choices are becoming more and more like value choices. It's not, "I like this water, the way it tastes." It's "I feel like this car, or this show, is more reflective of who I am".'[31]

For example, take the case with which we opened the chapter – retailer Jack Wills. They target young, educated middle-upper class consumers with a preppy, buzzing atmosphere, selling a cool and casual lifestyle to which its customers aspire:

There is something cultish about the Jack Wills brand and its fans' devotion to the brand. Visit any upmarket university, boarding school or resort town, across the UK, and the affluent teens will be there, buying Jack Wills' expensive preppy sports wear (€90 for a hooded sweatshirt and up to €25 for a pair of socks.) Even though Jack Wills is a rapidly expanding global business, you could be forgiven for never having come across it before. The company is one of a number of brands, including the more-established US label Abercrombie & Fitch, that target teens with money and sell them preppy or surf-inspired casual clothes. It prides itself on its stealth marketing and its very direct relationship with its consumers. George Wallace, head of MHE Retail, a retail consultancy. says Jack Wills has 'created a very classy lifestyle brand with a very tribal following. They've got quite a narrow position – it's very public school – but they've got that group to buy in to it in a very big way. They've created something that persuades parents to pay premium prices for reasonable quality, and at very high margins. The worry is if this very fickle group falls out of love with them. It's such a volatile market. If they do, the fall could be spectacular, although I don't see that happening any time soon.'[32]

Marketers look for lifestyle segments with needs that can be served through special products or marketing approaches. Such segments might be defined by anything from family characteristics or outdoor interests to the foods people eat.

Personality and self-concept

Personality The unique psychological characteristics that distinguish a person or group.

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

The idea is that brands also have personalities, and consumers are likely to choose brands with personalities that match their own. A *brand personality* is the specific mix of human traits that may be attributed to a particular brand. One researcher identified five brand personality traits: *sincerity* (down-to-earth, honest, wholesome and cheerful), *excitement* (daring, spirited, imaginative and up to date), *competence* (reliable, intelligent and successful), *sophistication* (glamorous, upper class, charming), and *ruggedness* (outdoorsy and tough). 'Your personality determines what you consume, what TV shows you watch, what products you buy, and [most] other decisions you make', says one consumer behaviour expert.[33]

Most well-known brands are strongly associated with one particular trait: Land Rover with 'ruggedness', Apple with 'excitement', BBC with 'fairness' and Dove with 'sincerity'. Hence, these brands will attract persons who are high in the same personality traits.

Many marketers use a concept related to personality – a person's *self-concept* (also called *self-image*). The idea is that people's possessions contribute to and reflect their identities – that is, 'we are what we consume'. Thus, to understand consumer behaviour, marketers must first understand the relationship between consumer self-concept and possessions.

Hence, brands will attract people who are high on the same personality traits. For example, the MINI has an instantly recognisable personality as a clever and sassy but powerful little car. MINI owners – who sometimes call themselves 'MINIacs' – have a strong and emotional connection with their cars. More than targeting specific demographic segments, MINI appeals to personality segments – to people who are 'adventurous, individualistic, open-minded, creative, tech-savvy, and young at heart', just like the car.[34]

Psychological factors

A person's buying choices are further influenced by four major psychological factors: *motivation*, *perception*, *learning* and *beliefs and attitudes*.

Motivation

A person has many needs at any given time. Some are biological, arising from states of tension such as hunger, thirst or discomfort. Others are psychological, arising from the need for recognition, esteem or belonging. A need becomes a motive when it is aroused to a sufficient level of intensity. A **motive** (or **drive**) is a need that is sufficiently pressing to direct the person to seek satisfaction. Psychologists have developed theories of human motivation. Two of the most popular – the theories of Sigmund Freud and Abraham Maslow – carry quite different meanings for consumer analysis and marketing.

Motive (drive) A need that is sufficiently pressing to direct the person to seek satisfaction of the need.

Sigmund Freud assumed that people are largely unconscious about the real psychological forces shaping their behaviour. His theory suggests that a person's buying decisions are affected by subconscious motives that even the buyer may not fully understand. Thus, an ageing baby boomer who buys a sporty BMW convertible might explain that he simply likes the feel of the wind in his thinning hair. At a deeper level, he may be trying to impress others with his success. At a still deeper level, he may be buying the car to feel young and independent again.

Consumers often don't know or can't describe why they act as they do. Thus, many companies employ teams of psychologists, anthropologists and other social scientists to carry out *motivation research* that probes the subconscious motivations underlying consumers' emotions and behaviours toward brands. One ad agency routinely conducts one-on-one, therapy-like interviews to delve the inner workings of consumers. Another company asks consumers to describe their favourite brands as animals or cars (say, a Mercedes versus a Jaguar) to assess the prestige associated with various brands. Still others rely on hypnosis, dream therapy, or soft lights and mood music to plumb the murky depths of consumer psyches.

Such projective techniques might seem pretty goofy, and some marketers dismiss such motivation research as mumbo jumbo. But many marketers use such touchy-feely approaches, now sometimes called *interpretive consumer research*, to dig deeper into consumer psyches and develop better marketing strategies.

Abraham Maslow sought to explain why people are driven by particular needs at particular times. Why does one person spend a lot of time and energy on personal safety and another on gaining the esteem of others? Maslow's answer is that human needs are arranged in a hierarchy, as shown in Figure 5.3, from the most pressing at the bottom to the least pressing at the top.[35] They include *physiological* needs, *safety* needs, *social* needs, *esteem* needs and *self-actualisation* needs.

A person tries to satisfy the most important need first. When that need is satisfied, it will stop being a motivator, and the person will then try to satisfy the next most important need. For example, starving people (physiological need) will not take an interest in the latest happenings

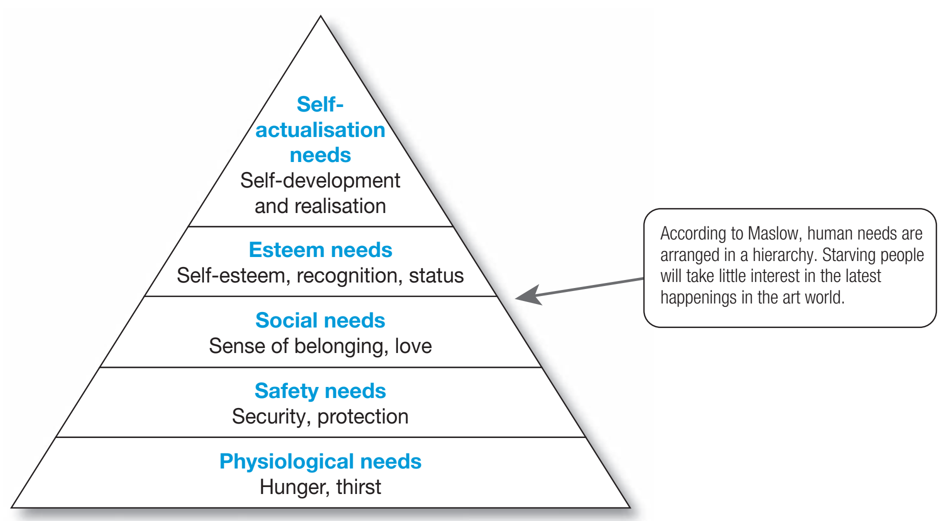


Figure 5.3 Maslow's hierarchy of needs

in the art world (self-actualisation needs) nor in how they are seen or esteemed by others (social or esteem needs) nor even in whether they are breathing clean air (safety needs). But as each important need is satisfied, the next most important need will come into play.

Perception

Perception The process by which people select, organise and interpret information to form a meaningful picture of the world.

A motivated person is ready to act. How the person acts is influenced by his or her own perception of the situation. All of us learn by the flow of information through our five senses: sight, hearing, smell, touch and taste. However, each of us receives, organises and interprets this sensory information in an individual way. **Perception** is the process by which people select, organise and interpret information to form a meaningful picture of the world.

People can form different perceptions of the same stimulus because of three perceptual processes: selective attention, selective distortion and selective retention. People are exposed to a great number of stimuli every day. For example, individuals are exposed to an estimated 3,000 to 5,000 ad messages daily – from TV and magazine ads to billboards to social media ads and posts on their smartphones.[36] The cluttered digital environment adds 5.3 trillion online display ads shown each year, 400 million tweets sent daily, 144,000 hours of video uploaded daily and 4.75 billion pieces of content shared on Facebook every day.[37] People can't possibly pay attention to all the competing stimuli surrounding them. *Selective attention* – the tendency for people to screen out most of the information to which they are exposed – means that marketers must work especially hard to attract the consumer's attention.

Even noticed stimuli do not always come across in the intended way. Each person fits incoming information into an existing mindset. *Selective distortion* describes the tendency of people to interpret information in a way that will support what they already believe. People also will forget much of what they learn. They tend to retain information that supports their attitudes and beliefs. *Selective retention* means that consumers are likely to remember good points made about a brand they favour and forget good points made about competing brands. Because of selective attention, distortion and retention, marketers must work hard just to get their messages through.

Interestingly, although most marketers worry about whether their offers will be perceived at all, some consumers worry that they will be affected by marketing messages without even knowing it – through *subliminal advertising*. More than 50 years ago, a researcher announced that he had flashed the phrases 'Eat popcorn' and 'Drink Coca-Cola' on a screen in a New Jersey movie theatre every five seconds for 1/300th of a second. He reported that although viewers did not consciously recognise these messages, they absorbed them subconsciously and bought 58 per cent more popcorn and 18 per cent more Coke. Suddenly advertisers and consumer-protection groups became intensely interested in subliminal perception. Although the researcher later admitted to making up the data, the issue has not died. Some consumers still fear that they are being manipulated by subliminal messages.

Numerous studies by psychologists and consumer researchers have found little or no link between subliminal messages and consumer behaviour. Recent brainwave studies have found that in certain circumstances, our brains may register subliminal messages. However, it appears that subliminal advertising simply doesn't have the power attributed to it by its critics.[38] One classic ad from the American Association of Advertising Agencies pokes fun at subliminal advertising. 'So-called "subliminal advertising" simply doesn't exist', says the ad. 'Overactive imaginations, however, most certainly do.'[39]

Learning

Learning Changes in an individual's behaviour arising from experience.

When people act, they learn. **Learning** describes changes in an individual's behaviour arising from experience. Learning theorists say that most human behaviour is learned. Learning occurs through the interplay of drives, stimuli, cues, responses, and reinforcement.

A *drive* is a strong internal stimulus that calls for action. A drive becomes a motive when it is directed toward a particular *stimulus object*. For example, a person's drive for self-actualisation might motivate him or her to look into buying a camera. The consumer's response to the idea of buying a camera is conditioned by the surrounding cues. *Cues* are minor stimuli that determine when, where and how the person responds. The camera buyer might spot several camera brands in a shop window, hear of a special sale price, or discuss cameras with a friend. These are all cues that might influence a consumer's *response* to his or her interest in buying the product.

Suppose the consumer buys a Nikon camera. If the experience is rewarding, the consumer will probably use the camera more and more, and his or her response will be *reinforced*. Then the next time he or she shops for a camera, or for binoculars or some similar product, the probability is greater that he or she will buy a Nikon product. The practical significance of learning theory for marketers is that they can build up demand for a product by associating it with strong drives, using motivating cues and providing positive reinforcement.

Beliefs and attitudes

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

Belief A descriptive thought that a person holds about something.

People have attitudes regarding religion, politics, clothes, music, food and almost everything else. **Attitude** describes a person's relatively consistent evaluations, feelings and tendencies toward an object or idea. Attitudes put people into a frame of mind of liking or disliking things, of moving toward or away from them. Our camera buyer may hold attitudes such as 'Buy the best', 'The Japanese make the best camera products in the world' and 'Creativity and self-expression are among the most important things in life'. If so, the Nikon camera would fit well into the consumer's existing attitudes.

Attitude A person's consistently favourable or unfavourable evaluations, feelings and tendencies toward an object or idea.

Attitudes are difficult to change. A person's attitudes fit into a pattern; changing one attitude may require difficult adjustments in many others. Thus, a company should usually try to fit its products into existing attitude patterns rather than attempt to change attitudes. Of course, there are exceptions. Repositioning or extending a brand calls for changing attitudes. For example, Firefly Drinks sells a small but growing range of distinctive drinks as it rides the wave of consumer interest in natural products. Consumers can choose from various formulations ¬ de-tox, chill-out, sharpen up, health kick, wake-up and a special-edition love potion for St Valentine's Day. The drinks contain no added sugar or preservatives.[40] By matching today's attitudes about life and healthful living, the Firefly Drinks brand has become a well-known player in the New Age beverage category.

We can now appreciate the many forces acting on consumer behaviour. The consumer's choice results from the complex interplay of cultural, social, personal and psychological factors.

Author comment

Some purchases are simple and routine, even habitual. Others are far more complex – involving extensive information gathering and evaluation – and are subject to sometimes subtle influences. For example, think of all that goes into a new car buying decision.

Types of buying decision behaviour

Buying behaviour differs greatly for a tube of toothpaste, a smartphone, financial services and a new car. More complex decisions usually involve more buying participants and more buyer deliberation. Figure 5.4 shows the types of consumer buying behaviour based on the degree of buyer involvement and the degree of differences among brands.

Complex buying behaviour

Consumers undertake **complex buying behaviour** when they are highly involved in a purchase and perceive significant differences among brands. Consumers may be highly involved when the product is expensive, risky, purchased infrequently and highly self-expressive. Typically,

Complex buying behaviour Consumer buying behaviour in situations characterised by high consumer involvement in a purchase and significant perceived differences among brands.

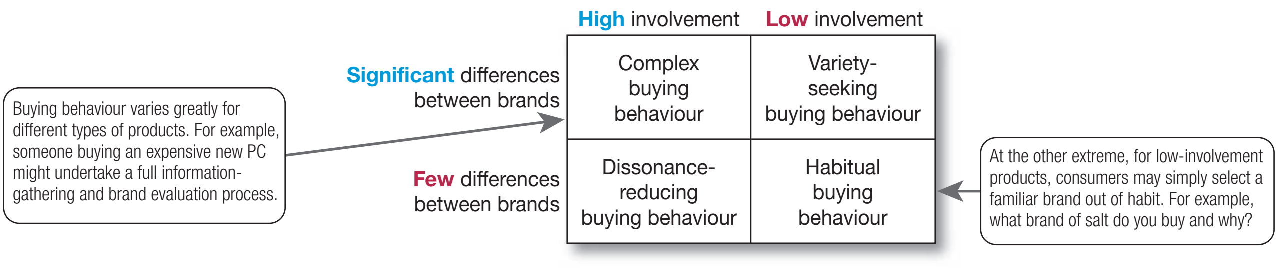


Figure 5.4 Four types of buying behaviour
Source: Adapted from Henry Assael, *Consumer Behaviour and Marketing Action* (Boston: Kent Publishing Company, 1987), p. 87. Used with permission of the author.

the consumer has much to learn about the product category. For example, someone buying a new car might not know what models, attributes and accessories to consider or what prices to expect.

This buyer will pass through a learning process, first developing beliefs about the product, then attitudes, and then make a thoughtful purchase choice. Marketers of high-involvement products must understand the information-gathering and evaluation behaviour of high-involvement consumers. They need to help buyers learn about product-class attributes and their relative importance. They need to differentiate their brand's features, perhaps by describing and illustrating the brand's benefits through printed promotional materials or in-depth online information and videos. They must motivate store salespeople and the buyer's acquaintances to influence the final brand choice.

Dissonance-reducing buying behaviour

Dissonance-reducing buying behaviour Consumer buying behaviour in situations characterised by high involvement but few perceived differences among brands.

Dissonance-reducing buying behaviour occurs when consumers are highly involved with an expensive, infrequent or risky purchase but see little difference among brands. For example, consumers buying carpeting may face a high-involvement decision because carpeting is expensive and self-expressive. Yet buyers may consider most carpet brands in a given price range to be the same. In this case, because perceived brand differences are not large, buyers may shop around to learn what is available but buy relatively quickly. They may respond primarily to a good price or purchase convenience.

After the purchase, consumers might experience *post-purchase dissonance* (after-sale discomfort) when they notice certain disadvantages of the purchased carpet brand or hear favourable things about brands not purchased. To counter such dissonance, the marketer's after-sale communications should provide evidence and support to help consumers feel good about their brand choices.

Habitual buying behaviour

Habitual buying behaviour Consumer buying behaviour in situations characterised by low consumer involvement and few significant perceived brand differences.

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

In such cases, consumer behaviour does not pass through the usual belief–attitude–behaviour sequence. Consumers do not search extensively for information about the brands, evaluate brand characteristics, and make weighty decisions about which brands to buy. Because they are not highly involved with the product, consumers may not evaluate the choice, even after purchase. Thus, the buying process involves brand beliefs formed by passive learning, followed by purchase behaviour, which may or may not be followed by evaluation.

Because buyers are not highly committed to any brands, marketers of low-involvement products with few brand differences often use price and sales promotions to promote buying. Alternatively, they can add product features or enhancements to differentiate their brands from the rest of the pack and raise involvement.

For example, to set its brand apart, Cushelle toilet tissue offers Original, Ultra Quilted and Fresh Linen (versions that are so absorbent that you can 'help you feel clean, comfortable and confident everyday').[41] They also raise brand involvement by offering a 'Sit or Squat' website and mobile phone app that helps travellers who 'Gotta go on the go!' find and rate clean public restrooms.

Variety-seeking buying behaviour

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

Variety-seeking buying behaviour Consumer buying behaviour in situations characterised by low consumer involvement but significant perceived brand differences.

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

The buyer decision process

Now that we have looked at the influences that affect buyers, we are ready to look at how consumers make buying decisions. Figure 5.5 shows that the buyer decision process consists of five stages: *need recognition*, *information search*, *evaluation of alternatives*, the *purchase decision*, and *post-purchase behaviour*. Clearly, the buying process starts long before the actual purchase and continues long after. Marketers need to focus on the entire buying process rather than on the purchase decision only.

Figure 5.5 suggests that consumers pass through all five stages with every purchase in a considered way. But buyers may pass quickly or slowly through the buying decision process. And in more routine purchases, consumers often skip or reverse some of the stages. Much depends on the nature of the buyer, the product and the buying situation. A person buying a regular brand of toothpaste would recognise the need and go right to the purchase decision, skipping information search and evaluation. However, we use the model in Figure 5.5 because it shows all the considerations that arise when a consumer faces a new and complex purchase situation.

Author comment

The actual purchase decision is part of a much larger buying process – from recognising a need through post-purchase behaviour. Marketers want to be involved throughout the entire buyer decision process.

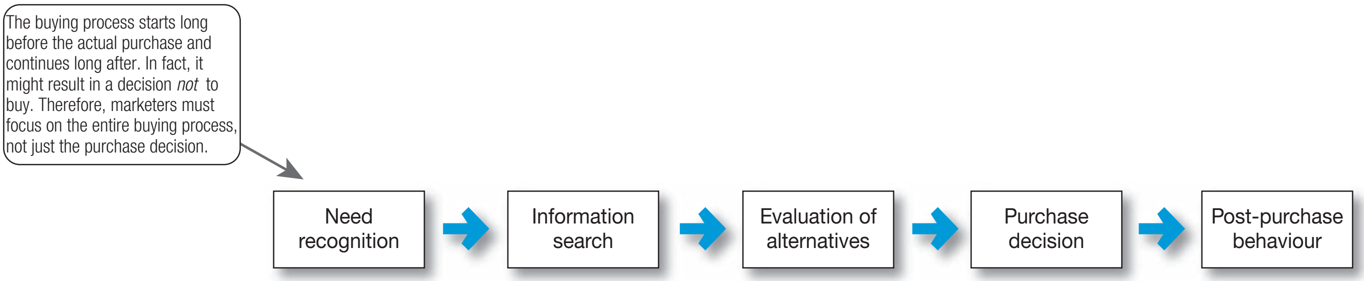


Figure 5.5 The buyer decision process

Need recognition

Need recognition The first stage of the buyer decision process, in which the consumer recognises a problem or need.

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

Information search

Information search The stage of the buyer decision process in which the consumer is motivated to search for more information.

An interested consumer may or may not search for more information. If the consumer's drive is strong and a satisfying product is near at hand, he or she is likely to buy it then. If not, the consumer may store the need in memory or undertake an **information search** related to the need. For example, once you've decided you need a new car, at the least, you will probably pay more attention to car ads, cars owned by friends and car conversations. Or you may actively search online, talk with friends and gather information in other ways.

Consumers can obtain information from any of several sources. These include *personal sources* (family, friends, neighbours, acquaintances), *commercial sources* (advertising, salespeople, dealer and manufacturer web and mobile sites, packaging, displays), *public sources* (mass media, consumer rating organisations, social media, online searches and peer reviews) and *experiential sources* (examining and using the product). The relative influence of these information sources varies with the product and the buyer.

Traditionally, consumers have received the most information about a product from commercial sources – those controlled by the marketer. The most effective sources, however, tend to be personal. Commercial sources normally *inform* the buyer, but personal sources *legitimise* or *evaluate* products for the buyer. Few advertising campaigns can be as effective as a next-door neighbour leaning over the fence and raving about a wonderful experience with a product you are considering.

Increasingly, that 'neighbour's fence' is a digital one. Today, consumers share product opinions, images and experiences freely across social media. And buyers can find an abundance of user-generated reviews alongside the products they are considering at sites ranging from Mumsnet, Trivago, TripAdvisor, Yelp and *Which?*.

For example, Yelp's goal is 'to connect people with great local businesses', including by maintaining a huge, searchable collection of reviews from people who have had a personal consumer experience with those businesses. As of Q1 2019, Yelpers have written approximately 184 million reviews of local restaurants, service providers, arts and entertainment activities, and other businesses in cities across the world. Approximately 69 million unique visitors visited Yelp via mobile web[*] and approximately 63 million unique visitors visited Yelp via desktop[**] on a monthly average basis during Q1 2019 Although individual reviews vary in quality, an entire body of reviews often provides a reliable product assessment—straight from the fingertips of people like you who've actually purchased and experienced the product.

As more information is obtained, the consumer's awareness and knowledge of the available brands and features increase. In your car information search, you may learn about several brands that are available. The information might also help you to drop certain brands from consideration. A company must design its marketing mix to make prospects aware of and knowledgeable about its brand. It should carefully identify consumers' sources of information and the importance of each source.

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* Calculated as the number of unique devices accessing the app on a monthly average basis over a given three-month period, according to internal Yelp logs.

** Calculated as the number of 'users', as measured by Google Analytics, accessing Yelp via desktop computer on an average monthly basis over a given three-month period.

Evaluation of alternatives

We have seen how consumers use information to arrive at a set of final brand choices. Next, marketers need to know about **alternative evaluation**, that is, how consumers process information to choose among alternative brands. Unfortunately, consumers do not use a simple and single evaluation process in all buying situations. Instead, several evaluation processes are at work.

How consumers go about evaluating purchase alternatives depends on the individual consumer and the specific buying situation. In some cases, consumers use careful calculations and logical thinking. At other times, the same consumers do little or no evaluating. Instead, they buy on impulse and rely on intuition. Sometimes consumers make buying decisions on their own; sometimes they turn to friends, online reviews or salespeople for buying advice.

Buying things can be extremely stressful and marketers need to understand how consumers evaluate and then choose between different alternatives.
Source: Africa Studio/Shutterstock

Suppose you've narrowed your car choices to three brands. And suppose that you are primarily interested in four attributes – price, style, operating economy and performance. By this time, you've probably formed beliefs about how each brand rates on each attribute. Clearly, if one car rated best on all the attributes, the marketer could predict that you would choose it. However, the brands will no doubt vary in appeal. You might base your buying decision mostly on one attribute, and your choice would be easy to predict. If you wanted style above everything else, you would buy the car that you think has the most style. But most buyers consider several attributes, each with different importance. By knowing the importance that you assigned to each attribute, the marketer could predict and affect your car choice more reliably.

Alternative evaluation The stage of the buyer decision process in which the consumer uses information to evaluate alternative brands in the choice set.

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

Purchase decision

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

Purchase decision The buyer's decision about which brand to purchase.

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

Post-purchase behaviour

The marketer's job does not end when the product is bought. After purchasing the product, the consumer will either be satisfied or dissatisfied and will engage in **post-purchase behaviour** of interest to the marketer. What determines whether the buyer is satisfied or dissatisfied with a purchase? The answer lies in the relationship between the *consumer's expectations* and the product's *perceived performance*. If the product falls short of expectations, the consumer is

Post-purchase behaviour The stage of the buyer decision process in which consumers take further action after purchase, based on their satisfaction or dissatisfaction.

disappointed; if it meets expectations, the consumer is satisfied; if it exceeds expectations, the consumer is delighted. The larger the negative gap between expectations and performance, the greater the consumer's dissatisfaction. This suggests that sellers should promise only what their brands can deliver so that buyers are satisfied.

Cognitive dissonance Buyer discomfort caused by post-purchase conflict.

Almost all major purchases, however, result in **cognitive dissonance**, or discomfort caused by post-purchase conflict. After the purchase, consumers are satisfied with the benefits of the chosen brand and are glad to avoid the drawbacks of the brands not bought. However, every purchase involves compromise. So consumers feel uneasy about acquiring the drawbacks of the chosen brand and about losing the benefits of the brands not purchased. Thus, consumers feel at least some post-purchase dissonance for every purchase.

Why is it so important to satisfy the customer? Customer satisfaction is a key to building profitable relationships with consumers – to keeping and growing consumers and reaping their customer lifetime value. Satisfied customers buy a product again, talk favourably to others about the product, pay less attention to competing brands and advertising, and buy other products from the company. Many marketers go beyond merely *meeting* the expectations of customers – they aim to *delight* customers.

A dissatisfied consumer responds differently. Bad word of mouth often travels farther and faster than good word of mouth. It can quickly damage consumer attitudes about a company and its products. But companies cannot simply wait for dissatisfied customers to volunteer their complaints. Most unhappy customers never tell the company about their problems. Therefore, a company should measure customer satisfaction regularly. It should set up systems that *encourage* customers to complain. In this way, the company can learn how well it is doing and how it can improve.

By studying the overall buyer decision process, marketers may be able to find ways to help consumers move through it. For example, if consumers are not buying a new product because they do not perceive a need for it, marketing might launch advertising messages that trigger the need and show how the product solves customers' problems. If customers know about the product but are not buying because they hold unfavourable attitudes toward it, marketers must find ways to change either the product or consumer perceptions.

The buyer decision process for new products

Author comment
Here we look at some special considerations in *new product* buying decisions.

We now look at how buyers approach the purchase of new products. A **new product** is a good, service or idea that is perceived by some potential customers as new. It may have been around for a while, but our interest is in how consumers learn about products for the first time and make decisions on whether to adopt them. We define the **adoption process** as the mental process through which an individual passes, from first learning about an innovation to final adoption. *Adoption* is the decision by an individual to become a regular user of the product.[42]

New product A good, service or idea that is perceived by some potential customers as new.

Adoption process The mental process through which an individual passes, from first hearing about an innovation to final adoption.

Stages in the adoption process

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

1. *Awareness.* The consumer becomes aware of the new product but lacks information about it.
2. *Interest.* The consumer seeks information about the new product.
3. *Evaluation.* The consumer considers whether trying the new product makes sense.
4. *Trial.* The consumer tries the new product on a small scale to improve his or her estimate of its value.
5. *Adoption.* The consumer decides to make full and regular use of the new product.

This model suggests that marketers should think about how to help consumers move through these stages. For example, if a company finds that many consumers are considering its products but are still tentative about buying one, it might offer sales prices or special promotions that help get consumers over the decision hump. To help car buyers past purchase-decision hurdles, Hyundai offered a unique Hyundai Assurance Plan. It promised buyers who financed or leased a new Hyundai that they could return them at no cost and with no harm to their credit rating if they lost their jobs or incomes within a year. Sales of the Hyundai Sonata surged 85 per cent in the month following the start of the campaign.[43]

Individual differences in innovativeness

People differ greatly in their readiness to try new products. In each product area, there are 'consumption pioneers' and early adopters. Other individuals adopt new products much later. People can be classified into the adopter categories shown in Figure 5.6.[44] As shown by the curve, after a slow start, an increasing number of people adopt the new product. As successive groups of consumers adopt the innovation, it eventually reaches its cumulative saturation level. Innovators are defined as the first 2.5 per cent of buyers to adopt a new idea (those beyond two standard deviations from mean adoption time); the early adopters are the next 13.5 per cent (between one and two standard deviations); and then come early majority, late majority and lagging adopters.

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

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

Influence of product characteristics on rate of adoption

The characteristics of the new product affect its rate of adoption. Some products catch on almost overnight. For example, Apple's iPod, iPhone and iPad flew off retailers' shelves at an astounding rate from the day they were first introduced. Others take a longer time to gain acceptance. For example, mainstream all-electric cars were first introduced in Europe in 2013, led by models such as the Nissan Leaf and the Tesla Model S. However, electric vehicles still account for far less than 1 per cent of total car sales. It will likely be years or even decades before they replace petrol-powered cars.[45]

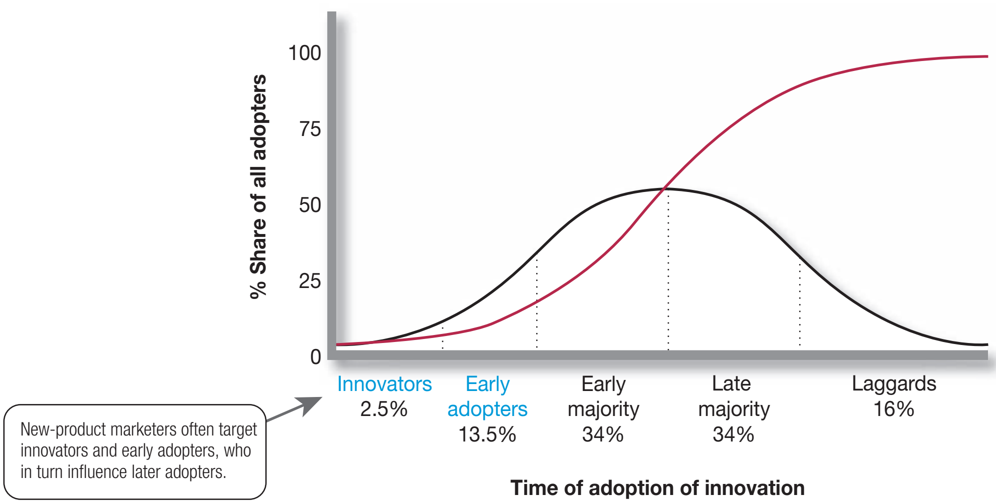

Figure 5.6 Adopter categories based on relative time of adoption of innovations

Source: adapted from Rogers, E.M., Diffusion of Innovations (2003).

Five characteristics are especially important in influencing an innovation's rate of adoption. For example, consider the characteristics of all-electric vehicles in relation to their rate of adoption:

1. *Relative advantage.* The degree to which the innovation appears superior to existing products. All-electric cars require no petrol and use clean, less costly energy. This will accelerate their rate of adoption. However, they have limited driving range before recharging and cost more initially, which will slow the adoption rate.
2. *Compatibility.* The degree to which the innovation fits the values and experiences of potential consumers. Electric cars are driven the same way as petrol-powered cars. However, they are not compatible with the nation's current refuelling network. Plug-in electric charging stations are few and far between. Increased adoption will depend on the development of a national network of recharging stations, which may take considerable time.
3. *Complexity.* The degree to which the innovation is difficult to understand or use. Electric cars are not different or complex to drive, which will help to speed up adoption. However, the 'conceptual complexity' of the new technologies and concerns about how well they will likely work slows down the adoption rate.
4. *Divisibility.* The degree to which the innovation may be tried on a limited basis. Consumers can test-drive electric cars, a positive for the adoption rate. However, current high prices to own and fully experience these new technologies will likely slow adoption.
5. *Communicability.* The degree to which the results of using the innovation can be observed or described to others. To the extent that electric cars lend themselves to demonstration and description, their use will spread faster among consumers.

Other characteristics influence the rate of adoption, such as initial and ongoing costs, risk and uncertainty, and social approval. The new product marketer must research all these factors when developing the new product and its marketing programme.

Learning outcomes review

The American consumer market consists of more than 323 million people who consume more than $11.9 trillion worth of goods and services each year, making it one of the most attractive consumer markets in the world. Consumers vary greatly in terms of cultural, social, personal and psychological makeup. Understanding how these differences affect consumer buying behaviour is one of the biggest challenges that marketers face.

Objective 1 Define the consumer market and construct a simple model of consumer buyer behaviour (pp. 143–144)

The *consumer market* consists of all the individuals and households that buy or acquire goods and services for personal consumption. The simplest model of consumer buyer behaviour is the stimulus–response model. According to this model, marketing stimuli (the four Ps) and other major forces (economic, technological, social, cultural) enter the consumer's 'black box' and produce certain responses. Once in the black box, these inputs produce observable buyer responses, such as brand choice, purchase location and timing, and brand engagement and relationship behaviour.

Objective 2 Name the four major factors that influence consumer buyer behaviour (pp. 144–157)

Consumer buyer behaviour is influenced by four key sets of buyer characteristics: cultural, social, personal and psychological. Although many of these factors cannot be influenced by the marketer, they can be useful in identifying interested buyers and shaping products and appeals to serve consumer needs better.

Culture is the most basic determinant of a person's wants and behaviour. *Subcultures* are 'cultures within cultures' that have distinct values and lifestyles and can be based on anything from age to ethnicity. Many companies focus their marketing programmes on the special needs of certain cultural and subcultural segments, such as gamers or mature consumers.

Social factors also influence a buyer's behaviour. A person's *reference groups* – family, friends, social networks, professional associations – strongly affect product and brand choices. The buyer's age, life-cycle stage, occupation, economic circumstances, personality and other *personal characteristics* influence his or her buying decisions. Consumer *lifestyles* – the whole pattern of acting and interacting in the world – are also an important influence on purchase decisions. Finally, consumer buying behaviour is influenced by four major *psychological factors*: motivation, perception, learning, and beliefs and attitudes. Each of these factors provides a different perspective for understanding the workings of the buyer's black box.

Objective 3 List and define the major types of buying decision behaviour and the stages in the buyer decision process (pp. 157–159)

Buying behaviour may vary greatly across different types of products and buying decisions. Consumers undertake *complex buying behaviour* when they are highly involved in a purchase and perceive significant differences among brands. *Dissonance-reducing behaviour* occurs when consumers are highly involved but see little difference among brands. *Habitual buying behaviour* occurs under conditions of low involvement and little significant brand difference. In situations characterised by low involvement but significant perceived brand differences, consumers engage in *variety-seeking buying behaviour*.

When making a purchase, the buyer goes through a decision process consisting of need recognition, information search, evaluation of alternatives, purchase decision and post-purchase behaviour. The marketer's job is to understand the buyer's behaviour at each stage and the influences that are operating. During *need recognition*, the consumer recognises a problem or need that could be satisfied by a product or service in the market. Once the need is recognised, the consumer is aroused to seek more information and moves into the *information search* stage. With information in hand, the consumer proceeds to *alternative evaluation*, during which the information is used to evaluate brands in the choice set. From there, the consumer makes a *purchase decision* and actually buys the product. In the final stage of the buyer decision process, *post-purchase behaviour*, the consumer acts based on satisfaction or dissatisfaction.

Objective 4 Describe the adoption and diffusion process for new products (pp. 159–164)

The product *adoption process* is made up of five stages: awareness, interest, evaluation, trial and adoption. New-product marketers must think about how to help consumers move through these stages. With regard to the *diffusion process* for new products, consumers respond at different rates, depending on consumer and product characteristics. Consumers may be innovators, early adopters, early majority, late majority or lagging adopters. Each group may require different marketing approaches. Marketers often try to bring their new products to the attention of potential early adopters, especially those who are opinion leaders. Finally, several characteristics influence the rate of adoption: relative advantage, compatibility, complexity, divisibility and communicability.

Navigating the key terms

Objective 1

Consumer buyer behaviour (p. 143)
Consumer market (p. 143)

Objective 2

Culture (p. 144)
Subculture (p. 144)
Total market strategy (p. 147)
Social class (p. 147)
Group (p. 148)
Word-of-mouth influence (p. 148)
Opinion leader (p. 148)
Online social networks (p. 149)
Lifestyle (p. 153)
Personality (p. 154)
Motive (drive) (p. 155)
Perception (p. 156)
Learning (p. 156)
Belief (p. 157)
Attitude (p. 157)

Objective 3

Complex buying behaviour (p. 157)
Dissonance-reducing buying behaviour (p. 158)
Habitual buying behaviour (p. 158)
Variety-seeking buying behaviour (p. 159)
Need recognition (p. 160)
Information search (p. 160)
Alternative evaluation (p. 161)
Purchase decision (p. 161)
Post-purchase behaviour (p. 161)
Cognitive dissonance (p. 162)

Objective 4

New product (p. 162)
Adoption process (p. 162)

Discussion and critical thinking

Discussing the concepts

5.1 Define the consumer market and describe the four major sets of factors that influence consumer buyer behaviour. Which characteristics influenced your choice when deciding on the college or university you would attend? Are those the same characteristics that would influence you when deciding what to do on Saturday night? Explain. (AACSB: Communication; Reflective thinking)

5.2 What is a total market strategy, and why do marketers use this approach? Provide a recent example of a product or service that uses the total market strategy approach and discuss the components that make it effective or ineffective. (AACSB: Communication; Diversity, Reflective thinking)

5.3 What is subculture? Describe at least two subcultures to which you belong and identify any reference groups that might influence your consumption behaviour. (AACSB: Communication; Diversity; Reflective thinking)

5.4 Briefly describe the four psychological factors influencing consumer buyer behaviour. Explain their importance to marketers. (AACSB: Communication; Reflective thinking)

5.5 Name and describe the stages in the adoption process. How might a student go through the adoption process when choosing a college or university? (AACSB: Communication; Reflective thinking)

Critical-thinking exercises

5.6 Researchers study the role of personality on consumer purchase behaviour. There are lots of surveys you can take to gauge your personality and your consumer personality in particular. (See for example https://www.themuse.com/advice/14-free-personality-tests-thatll-help-you-figure-yourself-out). What do these surveys tell you about your general and consumer personality? Do you agree with the findings? Why or why not? (AACSB: Communication; Use of IT; Diversity; Reflective thinking)

5.7 Discuss the steps of the consumer buying process for a new product. Next, identify a new product that you have recently adopted into your daily lifestyle. What is the new product that was adopted? As a consumer, did you use the adoption stages as outlined in the chapter? Why or why not? (AACSB: Communication; Reflective thinking)

5.8 The characteristics of a new product affect its rate of adoption. Identify the five characteristics that influence the rate of adoption and describe how each factor will influence the rate of adoption of the Apple Watch. (AACSB: Communication; Reflective thinking)

Mini-cases and applications

Online, mobile and social media marketing: digital influencer credibility

Fashion and lifestyle bloggers that are multimillionaires? Believe it. Simple fashion blogs have blown up to become huge income sources. Bloggers have integrated affiliate marketing, built their own brands or brand collaborations, and included sponsored content in their blogsites. Companies now see fashion bloggers as increasingly relevant digital influencers. Firms have also found that bloggers can drive more sales volume than celebrity endorsements. Therefore, brands are building more influencer campaigns into their marketing budgets. Ultimately, this means that bloggers can earn significant incomes. For example, the Refinery29 blog started out as a regular fashion blog with its bloggers earning an average income of €47,000 a year. It quickly turned into a fashion and lifestyle empire for Refinery29 founders Justin Stefano and Philippe von Borries. The site now makes €21 million a year, partially from revenue generated when these influencers push sales to affiliates through links embedded in the blog. To learn more about how much money the world's top fashion and lifestyle bloggers earn and about Refinery29's journey, visit https://www.inc.com/rebecca-borison/refinery29-chat.html and www.whowhatwear.com/how-do-bloggers-make-money.

5.9 Find an example of a blog on a topic that interests you. Are there advertisements on the blog? Does the blogger appear to be sponsored by any companies? Is there information regarding sponsorship? Write a brief report of your observations. (AACSB: Use of IT; Communication; Reflective thinking)

5.10 Digital influencers can shape consumer product acceptance and adoption. Discuss the process of making a purchase through a podcast, blog or social media account based on the recommendation of a digital influencer. Are sponsored content, paid advertisements, unpaid advertisements or product testimonials on blogsites credible information sources? Why or why not? (AACSB: Communication, Reflective thinking)

Marketing ethics: ultimate water

Water is water, right? Not so! Beverly Hills 90H20 claims to be designed 'by a world-class team of experts, including a water sommelier'. The winner of the World's Best Water Award, this water is sourced in the California mountains. At €62 for a case of 24 bottles, this is not your everyday drinking water. The 7.5 alkalinity 'silky' water is loaded with minerals and electrolytes. It is available in fine restaurants, gourmet markets and luxury hotels but is sold only in California. Beverly Hills 90H20 isn't the only luxury water, and it's actually somewhat of a bargain. Fillico Beverly Hills (from Japan) costs €86 per bottle. That's without the gold or silver crown cap – you can double the price if you want that. Acqua di Cristallo Tributo a Modigliani gold-bottled water tops them all at €52,000 per bottle!

5.11 What buying factors are most likely affecting consumers who purchase luxury bottled water? (AACSB: Communication; Reflective thinking)

5.12 Discuss the ethical issues surrounding the bottled water industry. (AACSB: Communication; Ethical reasoning)

Marketing by numbers: evaluating alternatives

One way consumers can evaluate alternatives is to identify important attributes and assess how purchase alternatives perform on those attributes. Consider the purchase of a tablet. Each attribute, such as screen size, is given a weight to reflect its level of importance to that consumer. Then the consumer evaluates each alternative on each attribute. For example, in the following table, price (weighted at 0.5) is the most important attribute for this consumer. The consumer believes that Brand C performs best on price, rating it 7 (higher ratings indicate higher performance). Brand B is perceived as performing the worst on this attribute (rating of 3). Screen size and available apps are the consumer's next most important attributes. Operating system is least important.

	Importance	Alternative brands		
Attributes	Weight (e)	A	B	C
Screen size	0.2	4	6	2
Price	0.5	6	3	7
Operating system	0.1	5	5	4
Apps available	0.2	4	6	7

A score can be calculated for each brand by multiplying the importance weight for each attribute by the brand's score on that attribute. These weighted scores are then summed to determine the score for that brand. For example, Score brand A $= (0.2 \times 4) + (0.5 \times 6) + (0.1 \times 5) + (0.2 \times 4) = 0.8 + 3.0 + 0.5 + 0.8 = 5.1$. This consumer will select the brand with the highest score.

5.13 Calculate the scores for brands B and C. Which brand would this consumer likely choose? (AACSB: Communication; Analytic reasoning)

5.14 Which brand is this consumer least likely to purchase? Discuss two ways the marketer of this brand can enhance consumer attitudes toward purchasing its brand. (AACSB: Communication; Reflective thinking; Analytic reasoning)

Video case

IMG Worldwide

see www.pearsoned.co.uk/kotler

IMG Worldwide is the world's largest sports entertainment media company. In years past, IMG was all about professional golf and tennis marketing. But today, IMG handles sales and marketing activities for 70 to 80 colleges, making college sports marketing the company's highest-growth business. In short, IMG handles anything and everything that touches the college sports consumer short of actually playing games on the court or field.

Although you might think that all college sports fans are created equal, IMG finds that nothing could be further from the truth. How different fans consume sports and sports-related activities is affected by geographical, generational and institutional factors. IMG focuses on comprehensively understanding the process that consumers go through to view or attend a sporting event. It then connects with consumers at each and every stage.

After viewing the video featuring IMG Worldwide, answer the following questions:

5.15 What 'product' is a college athletics department selling?

5.16 Discuss how a college sports fan might go through the buying decision process, providing examples for each stage.

5.17 Of the four sets of factors affecting consumer behaviour, which most strongly affects how college sports fans consume a sport?

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Company case

Porsche: guarding the old while bringing in the new

Porsche (pronounced *Porsh-uh)* is a unique company. It has always been a niche brand that makes cars for a small and distinctive segment of automobile buyers. Last year, Porsche sold around 155,000 vehicles globally and around 50,000 units with Europe. In contrast, Honda is aiming to sell 6 million units per year by 2017. In this sense, Porsche owners are as rare as their vehicles. For that reason, top managers at Porsche spend a great deal of time thinking about customers. They want to know who their customers are, what they think and how they feel. They want to know why they buy a Porsche rather than a Jaguar, or a Ferrari, or a big Mercedes coupe. These are challenging questions – even Porsche owners themselves don't know exactly what motivates their buying. But given Porsche's low volume and the increasingly fragmented auto market, it is imperative that management understand its customers and what gets their motors running.

Profile of a Porsche owner

Porsche was founded in 1931 by Ferdinand Porsche, the man credited with designing the original Volkswagen Beetle, Adolf Hitler's 'people's car' and one of the most successful car designs of all time. For most of the first two decades, the company built Volkswagen Beetles for German citizens and tanks and Beetles for the military. As Porsche AG began to sell cars under its own nameplate in the 1950s and 1960s, a few constants developed. The company sold very few models, creating an image of exclusivity. Those early models had a rounded, bubble shape that had its roots in the original Beetle, but the design evolved into something more Porsche-like with the world-famous 356 and 911 models. Finally, Porsche's cars featured air-cooled four- and six-cylinder 'boxer' motors (cylinders in an opposed configuration) in the rear of the car. This gave the cars a unique and often dangerous characteristic – a tendency for the rear end to swing out when cornering hard. That's one of the reasons that Porsche owners were drawn to them. They were challenging to drive and that kept most people away, making the car even more exclusive.

Since its early days, Porsche has appealed to a very narrow segment of financially successful people. These are achievers who see themselves as entrepreneurial, even if they work for a corporation. They set very high goals for themselves and then work doggedly to meet them. And they expect no less from the clothes they wear, the restaurants they go to or the cars they drive. These individuals see themselves not as a part of the regular world, but as exceptions to it. They buy Porsches because the car mirrors their self-image – it stands for the things owners like to see in themselves and in their lives.

Most of us buy what Porsche executives call utility vehicles. That is, we buy cars to go to work, to deliver the kids and to run errands. Because we have to use our cars to accomplish these daily tasks, we base buying decisions on features such as price, size, fuel economy and other practical considerations. But a Porsche is more than a utility car. Its owners see it as a car to be enjoyed, not just used. Most Porsche buyers are not moved by information, but by feelings. A Porsche is like a piece of clothing, something the owner 'wears' and is seen in. They develop a personal relationship with their cars, one that has more to do with the way the car sounds, vibrates, and feels than with how many cup holders it has or how much cargo it can tote. They admire their Porsches as machines that perform without being flashy or phony.

People buy Porsches because they enjoy driving. If all they needed was something to get them from point A to point B, they could find something much less expensive. And whereas many Porsche owners are car enthusiasts, some of them are not. One successful businesswoman and owner of a high-end Porsche said, 'When I drive this car to the high school to pick up my daughter, I end up with five youngsters in the car. If I drive any other car, I can't even find her; she doesn't want to come home.'

From niche to numerous

For the first few decades, Porsche AG lived by the philosophy of Ferry Porsche, Ferdinand's son. Ferry created the Porsche 356 because no one else made a car like the one he wanted. 'We did not do market research, we had no sales forecasts, no return-on-investment calculations. None of that. I very simply built my dream car and figured that there would be other people who share that dream.' So really, Porsche AG from the beginning was very much like its customers: an achiever that set out to make the very best.

But as the years rolled on, Porsche management became concerned with a significant issue: Were there enough Porsche buyers to keep the company afloat? Granted, the company never had illusions of churning out the numbers of Peugeot or BMW. But to fund innovation, even a niche manufacturer has to grow a little. And Porsche began to worry that the quirky nature of the people who buy Porsches might just run out on them.

This led Porsche to extend its brand outside the box. In the early 1970s, Porsche introduced the 914, a square-ish, mid-engine two-seater that was much cheaper than the 911. This meant that a different class of people could afford a Porsche. It was no surprise that the 914 became Porsche's top-selling model. By the late 1970s, Porsche replaced the 914 with a hatchback coupe that had something no other regular Porsche model had ever had: an engine in the front. At less than €16,000, more than €8,000 less than the 911, the 924 and later 944 models were once again Porsche's pitch to affordability. At one point, Porsche increased its sales goal by nearly 50 per cent to 60,000 cars a year.

Although these cars were in many respects sales successes, the Porsche faithful cried foul. They considered these entry-level models to be cheap and underperforming. Most loyalists never really accepted these models as 'real' Porsches. In fact, they were not at all happy that they had to share their brand with a customer who didn't fit the Porsche-owner profile. They were turned off by what they saw as a corporate strategy that had focused on *mass* over *class* marketing. This tarnished image was compounded by the fact that Nissan, Toyota, BMW and other car makers had ramped up high-end sports car offerings, creating some fierce competition. In fact, both the Datsun 280-ZX and the Toyota Supra were not only cheaper than Porsche's 944, they were faster. A struggling economy threw more sand in Porsche's tank. By 1990, Porsche sales had plummeted and the company flirted with bankruptcy.

Return to its roots?

But Porsche wasn't going down without a fight. It quickly recognised the error of its ways and halted production of the entry-level models. It rebuilt its damaged image by revamping its higher-end model lines with more race-bred technology. In an effort to regain rapport with customers, Porsche once again targeted the high end of the market in both price and performance. It set modest sales goals and decided that moderate growth with higher margins would be more profitable in the long term. The company set out to make one less Porsche than the public demanded. According to one executive, 'We're not looking for volume, we're searching for exclusivity.'

Porsche's efforts had the desired effect. By the late 1990s, the brand was once again favoured by the same types of achievers who had so deeply loved the car for decades. The cars were once again exclusive. And the company was once again profitable. But by the early 2000s, Porsche management was asking itself a familiar question: To have a sustainable future, could Porsche rely on only the Porsche faithful? According to then CEO Wendelin Wiedeking, 'For Porsche to remain independent, it can't be dependent on the most fickle segment in the market. We don't want to become just a marketing department of some giant. We have to make sure we're profitable enough to pay for future development ourselves.'

So in 2002, Porsche did the unthinkable. It became one of the last car companies to jump into the insatiable SUV market. At roughly 5,000 pounds, the Porsche Cayenne was heavier than anything that Porsche had ever made with the exception of some prototype military tanks it made during WWII. Once again, the new model featured an engine up front. And it was the first Porsche to ever be equipped with seat belts for five. As news spread about the car's development, howls of distress could be heard from Porsche's customer base.

But this time, Porsche did not seem too concerned that the loyalists would be put off. Could it be that the company had already forgotten what happened the last time it deviated from the mould? Apparently not. After driving one of the first Cayennes off the assembly line, one journalist stated, 'A day at the wheel of the 444 horsepower Cayenne Turbo leaves two overwhelming impressions. First, the Cayenne doesn't behave or feel like an SUV, and second, it drives like a Porsche.' This was no entry-level car. Porsche had created a two-and-a-half-ton beast that could accelerate to 60 miles per hour in just over five seconds, corner like it was on rails, and hit 165 miles per hour, all while coddling five adults in sumptuous leather seats with almost no wind noise from the outside world. On top of that, it could keep up with a Land Rover when the pavement ended.

Porsche had created the Porsche of SUVs

Recently, Porsche upped the ante one more time. It unveiled another large vehicle. But this time, it was a low-slung, five-door luxury sedan. The Porsche faithful and the automotive press again gasped in disbelief. But by the time the Panamera hit the road, Porsche had proven once again that Porsche customers could have their cake and eat it too. The Panamera is almost as big as the Cayenne but can move four adults down the road at speeds of up to 190 miles per hour, accelerate from a standstill to 60 miles per hour in 3.6 seconds, and still wring 23 miles out of a gallon of petrol.

Although some Porsche traditionalists would never be caught dead driving a front-engine Porsche that has more than two doors, Porsche insists that two trends will sustain these new models. First, a category of Porsche buyers has moved into life stages that have them facing inescapable needs – they need to haul more people and stuff. This not only applies to certain regular Porsche buyers, but Porsche is again seeing buyers enter its dealerships who otherwise wouldn't have. Only this time, the price points of the new vehicles are drawing only the well-heeled, allowing Porsche to maintain its exclusivity. These buyers also seem to fit the achiever profile of regular Porsche buyers.

The second trend is the growth of emerging economies. While Europe is home, and the United States has long been the world's biggest consumer of Porsches, the company expects China to become its biggest customer before long. Twenty years ago, the United States accounted for about 50 per cent of Porsche's worldwide sales. Now, it accounts for less than 25 per cent. In China, many people who can afford to buy a car as expensive as a Porsche also hire a chauffeur. The Cayenne and the Panamera are perfect for those who want to be driven around in style but who may also want to make a quick getaway if necessary.

The most recent economic downturn brought down the sales of just about every maker of premium automobiles. When times are tough, buying a car like a Porsche is the ultimate postponable purchase. But as this downturn turns back up, Porsche is better positioned than ever to meet the needs of its customer base. Porsche is also in better shape than ever to maintain its brand image with the Porsche faithful, and with others as well. Understanding Porsche buyers is still a difficult task. But one former chief executive of Porsche summed it up this way: 'If you really want to understand our customers, you have to understand the phrase, "If I were going to be a car, I'd be a Porsche".'

Questions for discussion

1. Analyse the buyer decision process of a traditional Porsche customer.
2. Contrast the traditional Porsche customer decision process to the decision process for a Cayenne or Panamera customer.
3. Which concepts from the chapter explain why Porsche sold so many lower-priced models in the 1970s and 1980s?
4. Explain how both positive and negative attitudes toward a brand like Porsche develop. How might Porsche change consumer attitudes toward the brand?
5. What role does the Porsche brand play in the self-concept of its buyers?

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Chapter Six

Business markets and business buyer behaviour

Chapter preview

In the previous chapter, you studied final consumer buying behaviour and factors that influence it. In this chapter, we'll do the same for business customers – those that buy goods and services for use in producing their own products and services or for resale to others. As when selling to final buyers, firms marketing to businesses must engage business customers and build profitable relationships with them by creating superior customer value.

To start, let's look at IBM. Although the IBM brand is very familiar to most final consumers, nearly all of the company's almost €86 billion in annual revenues comes from business and institutional customers. More than just 'selling' its products and services to B-to-B customers, IBM succeeds by working closely and deeply with them to develop complete solutions to their information and data analytics problems. From its lofty customer-solutions mission to the 'boots on the ground', IBM wants to become a strategic information and insights partner with its business customers.

Learning outcomes

- **Objective 1** You will be able to define the business market and explain how business markets differ from consumer markets.
  Business markets (pp. 175–177)
- **Objective 2** You will be able to identify the major factors that influence business buyer behaviour.
  Business buyer behaviour (pp. 177–180)
- **Objective 3** You will be able to list and define the steps in the business buying decision process.
  The business buying process (pp. 181–183)
- **Objective 4** You will be able to discuss how new information technologies and online, mobile and social media have changed business-to-business marketing.
  Engaging business buyers with digital and social marketing (pp. 183–185)
- **Objective 5** You will be able to compare the institutional and government markets and explain how institutional and government buyers make their buying decisions.
  Institutional and government markets (pp. 185–187)

IBM: the world's most valuable business-to-business brand

IBM is a household word to most of us. However, throughout its long history, IBM's fortunes have come not from final consumers but from large business and institutional customers. 'Big Blue' – as it's often called – is the quintessential B-to-B brand. In fact, corporate brand tracker Millward Brown recently named IBM the most valuable B-to-B brand in the world. Valued at €94 billion, IBM is worth about 50 per cent more than the number two B-to-B brand, giant GE. Even more impressive, IBM has survived and thrived for more than 100 years, something no other *Fortune* top 25 company has managed.

In some ways, IBM selling B-to-B is like P&G selling to final consumers. It requires a deep-down understanding of customer needs and a customer-driven marketing strategy that engages customers and delivers superior customer value. But that's where most of the similarities end. Rather than selling small-ticket purchases to masses of individual consumers, IBM sells complex big-ticket purchases to a smaller set of much bigger buyers, with each purchase involving perhaps dozens of decision makers. So IBM's B-to-B emphasis is less on selling *to* customers and more on partnering *with* them to help solve their complex information and analytics problems.

Solving customer problems has always been a hallmark of IBM's strategy, culture and success. Over the years, IBM has transformed itself time and again to meet changing customer needs. For example, two decades ago, IBM was known mostly for peddling mainframe computers, PCs and other basic computer system components. Back then, if you'd asked top managers at Big Blue what their mission was, they'd have answered, 'To sell computer hardware and software.'

By the early 1990s, however, IBM's sales had plateaued. To learn why, IBM sent its top managers to meet face-to-face with important customers – what it called 'bear-hugging customers' – to relearn about their problems and priorities. The managers learned that in the new connected digital age, companies face a perplexing array of data and information technologies. Today's customers don't need just computers and software. Instead, they need total solutions to ever-more-bewildering data, information and analytics problems.

This realisation led to a fundamental transformation of IBM's business. Now, if you ask IBM managers to define the company's mission, they'll tell you, 'We deliver *insights* and *solutions* to customers' data and information technology problems.' Under this new customer-solutions focus, IBM shifted emphasis away from mainframes and computer hardware. Instead, it added a full slate of integrated information technology, software and business consulting services. Most recently, to meet customers' ever-changing digital needs, IBM has shifted even more deeply into data analytics, cloud computing, cybersecurity, social networking and mobile technology solutions.

Thus, customers can still buy mainframe computers from IBM, but they are more likely to buy solutions involving a complex, integrated mix of hardware, software, services, consulting and advice across collaborative online, mobile and social networks. The transformed IBM now works arm-in-arm with B-to-B customers on everything from assessing, planning, designing and implementing their data and analytics systems to actually running those systems for customers.

According to IBM CEO Ginni Rometty, the company's focus on working closely with customers and changing to meet their needs is what makes IBM special. 'We're 104 years old', she says. 'The reason we're the only tech company still here at 104 is how many times we've transformed.' IBM's customer-solutions focus is summed up by its new marketing campaign: 'Cognitive Business: Outthink'. The campaign positions IBM as a company that helps customers to 'outthink your challenges, competitors, and limits' in the new 'cognitive era'.

But good B-to-B marketing at IBM goes well beyond a high-level customer-solutions mission, sweeping transformations and imaginative positioning campaigns. At the most basic level, it involves 'boots on the ground' – IBM teams and individuals developing close day-in, day-out working relationships with customers.

Business-to-business marketing: IBM's 'Cognitive Business: Outthink' campaign positions the company as one that work closely with business customers to help them thrive in the new 'cognitive era'.

Source: Agencja Fotograficzna Caro/Alamy Stock Photo

Consider the classic example of IBMer Vivek Gupta and how he became IBM's top salesperson in its fastest-growing industry (telecommunications) and fastest-growing market (India). When Gupta first joined IBM some years ago, he struggled to gain a foothold in a market where more than 70 per cent of corporations are family controlled and where relationships, trust and family ties trump almost everything else. In addition to his formal IBM training, Gupta launched his own extensive investigative effort, getting to know people, learning about IBM and its customers, and developing a rock-solid knowledge of how the company's products and services fit customer needs.

When Gupta first approached potential customer Vodafone – the dominant firm in India's exploding mobile phone market – the managing director there told him, 'I don't do any business with IBM, and I don't intend to.' But the quietly determined Gupta kept at it, getting to know Vodafone's key decision makers and patiently listening, observing and identifying how IBM might be able to help Vodafone succeed in its volatile and competitive markets.

Gupta came to know more about Vodafone than many people who worked there. It took him nearly four years, but Gupta finally sold Vodafone – the same people who vowed never to do business with IBM – on a gigantic five-year, €515 million turnkey contract to handle everything from Vodafone's customer service to its finances. Gupta became such a well-known figure at Vodafone's offices in Mumbai that many people there were surprised that his badge said 'IBM' and not 'Vodafone'. Gupta thrives on rooting out customer problems to solve. 'You have to understand [customers'] pain points', he explains. 'And they are not going to spell them out.'

Flushed with success, Gupta set his sights on still bigger targets. He realised that many big Indian telecoms were so busy simply hammering out their basic back-office operating systems that they had little money and brainpower left for strategy, branding and marketing. However, IBM had all the technology and expertise required to build and maintain such systems. What if IBM were to take over managing the system innards, freeing the customer to attend to strategy and marketing? Gupta proposed just such a novel solution to Bharti Airtel, then a relative newcomer to India's wireless industry. The result: IBM now runs the bulk of Bharti Airtel's back-office operations, while Bharti Airtel focuses on taking care of its own customers. In the first five years, the deal produced an incredible €0.9 billion for IBM. Bharti Airtel is now India's wireless industry leader and the deal is a staple 'how-to' case study in IBM's emerging markets sales training.

The IBM and Vivek Gupta stories highlight the essentials of B-to-B marketing success. It starts with a customer-focused mission that translates down to individuals working closely with customers to find complete solutions. Gupta doesn't just sell IBM computer hardware, software and analytics. He works with customers, feels their pain, finds solutions and sells the IBM systems and people that will deliver results for the customer. 'It's at once radically simple and just plain radical', says an analyst. 'He wants to convince you that IBM can run your business – your entire business, save for strategy and marketing – better than you can.'[1]

In one way or another, most large companies sell to other organisations. Companies such as Unilever, Nestlé, Olivetti, Boeing, IBM, Caterpillar and countless other firms sell *most* of their products to other businesses. Even large consumer products companies, which make products used by final consumers, must first sell their products to other businesses. For example, Unilever makes many familiar consumer brands – food products (such as Lipton, Bovril, Pot Noodle and Cornetto), home care products (for example, Comfort, Surf, Persil and Domestos), personal care products (for instance, Dove, Lux, Brut and Vaseline) and others. But to sell these products to consumers, Unilever must first sell them to its wholesaler and retailer customers, who in turn serve the consumer market.

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

Business buyer behaviour The buying behaviour of organisations that buy goods and services for use in the production of other goods and services that are sold, rented or supplied to others.

Business buying process The decision process by which business buyers determine which goods and services their organisations need to purchase and then find, evaluate and choose among alternative suppliers and brands.

Business markets

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

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

Author comment

Business markets operate 'behind the scenes' to most consumers. Most of the things you buy involve many sets of business purchases before you ever see them.

Market structure and demand

The business marketer normally deals with *far fewer but far larger buyers* than the consumer marketer does. Even in large business markets, a few buyers often account for most of the purchasing. For example, when Pirelli sells replacement tyres to final consumers, its potential market includes millions of car owners around the world. But its fate in business markets depends on getting orders from only a handful of large car makers.

Further, many business markets have *inelastic and more fluctuating demand*. The total demand for many business products is not much affected by price changes, especially in the short run. A drop in the price of leather will not cause shoe manufacturers to buy much more leather unless it results in lower shoe prices that, in turn, increase consumer demand for shoes. And the demand for many business goods and services tends to change more – and more quickly – than does the demand for consumer goods and services. A small percentage increase in consumer demand can cause large increases in business demand.

Finally, business demand is **derived demand** – it ultimately derives from the demand for consumer goods. Consumers buy Gorilla Glass only when they buy PCs, tablets, smartphones and other devices with screens made from the toughened glass, from producers such as Asus, Dell, Huawei, Lenovo, LG, Samsung, Sony and Toshiba. And demand for Gore-Tex fabrics derives from consumer purchases of outdoor apparel brands made from Gore-Tex. If consumer demand for these products increases, so does the demand for the Intel processors or Gore-Tex fabrics they contain. Therefore, B-to-B marketers sometimes promote their products directly to final consumers to increase business demand. If consumer demand for these end products increases, so does the demand for the Gore-Tex fabrics or Gorilla Glass they contain.

Derived demand Business demand that ultimately comes from (derives from) the demand for consumer goods.

Therefore, B-to-B marketers sometimes promote their products directly to final consumers to increase business demand.

For example, Corning's long-running 'Tough, yet beautiful' consumer marketing campaign features a family of gorillas who are out to convince final buyers that it makes sense to choose digital devices with screens made of Gorilla Glass rather than a less-tough competitor.

Such advertising benefits both Corning and the partner brands that incorporate its durable, scratch-resistant glass. Thanks in part to the consumer marketing campaign, Corning's Gorilla Glass has to date been featured in more than 40 major brands and more than 4.5 billion devices worldwide.[2]

Nature of the buying unit

Compared with consumer purchases, a business purchase usually involves *more decision participants* and a *more professional purchasing effort*. Often, business buying is done by trained purchasing agents who spend their working lives learning how to buy better. The more complex the purchase, the more likely it is that several people will participate in the decision-making process. Buying committees composed of technical experts and top management are common in the buying of major goods. Beyond this, B-to-B marketers now face a new breed of higher-level, better-trained supply managers. Therefore, companies must have well-trained marketers and salespeople to deal with these well-trained buyers.

Types of decisions and the decision process

Business buyers usually face *more complex* buying decisions than do consumer buyers. Business purchases often involve large sums of money, complex technical and economic considerations, and interactions among people at many levels of the buyer's organisation. The business buying process also tends to be *longer* and *more formalised*. Large business purchases usually call for detailed product specifications, written purchase orders, careful supplier searches and formal approval.

Finally, in the business buying process, the buyer and seller are often much *more dependent* on each other. B-to-B marketers may roll up their sleeves and work closely with customers during all stages of the buying process – from helping customers define problems to finding solutions to supporting after-sale operation. In the short run, sales go to suppliers who meet buyers' immediate product and service needs. In the long run, however, business-to-business marketers keep customers by meeting current needs *and* by partnering with them to help solve their problems. For example, consider IKEA:[3]

> IKEA, the world's largest furniture retailer, is the quintessential global cult brand. Customers from Thessaloniki in Greece to Bucharest in Romania, flock to the €35 billion Scandinavian retailer's more than 415 huge stores in 54 countries, drawn by IKEA's trendy but simple and practical furniture at affordable prices. But IKEA's biggest obstacle to growth isn't opening new stores and attracting customers. Rather, it's finding enough of the right kinds of *suppliers* to help design and produce the billions of euros' worth of affordable goods that customers will carry out of its stores. IKEA currently relies on some 1,046 suppliers in 52 countries to stock its shelves. IKEA can't just rely on spot suppliers who might be available when needed. Instead, it has systematically developed a robust network of supplier-partners that reliably provide the more than 9,500 items it stocks. IKEA's designers start with a basic customer value proposition. Then they find and work closely with key suppliers to bring that proposition to market. Thus, IKEA does more than just buy from suppliers; it also involves them deeply in the process of designing and making stylish but affordable products to keep IKEA's customers coming back.

Supplier development
Systematic development of networks of supplier-partners to ensure an appropriate and dependable supply of products and materials for use in making products or reselling them to others.

As in IKEA's case, in recent years, relationships between most customers and suppliers have been changing from downright adversarial to close and chummy. In fact, many customer companies are now practising **supplier development**, systematically developing networks of supplier-partners to ensure a dependable supply of the products and materials that they use in making their own products or reselling to others. For example, IKEA doesn't have a 'Purchasing Department'; it has a 'Supplier Development Department'. The giant retailer knows that it can't just rely on spot suppliers who might be available when needed. Instead, IKEA manages a huge network of supplier-partners that help provide the hundreds of billions of euros' worth of goods that it sells to its customers each year.

Business buyer behaviour

Author comment
Business buying decisions can range from routine to incredibly complex, involving only a few or very many decision makers and buying influences.

At the most basic level, marketers want to know how business buyers will respond to various marketing stimuli. Figure 6.1 shows a model of business buyer behaviour. In this model, marketing and other stimuli affect the buying organisation and produce certain buyer responses. To design good marketing strategies, marketers must understand what happens within the organisation to turn stimuli into purchase responses.

Within the organisation, buying activity consists of two major parts: the *buying centre*, composed of all the people involved in the buying decision, and the *buying decision process*. The model shows that the buying centre and the buying decision process are influenced by internal organisational, interpersonal and individual factors as well as external environmental factors.

The model in Figure 6.1 suggests four questions about business buyer behaviour: What buying decisions do business buyers make? Who participates in the business buying process? What are the major influences on buyers? How do business buyers make their buying decisions?

Major types of buying situations

There are three major types of buying situations.[4] In a **straight rebuy**, the buyer reorders something without any modifications. It is usually handled on a routine basis by the purchasing department. To keep the business, 'in' suppliers try to maintain customer engagement and product and service quality. 'Out' suppliers try to find new ways to add value or exploit dissatisfaction so that the buyer will consider them.

Straight rebuy A business buying situation in which the buyer routinely reorders something without modifications.

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

Modified rebuy A business buying situation in which the buyer wants to modify product specifications, prices, terms or suppliers.

A company buying a product or service for the first time faces a **new task** situation. In such cases, the greater the cost or risk, the larger the number of decision participants and the greater the company's efforts to collect information. The new task situation is the marketer's greatest opportunity and challenge. The marketer not only tries to reach as many key buying influences as

New task A business buying situation in which the buyer purchases a product or service for the first time.

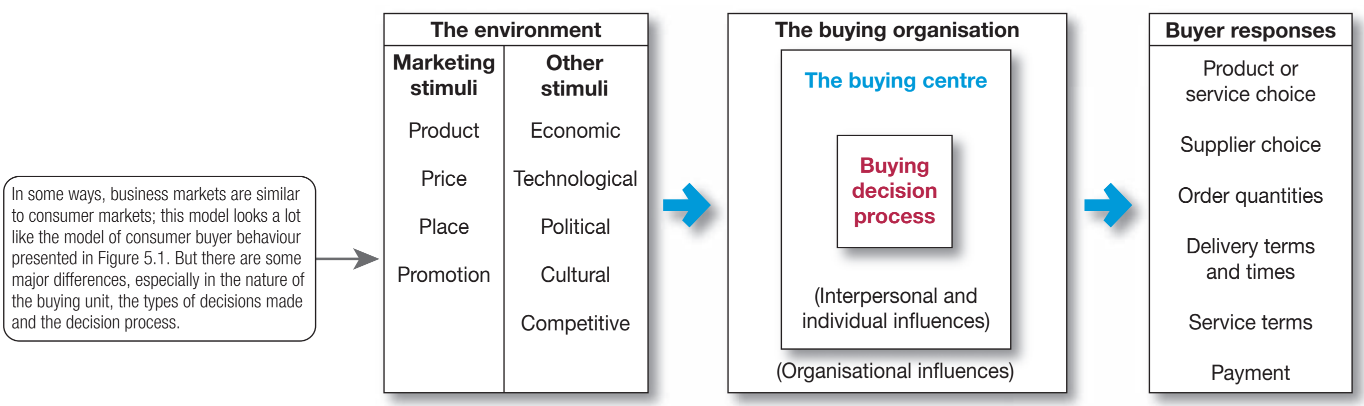


Figure 6.1 A model of business buyer behaviour

Solutions selling: Delivering a fun and safe experience for Six Flags guests requires careful and effective management of thousands of park assets across its 19 regional theme parks. IBM works hand in hand with Six Flags to provide not just software but a complete solution.

Source: Matthew Imaging/Getty Images

possible but also provides help and information. The buyer makes the fewest decisions in the straight rebuy and the most in the new task decision.

Many business buyers prefer to buy a complete solution to a problem from a single seller rather than buying separate products and services from several suppliers and putting them together. The sale often goes to the firm that engages business customers deeply and provides the most complete *system* for meeting a customer's needs and solving its problems. Such **systems selling** (or **solutions selling**) is often a key business marketing strategy for winning and holding accounts. Consider IBM and its customer Six Flags Entertainment Corporation:[5]

> **Six Flags operates 19 regional theme parks across North America featuring exciting rides and water attractions, world-class roller coasters, and special shows and concerts. To deliver a fun and safe experience for guests, Six Flags must carefully and effectively manage thousands of park assets—from rides and equipment to buildings and other facilities. Six Flags needed a too for managing all those assets efficiently and effectively across its far-flung collection of parks.So it turned to IBM, which has software—called Maximo Asset Management software—that handles that very problem well.**

But IBM didn't just hand the software over to Six Flags with best wishes for happy implementation.Instead, IBM's Maximo Professional Services group combined the software with an entire set of services designed to get and keep the software up and running. IBM worked hand in hand with Six Flags to customise the application and strategically implement and run it across Six Flags's far-flung facilities,along with on-site immersion training and planning workshops. Thus, IBM isn't just selling the software; it's selling a complete solution to Six Flags's complex asset management problem.

Systems selling (solutions selling) Buying a packaged solution to a problem from a single seller, thus avoiding all the separate decisions involved in a complex buying situation.

Participants in the business buying process

Who does the buying of the trillions of euros' worth of goods and services needed by business organisations? The decision-making unit of a buying organisation is called its **buying centre**. It consists of all the individuals and units that play a role in the business purchase decision-making process. This group includes the actual users of the good or service, those who make the buying decision, those who influence the buying decision, those who do the actual buying and those who control buying information.

The buying centre includes all members of the organisation who play any of five roles in the purchase decision process.[6]

1. **Users** are members of the organisation who will use the good or service. In many cases, users initiate the buying proposal and help define product specifications.
2. **Influencers** often help define specifications and also provide information for evaluating alternatives. Technical personnel are particularly important influencers.
3. **Buyers** have formal authority to select the supplier and arrange terms of purchase. Buyers may help shape product specifications, but their major role is in selecting vendors and negotiating. In more complex purchases, buyers might include high-level officers participating in the negotiations.

Buying centre All the individuals and units that play a role in the purchase decision-making process.

Users Members of the buying organisation who will actually use the purchased good or service.

Influencers People in an organisation's buying centre who affect the buying decision; they often help define specifications and also provide information for evaluating alternatives.

Buyers People in an organisation's buying centre who make an actual purchase.

4. **Deciders** have formal or informal power to select or approve the final suppliers. In routine buying, the buyers are often the deciders, or at least the approvers.
5. **Gatekeepers** control the flow of information to others. For example, purchasing agents often have authority to prevent salespersons from seeing users or deciders. Other gatekeepers include technical personnel and personal assistants.

Deciders People in an organisation's buying centre who have formal or informal power to select or approve the final suppliers.

Gatekeepers People in an organisation's buying centre who control the flow of information to others.

The buying centre is not a fixed and formally identified unit within the buying organisation. It is a set of buying roles assumed by different people for different purchases. Within the organisation, the size and make-up of the buying centre will vary for different products and for different buying situations. For some routine purchases, one person – say, a purchasing agent – may assume all the buying centre roles and serve as the only person involved in the buying decision. For more complex purchases in large companies, the buying centre may include 20, 30 or even more people from different levels and departments in the organisation.[7]

The buying centre concept presents a major marketing challenge. The business marketer must learn who participates in the decision, each participant's relative influence and what evaluation criteria each decision participant uses. This can be difficult.

The buying centre usually includes some obvious participants who are involved formally in the buying decision. For example, the decision to buy a corporate jet will probably involve the company's CEO, the chief pilot, a purchasing agent, some legal staff, a member of top management and others formally charged with the buying decision. It may also involve less obvious, informal participants, some of whom may actually make or strongly affect the buying decision. Sometimes, even the people in the buying centre are not aware of all the buying participants. For example, the decision about which corporate jet to buy may actually be made by a corporate board member who has an interest in flying and who knows a lot about aeroplanes. This board member may work behind the scenes to sway the decision. Many business buying decisions result from the complex interactions of ever-changing buying centre participants.

Major influences on business buyers

Business buyers are subject to many influences when they make their buying decisions. Some marketers assume that the major influences are economic. They think buyers will favour the supplier who offers the lowest price or the best product or the most service. They concentrate on offering strong economic benefits to buyers. Such economic factors are very important to most buyers, especially in a tough economy. However, business buyers actually respond to both economic and personal factors. Far from being cold, calculating and impersonal, business buyers are human and social as well. They react to both reason and emotion.

Today, most B-to-B marketers recognise that emotion plays an important role in business buying decisions. Consider this example:[8]

> USG Corporation is a leading manufacturer of gypsum wallboard and other building materials for the construction and remodelling industries. Given its construction contractor, architect and builder audience, you might expect USG's B-to-B ads to focus heavily on performance features and benefits, such as strength, impact resistance, ease of installation and costs. USG does promote these benefits. However, its most recent corporate marketing campaign, built around its new 'It's Your World. Build It.' positioning, packs a decidedly more emotional wallop. The campaign focuses not on how USG's products perform but on what the company and its products stand for and mean. For example, one split-image ad shows excited children building a sandcastle on one side and a worker at a construction site, hard hat in hand, on the other. The headline states: 'As children we imagine great kingdoms. Build them.' As one analyst concludes, 'Building materials and emotion aren't something you would link immediately, but the [USG] campaign captures a powerful sentiment about the human need to build.'

USG's Sheetrock Ultralight wallboard adverts target the people who with fit the panels.
Source: Shutterstock

Figure 6.2 lists various groups of influences on business buyers – environmental, organisational, interpersonal and individual. Business buyers are heavily influenced by factors in the current and expected *economic environment*, such as the level of primary demand, the economic outlook and the cost of money. Another environmental factor is the *supply* of key materials. Business buyers also are affected by *technological*, *political* and *competitive* developments in the environment. Finally, *culture and customs* can strongly influence business buyer reactions to the marketer's behaviour and strategies, especially in the international marketing environment. The business buyer must watch these factors, determine how they will affect the buyer and try to turn these challenges into opportunities.

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

The buying centre usually includes many participants who influence each other, so *interpersonal factors* also influence the business buying process. However, it is often difficult to assess such interpersonal factors and group dynamics. Buying centre participants do not wear tags that label them as 'key decision maker' or 'not influential.' Nor do buying centre participants with the highest rank always have the most influence.

Participants may influence the buying decision because they control rewards and punishments, are well liked, have special expertise or have a special relationship with other important participants. Interpersonal factors are often very subtle. Whenever possible, business marketers must try to understand these factors and design strategies that take them into account.

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

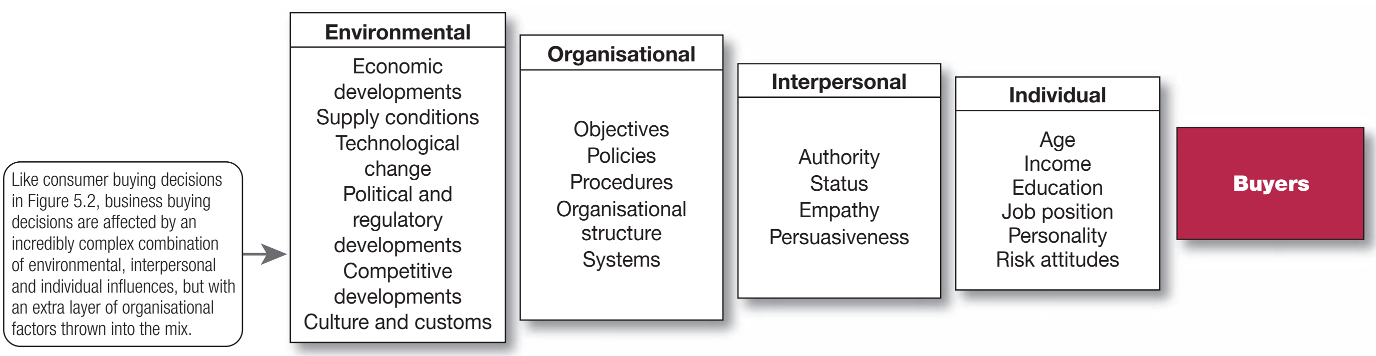
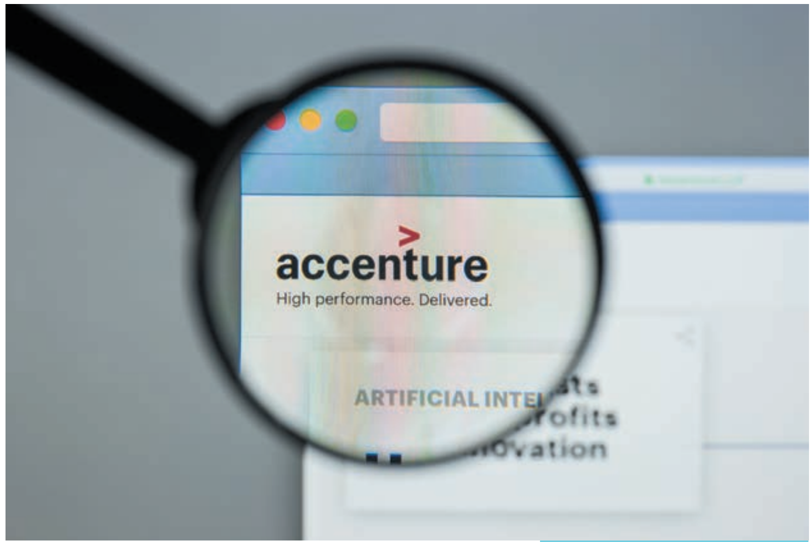


Figure 6.2 Major influences on business buying behaviour

The business buying process



Accenture's adverts stress the need for companies to engage with new and emerging technologies.

Source: Casimiro/Alamy Stock Photo

Figure 6.3 lists the eight stages of the business buyer decision process.[9] Buyers who face a new-task buying situation usually go through all stages of the buying process. Buyers making modified or straight rebuys, in contrast, may skip some of the stages. We will examine these steps for the typical new-task buying situation.

Problem recognition

The buying process begins when someone in the company recognises a problem or need that can be met by acquiring a specific product or service **Problem recognition** can result from internal or external stimuli. Internally, the company may decide to launch a new product that requires new production equipment and materials. Or a machine may break down and need new parts. Perhaps a purchasing manager is unhappy with a current supplier's product quality, service or prices. Externally, the buyer may get some new ideas at a trade show, see an ad or website, or receive a call from a salesperson who offers a better product or a lower price.

In fact, business marketers often alert customers to potential problems and then show how their products and services provide solutions. For example, consulting firm Accenture's award-winning 'High Performance. Delivered.' B-to-B ads do this. One Accenture ad points to the urgent need for a business to get up to speed with digital technology. 'Accenture Digital can help you attract more customers', the ad states, showing moths drawn to a brightly lit smartphone screen. Accenture's solution: 'Our industry expertise, coupled with our integrated capabilities across interactive, analytics, and mobility, can help you take advantage of the opportunity to innovate and compete.' Other ads in the series tell success stories of how Accenture has helped client companies recognise and solve a variety of other problems.[10]

Problem recognition The first stage of the business buying process, in which someone in the company recognises a problem or need that can be met by acquiring a good or a service.

General need description

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

General need description The stage in the business buying process in which a buyer describes the general characteristics and quantity of a needed item.

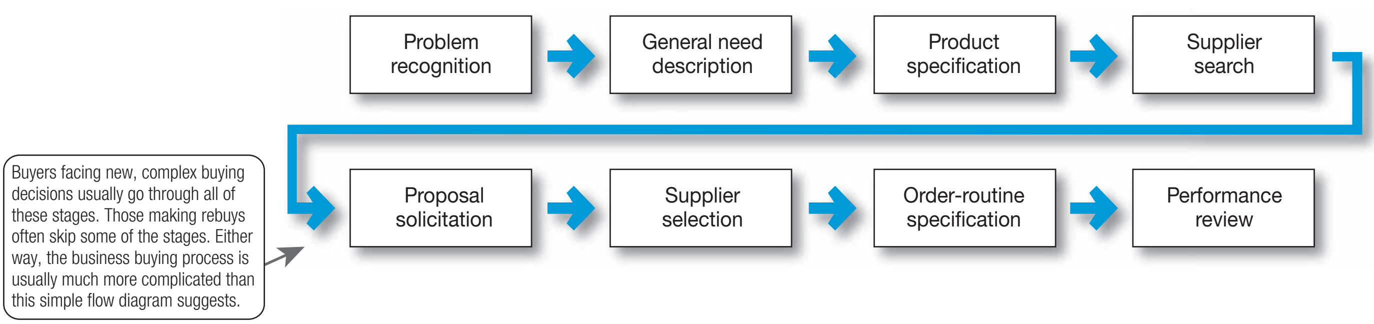


Figure 6.3 Stages of the business buyer decision process

Product specification

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

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

Supplier search

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

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

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

Proposal solicitation

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

In the **proposal solicitation** stage of the business buying process, the buyer invites qualified suppliers to submit proposals. In response, some suppliers will refer the buyer to their website or promotional materials, or send a salesperson to call on the prospect. However, when the item is complex or expensive, the buyer will usually require a detailed written proposal or formal presentation from each potential supplier.

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

Supplier selection

Supplier selection The stage of the business buying process in which the buyer reviews proposals and selects a supplier or suppliers.

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

Buyers may attempt to negotiate with preferred suppliers for better prices and terms before making the final selections. In the end, they may select a single supplier or a few suppliers. Many buyers prefer multiple sources of supplies to avoid being totally dependent on one supplier, and to allow comparisons of prices and performance of several suppliers over time. Today's supplier development managers want to develop a full network of supplier-partners that can help the company bring more value to its customers.

Order-routine specification

Order-routine specification The stage of the business buying process in which the buyer writes the final order with the chosen supplier(s), listing the technical specifications, quantity needed, expected time of delivery, return policies and warranties.

The buyer now prepares an **order-routine specification**. It includes the final order with the chosen supplier or suppliers and lists items such as technical specifications, quantity needed, expected delivery time, return policies and warranties. In the case of maintenance, repair and operating items, buyers may use blanket contracts rather than periodic purchase orders. A blanket contract creates a long-term relationship in which the supplier promises to resupply the buyer as needed at agreed prices for a set time period.

Many large buyers now practise *vendor-managed inventory*, in which they turn over ordering and inventory responsibilities to their suppliers. Under such systems, buyers share sales and inventory information directly with key suppliers. The suppliers then monitor inventories and replenish stock automatically as needed. For example, most major suppliers to large retailers such as Carrefour, Tesco, Walmart and Sainsbury's assume vendor-managed inventory responsibilities.

Performance review

In this stage, the buyer reviews supplier performance. The buyer may contact users and ask them to rate their satisfaction. The **performance review** may lead the buyer to continue, modify or drop the arrangement. The seller's job is to monitor the same factors used by the buyer to make sure that the seller is giving the expected satisfaction.

Performance review The stage of the business buying process in which the buyer assesses the performance of the supplier and decides to continue, modify or drop the arrangement.

In all, the eight-stage buying-process model shown in Figure 6.3 provides a simple view of the business buying process as it might occur in a new-task buying situation. However, the actual process is usually much more complex. In the modified rebuy or straight rebuy situation, some of these stages would be compressed or bypassed. Each organisation buys in its own way, and each buying situation has unique requirements.

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

Engaging business buyers with digital and social marketing

As in every other area of marketing, the explosion of information technologies and online, mobile and social media has changed the face of the B-to-B buying and marketing process. In the following sections, we discuss two important technology advancements: *e-procurement and online purchasing* and *B-to-B digital and social media marketing*.

E-procurement and online purchasing

Advances in information technology have dramatically affected the face of the B-to-B buying process. Online purchasing, often called **e-procurement**, has grown rapidly in recent years. Virtually unknown two decades ago, online purchasing is standard procedure for most companies today. In turn, business marketers can connect with customers online to share marketing information, sell goods and services, provide customer support services and maintain ongoing customer relationships.

E-procurement Purchasing through electronic connections between buyers and sellers – usually online.

Companies can do e-procurement in any of several ways. They can conduct *reverse auctions*, in which they put their purchasing requests online and invite suppliers to bid for the business. Or they can engage in online *trading exchanges*, through which companies work collectively to facilitate the trading process. Companies also can conduct e-procurement by setting up their own *company buying sites*. For example, GE operates a company trading site on which it posts its buying needs and invites bids, negotiates terms and places orders. Or companies can create *extranet links* with key suppliers. For instance, they can create direct procurement accounts with suppliers such as Dell or Staples, through which company buyers can purchase equipment, materials and supplies directly Staples operates a business-to-business procurement division called Staples Business Advantage, which serves the office supplies and services buying needs of businesses of any size, from 10 employees to the *Fortune* 1000.

Business-to-business e-procurement yields many benefits. First, it shaves transaction costs and results in more efficient purchasing for both buyers and suppliers. E-procurement reduces the time between order and delivery. And an online-powered purchasing programme eliminates the paperwork associated with traditional requisition and ordering procedures, and helps an organisation keep better track of all purchases. Finally, beyond the cost and time savings, e-procurement frees purchasing people from a lot of drudgery and paperwork. Instead, they can focus on more strategic issues, such as finding better supply sources and working with suppliers to reduce costs and develop new products.

The rapidly expanding use of e-procurement, however, also presents some problems. For example, at the same time that the internet makes it possible for suppliers and customers to share business data and even collaborate on product design, it can also erode decades-old customer–supplier relationships. Many buyers now use the power of the internet to pit suppliers against one another and search out better deals, products and turnaround times on a purchase-by-purchase basis.

Business-to-business digital and social media marketing

In response to business customers' rapid shift toward online buying, today's B-to-B marketers are now using a wide range of digital and social media marketing approaches – from websites, blogs, mobile apps, e-newsletters and proprietary online networks to mainstream social media such as Facebook, LinkedIn, YouTube, Google+ and Twitter – to engage business customers and manage customer relationships anywhere, anytime.

B-to-B digital and social media marketing Using digital and social media marketing approaches to engage business customers and manage customer relationships anywhere, anytime.

B-to-B digital and social media marketing isn't just growing, it's exploding. Digital and social media marketing have rapidly become *the* new space for engaging business customers.

Consider the Danish company Maersk Line, the world's leading container shipping and transport company, serving business customers through 374 offices in 160 countries:[11]

> You might not expect much by way of new-age marketing from an old-line container shipping company, but think again. Maersk Line is one of the most forward-looking and accomplished B-to-B digital and social media marketers in any industry. Maersk Line has sailed full steam ahead into the social media waters with eight global accounts on primary social media networks including Facebook, LinkedIn, Twitter and YouTube. Maersk Line has more than 1.1 million Facebook followers with an average engagement of 7 per cent per post, making Facebook a platform for engaging a broad audience of customers and other stakeholders interested in the brand. On Instagram, the company shares customer and employee images and stories to help visualise the brand. On YouTube it posts informational and educational videos detailing Maersk Line's activities, services and people. Maersk Line's Twitter feed presents the latest news and events, creating conversation and buzz with and among its more than 123,000 Twitter followers. The company's LinkedIn account, with more than 155,500 followers, lets Maersk Line engage customers, opinion leaders and industry influencers, who share information and discuss industry challenges and opportunities with shipping and logistics experts. Why all this social media? 'The goal is to use social media to get closer to our customers', says Maersk Line.

Compared with traditional media and sales approaches, digital and social media can create greater customer engagement and interaction. B-to-B marketers know that they aren't really targeting *businesses*, they are targeting *individuals* in those businesses who affect buying decisions. And today's business buyers are always connected via their digital devices – whether it's PCs, tablets or smartphones.

Digital and social media play an important role in engaging these always-connected business buyers in a way that personal selling alone cannot. Instead of the old model of sales reps calling on business customers at work or maybe meeting up with them at trade shows, the new digital approaches facilitate anytime, anywhere connections between a wide range of people in the selling and customer organisations. It gives both sellers and buyers more control of and access to important information. B-to-B marketing has always been social network marketing, but today's digital environment offers an exciting array of new networking tools and applications.

Some B-to-B companies mistakenly assume that today's digital and social media are useful primarily to consumer products and services companies. But no matter what the industry, digital platforms can be powerful tools for engaging customers and other important publics. For example, industrial powerhouse GE uses a wide array of digital and social media, not just to engage and support its business customers directly but also to tell the compelling GE brand story more broadly and to keep the company relevant, contemporary and accessible.

Maersk Line is one of the most forward-looking and accomplished B-to-B digital and social media marketers in any industry. They use a variety of platform to engage with their business buyers.
Source: Travel mania/Shutterstock

Institutional and government markets

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

Institutional markets

Institutional market Schools, hospitals, nursing homes, prisons and other institutions that provide goods and services to people in their care.

The **institutional market** consists of schools, hospitals, nursing homes, prisons and other institutions that provide goods and services to people in their care. Institutions differ from one another in their sponsors and their objectives. For example, in the UK Spire Healthcare runs 39 for-profit hospitals, generating €1,035 million in annual revenues. By contrast, the National Health Service in the UK is a huge non-profit organisation providing health care that is free at the point of delivery with over 2,300 hospitals employing over 106,000 doctors and 310,000 nurses with an average net expenditure of €141 billion.

Institutional markets can be huge. Consider the massive and expanding European prisons economy. Across Europe prison populations vary considerably. Norway has 74 prisoners per 100,000 citizens while England and Wales has 140. Germany, Spain the UK, Italy, Poland, Turkey, Ukraine and France each has prison populations over 50,000. Liechtenstein imprison a mere eight offenders, San Marino a mere two, while 39 per cent of Switzerland's prisoners are unsentenced.[12] Although figures vary across Europe the overall cost of the whole criminal justice system is around 2 per cent of Gross Domestic Product (GDP) with each prisoner costing around €49,000 each year.

Many institutional markets are characterised by low budgets and captive patrons. For example, hospital patients have little choice but to eat whatever food the hospital supplies. A hospital purchasing agent has to decide on the quality of food to buy for patients. Because the food is

Institutional markets can be huge and are often neglected by marketers. Prisons, hospitals and other institutions form a sizeable part of most markets.
Source: Pete Spiro/Shutterstock

provided as a part of a total service package, the buying objective is not profit. Nor is strict cost minimisation the goal – patients receiving poor-quality food will complain to others and damage the hospital's reputation. Thus, the hospital purchasing agent must search for institutional food vendors whose quality meets or exceeds a certain minimum standard and whose prices are low.

Many marketers set up separate divisions to meet the special characteristics and needs of institutional buyers For example, Nestlé Professional helps institutional foodservice customers find creative meal solutions using Nestlé's broad assortment of food and beverage brands. Similarly, P&G's Procter & Gamble Professional Division markets professional cleaning and laundry formulations and systems to educational, healthcare, and other institutional and commercial customers.[13]

Government markets

Government market
Governmental units – federal, state and local – that purchase or rent goods and services for carrying out the main functions of government.

The **government market** offers large opportunities for many companies, both big and small. In most countries, government organisations are major buyers of goods and services. Government buying and business buying are similar in many ways. But there are also differences that must be understood by companies that wish to sell products and services to governments. To succeed in the government market, sellers must locate key decision makers, identify the factors that affect buyer behaviour and understand the buying decision process.

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

Government organisations tend to favour domestic suppliers over foreign suppliers. A major complaint of multinationals operating in Europe is that each country shows favouritism toward its nationals in spite of superior offers that are made by foreign firms. The European Economic Commission is gradually removing this bias.

Like consumer and business buyers, government buyers are affected by environmental, organisational, interpersonal and individual factors. One unique thing about government buying is that it is carefully watched by outside publics, ranging from the European Parliament to a variety of private groups interested in how the government spends taxpayers' money. Because their spending decisions are subject to public review, government organisations require considerable documentation from suppliers, who often complain about excessive paperwork, bureaucracy, regulations, decision-making delays and frequent shifts in procurement personnel.

Given all the red tape, why would any firm want to do business with governments? The reasons are quite simple: Governments are huge buyers of products and services – in Europe, Ireland is the only country with total government expenditure below 30 per cent of GDP while Finland tops the EU chart with around 57 per cent.[14] For example, it is forecast that the five big economies of Western Europe will spend around €46 billion on hardware, software and IT services – around half of which will occur at governmental levels.[15]

Non-economic criteria also play a growing role in government buying. Government buyers are asked to favour depressed business firms and areas; small business firms; minority-owned firms; and business firms that avoid race, gender or age discrimination. Sellers need to keep these factors in mind when seeking government business.

Many companies that sell to the government have not been very marketing oriented for a number of reasons. Total government spending is determined by elected officials rather than by any marketing effort to develop this market. Government buying has emphasised price, making suppliers invest their effort in technology to bring costs down. When the product's characteristics are specified carefully, product differentiation is not a marketing factor. Nor do advertising or personal selling matter much in winning bids on an open-bid basis.

Several companies, however, have established separate government marketing departments, including GE, Boeing, Xerox and Goodyear. Other companies sell primarily to government buyers, such as Lockheed Martin, which makes 82 per cent of its sales from governments, either as a prime contractor or a subcontractor. These companies anticipate government needs and projects, participate in the product specification phase, gather competitive intelligence, prepare bids carefully and produce stronger communications to describe and enhance their companies' reputations.

Other companies have established customised marketing programmes for government buyers. For example, Dell has specific business units tailored to meet the needs of federal as well as state and local government buyers. Dell offers its customers tailor-made Premier web pages that include special pricing, online purchasing, and service and support for each city, state and federal government entity.

During the past decade, a great deal of the government's buying has gone online. For example, in the UK the Efficiency and Reform Group (a part of the Cabinet Office) has an online procurement portal. Across Europe, the European Union established PEPPOL, the **P**an-**E**uropean **P**ublic **P**rocurement **O**n**L**ine project to establish OpenPEPPOL in 2012. OpenPEPPOL is a non-profit making international association that consists of private and public sector members. The aim of OpenPEPPOL is to generate a range of benefits, including 'providing economic operators, in particular SMEs, with new business opportunities and increased competitiveness, while lowering costs with automated tendering solutions; saving contracting authorities significant administrative and transaction costs through standardised, speedy and streamlined procedures; and boosting the development and the capabilities of the ICT industry with increased demand for new, user-friendly IT services'.[16]

Learning outcomes review

Business markets and consumer markets are alike in some key ways. For example, both include people in buying roles who make purchase decisions to satisfy needs. But business markets also differ in many ways from consumer markets. For one thing, the business market is *huge*, far larger than the consumer market. Within the United States alone, the business market includes organisations that annually purchase trillions of dollars' worth of goods and services.

Objective 1 Define the business market and explain how business markets differ from consumer markets (pp. 175–177)

The *business market* comprises all organisations that buy goods and services for use in the production of other goods and services, or for the purpose of reselling or renting them to others at a profit. As compared to consumer markets, business markets usually have fewer but larger buyers. Business demand is derived demand, which tends to be more inelastic and fluctuating than consumer demand. The business buying decision usually involves more, and more professional, buyers. Business buyers usually face more complex buying decisions, and the buying process tends to be more formalised. Finally, business buyers and sellers are often more dependent on each other.

Objective 2 Identify the major factors that influence business buyer behaviour (pp. 177–180)

Business buyers make decisions that vary with the three types of *buying situations*: straight rebuys, modified rebuys and new tasks. The decision-making unit of a buying organisation – *the buying centre* – can consist of many different persons playing many different roles. The business marketer needs to know the following: Who are the major buying centre participants? In what decisions do they exercise influence and to what degree? What evaluation criteria does each decision participant use? The business marketer also needs to understand the major environmental, organisational, interpersonal and individual influences on the buying process.

Objective 3 List and define the steps in the business buying decision process (pp. 181–183)

The *business buying decision process* itself can be quite involved, with eight basic stages: problem recognition, general need description, product specification, supplier search, proposal solicitation, supplier selection, order-routine specification and performance review. Buyers who face a new-task buying situation usually go through all stages of the buying process. Buyers making modified or straight rebuys may skip some of the stages. Companies must manage the overall customer relationship, which often includes many different buying decisions in various stages of the buying decision process.

Objective 4 Discuss how new information technologies and online, mobile and social media have changed business-to-business marketing (pp. 183–185)

Recent advances in information and digital technology have given birth to 'e-procurement', by which business buyers are purchasing all kinds of products and services online. The internet gives business buyers access to new suppliers, lowers purchasing costs, and hastens order processing and delivery. Business marketers also are increasingly connecting with customers online and through digital, mobile and social media to engage customers, share marketing information, sell products and services, provide customer support services and maintain ongoing customer relationships.

Objective 5 Compare the institutional and government markets and explain how institutional and government buyers make their buying decisions (pp. 185–187)

The *institutional market* consists of schools, hospitals, prisons and other institutions that provide goods and services to people in their care. These markets are characterised by low budgets and captive patrons. The government market, which is vast, consists of government units – federal, state and local – that purchase or rent goods and services for carrying out the main functions of government.

Government buyers purchase products and services for defence, education, public welfare and other public needs. Government buying practices are highly specialised and specified, with open bidding or negotiated contracts characterising most of the buying. Government buyers operate under the watchful eye of local, national and regional governments and many private watchdog groups. Hence, they tend to require more forms and signatures, and respond more slowly and deliberately when placing orders.

Navigating the key terms

Objective 1
Business buyer behaviour (p. 175)
Business buying process (p. 175)
Derived demand (p. 175)
Supplier development (p. 176)

Objective 2
Straight rebuy (p. 177)
Modified rebuy (p. 177)
New task (p. 177)
Systems selling (solutions selling) (p. 178)
Buying centre (p. 178)
Users (p. 178)
Influencers (p. 178)
Buyers (p. 178)
Deciders (p. 179)
Gatekeepers (p. 179)

Objective 3
Problem recognition (p. 181)
General need description (p. 181)
Product specification (p. 182)
Supplier search (p. 182)
Proposal solicitation (p. 182)
Supplier selection (p. 182)
Order-routine specification (p. 182)
Performance review (p. 183)

Objective 4
E-procurement (p. 183)
B-to-B digital and social media marketing (p. 184)

Objective 5
Institutional market (p. 185)
Government market (p. 186)

Discussion and critical thinking

Dicussing the concepts

6.1 Explain how the market structure and demand differ for business markets compared with consumer markets. (AACSB: Communication; Reflective thinking)

6.2 Describe the tools B-to-B marketers use to engage customers. What are the challenges with B-to-B social media marketing? (AACSB: Communication; Reflective thinking)

6.3 Briefly discuss the straight rebuy and modified rebuy strategies. What are the similarities and differences? When might it be beneficial to use one approach over the other? (AACSB: Communication, Reflective thinking)

6.4 List the participants in the business buying process. What factors influence the buying decision? (AACSB: Communication; Reflective thinking)

6.5 Compare the institutional and government markets and explain how institutional and government buyers make their buying decisions. (AACSB: Communication)

Critical-thinking exercises

6.6 Business buying can be a very involved process. Many companies employ procurement or purchasing experts dedicated to managing the firm's buying process. Visit www.glassdoor.com/salaries and www.indeed.com/salary to conduct a search of the salary ranges for 'procurement specialists' and similar positions in purchasing. Present your findings. Can e-procurement help to streamline the buying process? Might it eventually replace employees in these careers? Discuss if it is possible for all buying functions to be performed through e-procurement. (AACSB: Communication; Reflective Thinking; Use of IT)

6.7 Interview a businessperson to learn how purchases are made in his or her organisation. Ask this person to describe a straight rebuy, a modified rebuy and a new-task buying situation that took place recently or of which he or she is aware (define them if necessary). Did the buying process differ based on the type of product or purchase situation? Ask the businessperson to explain the role he or she played in a recent purchase and to discuss the factors that influenced the decision. Write a brief report of your interview by applying the concepts you learned in this chapter regarding business buyer behaviour. (AACSB: Communication; Reflective thinking)

6.8 The US government is the world's largest purchaser of goods and services, spending more than €460 billion per year. By law, 23 per cent of all government buying must be targeted to small firms. In a small group, visit the Small Business Administration's Government Contracting Classroom at www.sba.gov/content/government-contracting-classroom to learn how small businesses can take advantage of government contracting opportunities. Complete one of the self-paced online courses and develop a brochure explaining the process to small business owners. (AACSB: Communication; Reflective Thinking; Use of IT)

Mini-cases and applications

Online, mobile and social media marketing: e-procurement and mobile procurement

Gone are the days of tedious, paper-laden and labour-intensive procurement duties. E-procurement is changing the way buyers and sellers do business, specifically via mobile procurement, which offers cloud-based platforms that reduce the search, order and approval cycle. Most large companies have adopted some form of e-procurement. A recent study found that almost 70 per cent of companies utilise some form of e-procurement, mobile procurement or supply-chain management applications. A leading industry platform, Coupa, provides a suite of cloud-based applications for finance, including accounts payable, sourcing, procurement and expense management that allows customers full functionality from their mobile devices. Employees now enjoy the flexibility and time savings of viewing, approving or denying requisitions, purchase orders and invoices. One of Coupa's large retail clients claimed a reduction from 10 days to 5 hours in their requisition–approval–process cycle by implementing Coupa's mobile procurement platform. Talk about savings! Visit www.coupa.com/software/procurement/to learn more about how this company is revolutionising the e-procurement and mobile procurement environments

6.9 Discuss the advantages of e-procurement to both buyers and sellers. What are the disadvantages? (AACSB: Communication; Reflective thinking)

6.10 Research mobile procurement and discuss the roles in the buying centre that are affected most by this technology. (AACSB: Communication; Reflective thinking)

Marketing ethics: commercial bribery

You are the senior buyer for a growing medical products company and an avid football fan. You have just opened an invitation to attend the Champions League Final. The invitation is from a supplier company that has been trying to sell you its new line of products for the past year. The supplier will pay for everything – travel, room, meals –and you'll even get an opportunity to meet some of the players. You have read the newly released employee manual and there is no reference or rule that specifically states that an employee cannot accept a fully paid trip from a vendor, although there are some vague restrictions on lunches and dinners paid for by suppliers.

6.11 Do you accept or decline the invitation?

6.12 Just because it is not specifically mentioned in the employee manual, would you be acting ethically if you accepted?

6.13 Do you think the supplier will expect 'special' treatment in the next buying situation?

6.14 How would other company employees interpret your acceptance of this invitation?

Marketing by the numbers: salespeople

B-to-B marketing relies heavily on sales reps. Salespeople do more than just sell products and services; they manage relationships with customers to deliver value to both the customer and their companies. Thus, for many companies, sales reps visit customers several times per year – often for hours at a time. Sales managers must ensure that their companies have enough salespeople to adequately deliver value to customers.

6.15 Refer to Appendix 2 to determine the number of salespeople a company needs if it has 3,000 customers who need to be called on 10 times per year. Each sales call lasts approximately 2.5 hours, and each sales rep has approximately 1,250 hours per year to devote to customers per year. (AACSB: Communication; Analytical reasoning)

6.16 If each sales rep earns a salary of €60,000 per year, what sales are necessary to break even on the sales force costs if the company has a contribution margin of 40 per cent? What effect will adding each additional sales representative have on the break-even sales? (AACSB: Communication; Analytical reasoning)

Video case

Eaton

see www.pearsoned.co.uk/kotler

With approximately 70,000 employees in more than 150 countries and annual revenues of nearly €9 billion, Eaton is one of the world's largest suppliers of diversified industrial goods. Eaton has been known for products that make cars peppier and 18-wheelers safer to drive. But a recent restructuring has made Eaton a powerhouse in the growing field of power management. In short, Eaton is making electrical, hydraulic and mechanical power systems more accessible to and more efficient for its global customers. But Eaton isn't successful only because of the products and services that it sells. It is successful because it works closely with its business customers to help them solve their problems and create better products and services of their own. Eaton is known for high-quality, dependable customer service and product support. In this manner, Eaton builds strong relationships with its clients.

After viewing the video featuring Eaton, answer the following questions:

6.17 What is Eaton's value proposition?

6.18 Who are Eaton's customers? Describe Eaton's customer relationships.

6.19 Discuss the different ways that Eaton provides value beyond that which customers can provide for themselves.

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Company case

Procter & Gamble: treating business customers as strategic partners

For decades, Procter & Gamble has been at the top of almost every expert's A-list of outstanding marketing companies. The experts point to P&G's stable of top-selling consumer brands or to the fact that year in and year out P&G is the world's largest advertiser. Consumers seem to agree. You'll find at least one of P&G's blockbuster brands in 99 per cent of all European households; in many homes, you'll find a dozen or more familiar P&G products. But P&G is also highly respected for something else – maintaining strategic partnerships with business buyers.

P&G recognises that building enduring relationships between consumers and its category leading brands starts with building enduring relationships with its large retail clients. On the front line of this effort is P&G's iconic sales force. When it comes to selecting, training and managing salespeople, P&G sets the gold standard. The company employs a massive sales force of more than 5,000 salespeople worldwide. But at P&G, it isn't just 'sales' – it's 'Customer Business Development' (CBD). This might seem trivial, but at P&G the distinction goes to the very core of the company's customer relationship strategy.

Developing the customer's business

P&G understands that if its business customers don't do well, neither will the company. To grow its own business, therefore, P&G must first grow the business of the retailers that sell its brands to final consumers. In P&G's own words, 'CBD is more than mere 'selling' – it's a P&G-specific approach which enables us to grow our business by working as a 'strategic partner' (as opposed to just a supplier) with those who ultimately sell our products to consumers.' Says one CBD manager, 'We depend on them as much as they depend on us.' By partnering with each other, P&G and its customers create 'win–win' relationships that help both to prosper.

Most P&G customers are huge and complex businesses – such as Carrefour, Tesco or Walmart/Asda – with thousands of stores and billions of dollars in revenues. Working with and selling to such customers can be a very complex undertaking, more than any single salesperson or regular sales team could accomplish. Instead, P&G assigns a full CBD team to every large customer account. Each CBD team contains not only salespeople but also a full complement of specialists in every aspect of selling P&G's consumer brands at the retail level.

Teams vary in size depending on the customer. For example, in the US alone, it takes a team of 350 P&G specialists to properly serve Walmart, far and away its biggest customer. Regardless of size, every team constitutes a complete, multifunctional customer service unit. Each team includes a manager and several account executives (each responsible for a specific P&G product category), supported by specialists in marketing strategy, product development, operations, information systems, logistics, finance and human resources.

To deal effectively with large accounts, P&G salespeople must be smart, well trained and strategically grounded. They deal daily with high-level retail category buyers who may purchase hundreds of millions of dollars' worth of P&G and competing brands annually. It takes a lot more than a friendly smile and a firm handshake to interact with such buyers. Yet individual P&G salespeople can't know everything. And because of the nature of P&G's B-to-B interactions, they don't have to. Instead, P&G salespeople have at hand all the resources they need to resolve even the most challenging customer problems. 'I have everything I need right here', says a household care account executive. 'If my customer needs help from us with in-store promotions, I can go right down the hall and talk with someone on my team in marketing about doing some kind of promotional deal. It's that simple.'

The multifunctional nature of the CBD team also means that collaboration extends far beyond internal interactions. Each time a team member contacts the customer, he or she represents the entire team. For example, if during a customer call an account executive receives a question about a promotional, logistical or financial matter, the account executive acts as the liaison with the appropriate specialist. So, although not each CBD member has specialised knowledge in every area, the CBD team as a unit does.

Competitors have attempted to implement some aspects of P&G's multifunctional approach. However, P&G pioneered the CBD structure. And it has built in some unique characteristics that have allowed it to leverage more power from its team structure than its rivals can, giving it real competitive advantage.

A competitive edge

One of the things that gives P&G an edge when it comes to maintaining deep relationships with its business customers is a CBD structure that is broader and more comprehensive, making it more multifunctional than similar team structures employed by other companies. But perhaps more important, P&G's structure is designed to accomplish four key objectives. These objectives are so important that they are referred to internally as the 'core work' of customer development. These four objectives are:

1. *Align strategy:* create opportunities for both P&G and the customer to benefit by collaborating in *strategy development*.
2. *Create demand:* build profitable sales volume for P&G and the customer through consumer value and shopper satisfaction.
3. *Optimise supply:* maximise the efficiency of the supply chain from P&G to the point of purchase to optimise cost and responsiveness.
4. *Enable the organisation:* develop capabilities to maximise business results by creating the capacity for frequent breakthrough.

More than just corporate catchphrases jotted down in a P&G employee handbook, for sales personnel, these are words to live by. P&G trains sales staff in methods of achieving each objective and evaluates their effectiveness relative to each. In fact, P&G's customer relationship strategy came about through the recognition that to develop true win–win relationships with each customer, P&G would need to accomplish the first objective. As one account executive puts it, 'The true competitive advantage is achieved by taking a multifunctional approach from basic selling to strategic customer collaboration!' If the CBD team can effectively accomplish the first objective of aligning strategy and collaborating on strategic development, accomplishing the other three objectives will follow more easily.

Building such strategic partnerships creates shopper value and satisfaction and drives profitable sales at the store level. When it comes to profitably moving Tide, Pampers, Gillette or other P&G brands off store shelves and into consumers' shopping carts, P&G reps and their teams often know more than the retail buyers they advise. In fact, P&G's retail partners often rely on CBD teams to help them manage not only the P&G brands on their shelves but also entire product categories, including competing brands.

Giving advice on the stocking and placement of competitors' brands as well as its own might seem unwise. But believe it or not, it happens all the time at P&G. In fact, it isn't uncommon for a P&G rep to tell a retail buyer to stock fewer P&G products and more of a competing brand. Although that may seem like retail suicide, keep in mind that a CBD team's primary goal is to help the customer win in each product category. Sometimes, analysis shows that the best solution for the customer is 'more of the other guy's product'. For P&G, that's OK. The company knows that creating the best situation for the retailer ultimately pulls in more customer traffic, which in turn will likely lead to increased sales for other P&G products in the same category. Because most of P&G's brands are market-share leaders, it stands to benefit more from the increased traffic than competitors do. Again, what's good for the customer is good for P&G – it's a win–win situation.

Honest and open dealings also help to build long-term customer relationships. P&G salespeople become trusted advisors to their retailer-partners, a status they work hard to maintain. 'It took me four years to build the trust I now have with my buyer', says a veteran P&G account executive. 'If I talk her into buying P&G products that she can't sell or out-of-stocking competing brands that she should be selling, I could lose that trust in a heartbeat.'

At P&G, collaboration is usually a two-way street – P&G gives and customers give back in return. 'We'll help customers run a set of commercials or do some merchandising events, but there's usually a return on investment', explains another CBD manager. 'Maybe it's helping us with distribution of a new product or increasing space for fabric care. We're very willing if the effort creates value for us as well as for the customer and the final consumer.'

It's better to give . . . *then* to receive

As a result of collaborating with customers, P&G receives as much or more than it gives.

For starters, P&G receives information that helps it to remain innovative and create better products. The collaborative nature of its customer relationships also allows for optimising the product mix, which also optimises revenue. And the kind of transparency that results from strategic partnerships enables P&G to remain efficient and keep costs low. Indeed, during the first decade of this millennium, P&G was flying high as revenues, profits and stock price all maintained healthy growth.

But P&G's strong performance flattened out as its vast portfolio of brands began showing a major weakness. Despite holding top positions in many product categories, many of P&G's brands were small, poor performers, or both. This limited the growth and profitability of its stronger brands. So P&G undertook a major restructuring of its product portfolio. Over the past few years, P&G has sold off about 100 brands (including Duracell, Aleve, Noxzema, Iams, Clairol, Wella and Covergirl) in order to focus on the 65 strongest-performing brands (such as Crest, Bounty, Tide, Gillette and Dawn, to name just a few). Although it may sound like P&G dumped a big chunk of the company, the 65 remaining brands have long been responsible for about 90 per cent of total revenues and 95 per cent of profits.

The now-leaner brand portfolio is also a much better fit with P&G's approach to strategic customer partnerships. Of the 65 remaining brands, 18 bring in more than €1 billion a year each, whereas another 17 account for at least €450 million annually. Last year, P&G sold more than €18.6 billion worth of nappy products under the Pampers brand alone. Eliminating the weaker brands not only relieves P&G of a heavy financial burden, but the stronger portfolio also enables P&G to better meet the needs of its customers. The company expects that there will be far fewer occasions where the best solution for the customer will be to recommend a competing brand.

P&G's approach to maintaining customer relationships is much, much more than 'selling'. 'It's a P&G-specific approach [that lets us] grow business by working as a 'strategic partner' with our accounts, focusing on mutually beneficial business-building opportunities', states the CBD website. 'All customers want to improve their businesses; it's [our] role to help them identify the biggest opportunities.' At P&G, building and maintaining enduring customer relationships involves working with customers to solve their problems for mutual gain. The company knows that if customers succeed, it succeeds.

Questions for discussion

1. Compare and contrast the nature of the business market structure and demand relative to consumer market structure and demand for a specific P&G product.
2. For the same product, discuss the differences in the types of decisions and the decision process for business and consumer markets.
3. This case covers the various members of a P&G Customer Business Development team. For a P&G corporate client, illustrate how the different roles of the buying centre might interact with that CBD team. Be specific.
4. Discuss some ways that P&G's CBD structure is more effective than a single sales rep.
5. Why have P&G's competitors not been able to duplicate its customer relationship strategy?
6. Will P&G's divestment of 100 brands pay off? Why or why not?

Sources: Based on information from numerous P&G managers, with additional information from Demitrios Kalogeropoulos, 'The Procter & Gamble Company's best product in 2015', *The Motley Fool*, 27 December 2015, www.fool.com/investing/general/2015/12/27/the-procter-gamble-company s-best-product-in-2015.aspx; Penny Morgan, 'Why Procter & Gamble is selling some of its brands', *Market Realist*, 8 March 2016, www.marketrealist.com/2016/03/pgs-sale-brands-johnson-johnson-kimberly-clark/; Phil Wahba, 'Procter & Gamble selling beauty brands like Clairol', *Fortune*, 9 July 2015, www.fortune.com/2015/07/09/procter-gamble-coty/; and www.us.pgcareers.com/career-areas-find-your-fit/sales/ and www.pg.com/vn/careers/our_functions/customer_business_development.shtml, accessed January 2019.

Part Three

Designing a customer value-driven strategy and mix

Chapter Seven

Customer-driven marketing strategy: creating value for target customers

Chapter preview

So far, you've learned what marketing is and about the importance of understanding consumers and the marketplace. With that as a background, we now delve deeper into marketing strategy and tactics. This chapter looks further into key customer value-driven marketing strategy decisions – dividing up markets into meaningful customer groups (*segmentation*), choosing which customer groups to serve (*targeting*), creating market offerings that best serve targeted customers (*differentiation*) and positioning the offerings in the minds of consumers (*positioning*). The chapters that follow explore the tactical marketing tools – the four Ps – by which marketers bring these strategies to life. To open our discussion of segmentation, targeting, differentiation and positioning, let's look at how Nestlé creates value by segmentation and positioning.

Learning outcomes

➤ **Objective 1** You will be able to define the major steps in designing a customer value-driven marketing strategy: market segmentation, targeting, differentiation and positioning.
Customer-driven marketing strategy (pp. 199–200)

➤ **Objective 2** You will be able to list and discuss the major bases for segmenting consumer and business markets.
Market segmentation (pp. 200–207)

➤ **Objective 3** You will be able to explain how companies identify attractive market segments and choose a market-targeting strategy.
Market targeting (pp. 207–214)

➤ **Objective 4** You will be able to discuss how companies differentiate and position their products for maximum competitive advantage.
Differentiation and positioning (pp. 215–222)

Nestlé: creating value by segmentation and positioning

For most consumers, Nestlé is strongly associated with instant coffee and breakfast cereal, yet Nestlé sells products ranging from baby food to pet food, from bottled water to ice cream, and so on. In fact, Nestlé is the biggest food and beverage company in the world with an annual turnover of over £70 billion and employs over 330,000 people. It is ranked as one of the top 50 companies on the *Fortune* Global 500 list with over £65 billion in revenue and £6.5 billion in profit. It owns over 2,000 brands, including household names such as Nespresso (coffee machine and capsules), Nescafé (instant coffee and machine), Kit Kat (chocolate-covered wafer bar), Shredded Wheat (breakfast cereal), Nesquik (chocolate flavoured milk), Vittel (bottled water) and so on, and operates in 189 countries around the world.

So how can a company of such an enormous size create value for its customers and keep them happy and satisfied? The simple answer is by providing the right products to meet the specific needs and wants of its different groups and types of customers. This is done by the process of segmentation, targeting and positioning. Take their hot drink products, such as coffee, for example, where Nestlé is by far the market leader in the world in terms of annual sales (over £15 billion). Its most successful and profitable hot drink brand is Nescafé, the world's largest coffee brand, which contributes about half of the revenue. It is the market leader in a number of product categories in the hot drinks sector, such as fresh ground coffee pods, instant coffee, flavoured powder drinks and other plant-based hot drinks. The global trends toward healthier products have benefited Nestlé's sales in the coffee and fortified powder products, but hurt its packaged foods products, such as confectionery. In terms of positioning, the company has adopted a strategy of developing a healthier product portfolio, which puts stronger emphasis on hot drinks. Nestlé's market leadership position was further strengthened by the £5.5 billion purchase of the rights to Starbucks products at retail.

Nescafé is one of the world's most popular coffee brands and has adopted a differentiated marketing strategy by offering different products, often with different sub-brand names to different consumer segments, to build and maintain its market leadership position in the coffee sector. People drink coffee in different ways (making instant coffee by just adding hot water and milk or making espresso from ground coffee), and the same person can drink coffee in different ways on different occasions. For example, some people like to drink espresso in the morning, while drinking decaf latte in the afternoon, and in addition, some people like to seek diversity in their coffee consumption. As a result, Nestlé offers many varieties in different coffee categories. For example, it creates its own six coffee product categories: Everyday, Decaff, NESCAFÉ CAFÉ Menu, NESCAFÉ Dolce Gusto, Super Premium, and Coffee Mate. For the Everyday category, it offers a number of sub-brands, such as Original (original, full-flavoured taste), Nescafé Gold Blend (smooth rounded taste with gentle caramel flavours), Nescafé Black Blend (stronger tasting, drunk without milk), Nescafé Fine Blend (milder, softer tasting), Nescafé Blend 37 (instant speciality coffee), and Nescafé Original 3-in-1 (combines coffee, whitener and sugar). These different brands can cater to different consumer sub-segments with different tastes, occasion and convenience requirements in the broader everyday instant coffee segment.

Nestlé has different types of coffee products for different segments.

Source: RosalreneBetancourt 6/Alamy Stock Photo

The Decaff range (with caffeine removed from the coffee) targets those who do not want to or cannot consume too much caffeine, or for occasions such as late afternoon or early evening. This also has a few sub-brands, such as Decaff Original and Decaff Gold Blend. To cater to the segment of consumers who like to drink café types of coffee (e.g., cappuccino and latte) at home or in the office in a convenient way, but don't have the time or don't want to spend money to go to a café, Nestlé offers the Nescafé Café Menu range of instant coffee, which includes different types and flavours of cappuccino, latte and mocha. Because the Nescafé Café Menu range is instant coffee, it is not necessarily able to meet the needs of those consumers who are looking for better and coffee shop quality coffee to drink at home or in the office. To meet this consumer segment's need and demand, Nestlé offers the Nescafé Dolce Gusto, which is a coffee machine with an easy-to-use pod system and over 40 varieties of its own branded coffee pods. It is positioned as 'enjoying coffee shop quality at home – whenever you want'.

Nestlé also owns Nespresso, a more upmarket and premium brand compared to Nescafé Dolce Gusto. While Nescafé Dolce Gusto aims to offer good-quality café types of coffee drinks, Nespresso's main offer is to produce premium quality espresso at home or in the office conveniently. The capsules for the two brands are incompatible, as the Nespresso machine uses professional-grade Nespresso pods, as compared to regular capsules. Nespresso offers over 25 different capsules and seasonal limited editions. This is done to build and maintain a professional and exclusive brand image for Nespresso. Nespresso claims that only an estimated 1–2 per cent of the world's green coffee crop meets Nespresso's specific tastes, aroma profiles and quality standards. In addition, since 2005 George Clooney (an American actor and movie star) has been Nespresso's brand ambassador, starring in Nespresso's ad campaigns to promote its luxury coffee brand image.

For the business market, a different system of Nespresso machines and pods exists, branded as Nespresso Professional. These pod-shaped capsules are not interchangeable with the consumer capsules. The main target customers in the business market are business enterprises and organisations. As positioned by the brand, it offers commercial coffee machines and pods to 'give the perfect espresso coffee to your employees, clients and customers', 'make the same full-bodied espresso offered by skilled baristas', 'contributes to the performance of your company by offering the best quality coffee to your employees, but also a competitive and easy way to manage coffee solution to you'.

Nestlé also takes into account the geographical location and climate in its segmentation strategy. For example, in hot and tropical regions, such as Singapore and Indonesia, it offers instant iced coffee all year long. But in countries like the UK, it only offers a limited edition in the summer season. Iced coffee sachets/bags contain creamer that can be dissolved in cold water, so that no hot water is needed to make the coffee. Ice cubes are then added to make the iced coffee.

Part of the differentiation and positioning strategy by Nestlé and Nespresso is corporate branding through its sustainability and corporate social responsibility marketing. In its purpose statement, instead of defining its business as producing and selling products, such as coffee or cereals, it states that 'Nestlé's purpose is enhancing quality of life and contributing to a healthier future. We want to help shape a better and healthier world. We also want to inspire people to live healthier lives'.

The company invests significant effort in contributing to sustainable development and environmental protection. In supporting the United Nations' Sustainable Development Goals (SDGs), Nestlé made 41 public commitments in the areas of helping individuals and families, communities and the planet. For example, for individuals and families, it aims to offer tastier and healthier choices, inspire people to lead healthier lives and enhance nutrition knowledge. For communities, it focuses on rural development and livelihoods enhancement, human rights promotion and employment diversity. For the planet, it focuses on the areas relating to water, climate change and general environmental safeguarding.

However, recently it has faced negative publicity about its single-serve aluminium pods. The company has been accused of creating unnecessary waste, as the aluminium pods are a valuable and energy-intensive resource that ends up in landfills. In response, Nestlé has begun to work harder to limit the impact of its capsules by sourcing aluminium more responsibly, promoting recycling in its boutiques and at upscale kitchen retailers, and in certain areas allowing consumers to mail back used capsules at no charge. It also allows consumers to order free recycling bags online, which can be collected by the company or dropped off at collection points. Nestlé also recognises that recycling is a shared responsibility and an essential role of consumers' participation. It therefore engages in educating consumers on the benefits and means of recycling used capsules, for example by creating educational videos and other materials, and has made them available on the corporate website and social media, such as its official YouTube channel.

Nestlé stepped up the sustainability positioning by launching the 'The Choices we make' campaign for its Nespresso brand in 2017 promoting its sustainability efforts, in addition to its digital campaign around International Recycling Day in May. The campaign includes TV ads, and features short online films and a new content hub to share the personal stories of the farmers behind the coffee. The TV ad, narrated by its brand ambassador George Clooney, tells how Nespresso has chosen to build a community mill in Colombia and how this 'choice' helps farmers, saving time during picking season, which allows them to reinvest more in their families and communities. As commented by Nespresso's head of UK marketing, 'For the first time we are talking clearly and openly about our sustainable programme – but it has always been one of our top priorities. Consumers don't know where the coffee comes from, or how our production has been beneficial to the whole value chain, as we'd never spoken about it before. . . We are not taking an opportunistic approach [with this campaign], it is absolutely what we believe is the right thing to do.'[1]

Customer-driven marketing strategy

Companies today recognise that they cannot appeal to all buyers in the marketplace – or at least not to all buyers in the same way. Buyers are too numerous, widely scattered, and varied in their needs and buying practices. Moreover, companies themselves vary widely in their abilities to serve different market segments. Instead, like Nestlé, companies must identify the parts of the market they can serve best and most profitably. They must design customer-driven marketing strategies that build the right relationships with the right customers. Thus, most companies have moved away from mass marketing and toward *target marketing:* identifying market segments, selecting one or more of them, and developing products and marketing programmes tailored to each.

Figure 7.1 shows the four major steps in designing a customer value–driven marketing strategy. In the first two steps, the company selects the customers that it will serve. **Market segmentation** involves dividing a market into distinct groups of buyers who have different needs, characteristics, or behaviours and who might require separate marketing strategies or mixes. The company identifies different ways to segment the market and develops profiles of the resulting market segments. **Market targeting (or targeting)** consists of evaluating each market segment's attractiveness and selecting one or more market segments to enter.

Market segmentation
Dividing a market into distinct groups of buyers who have different needs, characteristics or behaviours, and who might require separate marketing strategies or mixes.

Market targeting (targeting)
Evaluating each market segment's attractiveness and selecting one or more segments to serve.

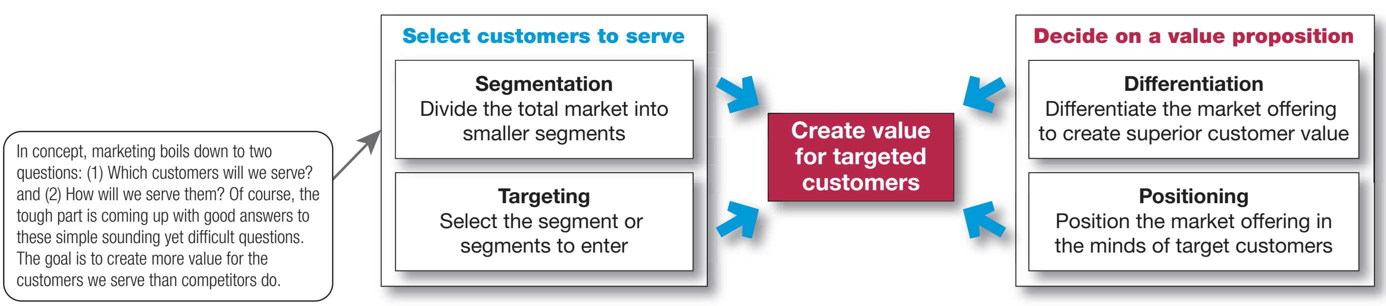


Figure 7.1 Designing a customer-driven marketing strategy

Differentiation Differentiating the market offering to create superior customer value.

Positioning Arranging for a market offering to occupy a clear, distinctive and desirable place relative to competing products in the minds of target consumers.

In the final two steps, the company decides on a value proposition – how it will create value for target customers. **Differentiation** involves actually differentiating the firm's market offering to create superior customer value. **Positioning** consists of arranging for a market offering to occupy a clear, distinctive and desirable place relative to competing products in the minds of target consumers. We discuss each of these steps in turn.

Market segmentation

Author comment

Market segmentation addresses the first simple-sounding marketing question: What customers will we serve?

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

Segmenting consumer markets

There is no single way to segment a market. A marketer has to try different segmentation variables, alone and in combination, to find the best way to view market structure. Table 7.1 outlines variables that might be used in segmenting consumer markets. Here we look at the major *geographic*, *demographic*, *psychographic* and *behavioural* variables.

Geographic segmentation Dividing a market into different geographical units, such as nations, states, regions, counties, cities or even neighbourhoods.

Geographic segmentation

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

For example, many large retailers – from Tesco and Sainsbury to Waitrose – are now opening smaller-format stores, Tesco Express, Sainsbury Local and Little Waitrose, designed to fit the needs of densely packed urban neighbourhoods not suited to their typical large suburban superstores. The average size of Tesco Express is about 200 square metres. Tesco also operates Tesco Metro shops that have an average size of about 1,000 square metres, between an Express shop and a Superstore. These smaller, conveniently located stores carry a more limited assortment of goods that meet the needs of urban residents and commuters, such as groceries, home essentials and beauty products. Some of them also offer pick-up-in-store services.

Tesco also operates Tesco Metro shops that have an average size of about 1,000 square metres. These smaller, conveniently located stores carry a more limited assortment of goods that meet the needs of urban residents and commuters

Source: Graham Oliver/Alamy Stock Photo

Beyond adjusting store size, many retailers also localise product assortments and services. For example, supermarket Tesco in the UK uses the information from its Clubcard loyalty programme to examine 40 different characteristics of every item in the shopper's basket, to develop an understanding of the customer's 'DNA' and to cluster customers into different types – 'upmarket', 'price sensitive', 'green' and so on. One gain from this wealth of data and insight is the ability to create

Table 7.1 Major segmentation variables for consumer markets

Segmentation variable	Examples
Geographic	Nations, regions, states, counties, cities, neighbourhoods, population density (urban, suburban, rural), climate
Demographic	Age, life-cycle stage, gender, income, occupation, education, religion, ethnicity, generation
Psychographic	Lifestyle, personality
Behavioural	Occasions, benefits, user status, usage rate, loyalty status

stores that reflect local demographics and purchasing patterns with great precision. It is no coincidence that Tesco stores near big universities often have large displays featuring beer and frozen pizzas, while those in residential areas place more emphasis on cooking ingredients, fresh fruit and baby products. Tesco's small-format Metro stores focus on the needs of time-pressed commuters and similar groups, depending on location.

Demographic segmentation Dividing the market into segments based on variables such as age, life-cycle stage, gender, income, occupation, education, religion, ethnicity, and generation.

Age and life-cycle segmentation Dividing a market into different age and life-cycle groups.

Demographic segmentation

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

Age and life-cycle stage

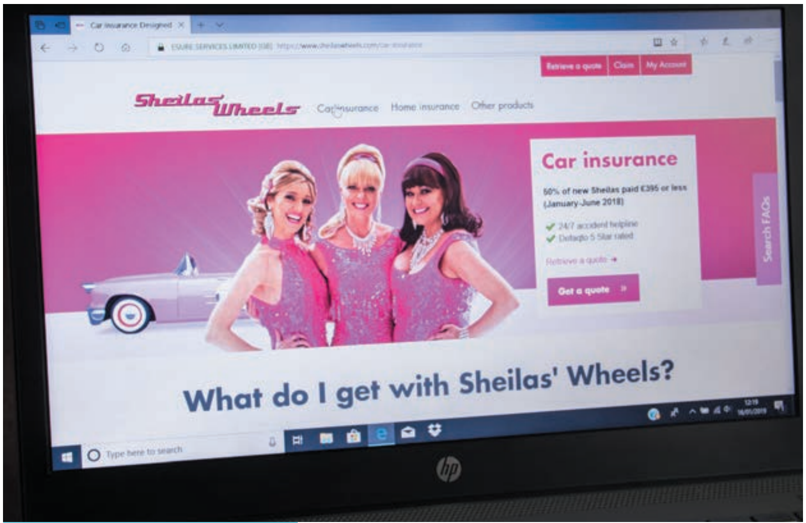
Consumer needs and wants change with age. Some companies use **age and life-cycle segmentation**, offering different products or using different marketing approaches for different age and life-cycle groups.

Saga in the UK provides a wide range of products and services, including insurance, homecare, holidays and a magazine, exclusively for the over-50s. Other companies offer brands in their broader portfolios that target specific age or life-stage groups. For example, to tap the young family market and to compete with the Amazon's popular Kindle Fire Kids, EE introduced the kid-friendly Robin Tablet, keeping young families in mind. With child-centric Kurio OS, it comes pre-loaded with Android 5.1 Lollipop, games, eBooks and educational apps. In addition, with safety and security in mind, it is packed with security features, such as advanced parental locks, web filtering to monitor access and other control features. It is 'designed so that parents can have peace of mind that their child is protected online wherever they are on the UK's biggest and fastest 4G network', says the Director of Connected Products at EE.[2]

EE introduced the kid-friendly Robin Tablet, keeping young families in mind.

Source: Hugh Threlfall/Alamy Stock Photo

Marketers must be careful to guard against stereotypes when using age and life-cycle segmentation. For example, although some 80-year-olds fit the stereotypes of infirm people confined indoors with fixed incomes, others ski and play tennis. Similarly, whereas some 40-year-old couples are sending their children off to university, others are just beginning new families. Thus, age is often a poor predictor of a person's life cycle, health, work or family status, needs and buying power.



Sheilas' Wheels offers car insurance, home insurance and travel insurance specifically for women.
Source: Sam Oaksey/Alamy Stock Photo

Gender

Gender segmentation has long been used in marketing clothing, cosmetics, toiletries, toys and magazines. For example, P&G was among the first to use gender segmentation with Secret, a deodorant brand specially formulated for a woman's chemistry, packaged and advertised to reinforce the female image.

More recently, the men's personal-care industry has exploded, and many cosmetics brands that previously catered mostly to women – from L'Oréal, Nivea and Sephora to Unilever's Dove brand – now successfully market men's lines. For example, Dove's Men + Care line calls itself 'The authority on man maintenance'. The brand provides a full line of body washes ('skin care built in'), body bars ('fight skin dryness'), antiperspirants ('tough on sweat, not on skin'), face care ('take better care of your face') and hair care ('3X stronger hair').[3]

Gender segmentation
Dividing a market into different segments based on gender.

Going in the other direction, brands that have traditionally targeted men are now targeting women. For example, in line with the 'athleisure' trend in which more women are wearing workout gear as everyday fashion, sports apparel makers and retailers – from Nike and Under Armour to Adidas – are boosting their marketing efforts aimed at women buyers. For example, with the aim to grow the women's business, Adidas launched commercials featuring more than a dozen women including athlete stars and celebrities to show how athleticism plays into their daily lives. The creative work and media spending are focused on female audiences.[4] Sheilas' Wheels, launched in 2005, offers car insurance, home insurance and travel insurance specifically for women.

Income

Income segmentation
Dividing a market into different income segments.

The marketers of products and services such as cars, clothing, cosmetics, financial services and travel have long used **income segmentation**. Many companies target affluent consumers with luxury goods and convenience services. Other marketers use high-touch marketing programmes to court the well-to-do.

For example, luxury hotels often provide special packages to attract the most affluent travellers. Similarly, many retailers have adapted their strategies in pursuit of the 'platinum pound' – trying to attract a broader, younger, more international group of ultra-affluent shoppers to stores in locations like London and Paris. Personal shopping services raise the store appeal to the 'cash-rich, time-poor' shopper. And Russian- and Chinese-speaking personal shopping assistants raise the appeal to wealthy visitors from those countries.

However, not all companies that use income segmentation target the affluent. For example, many budget retailers – such as the Poundland, Home Bargains and Matalan retail chains, and grocery stores Aldi and Lidl – successfully target low- and middle-income groups. The core market for such stores is represented by families with more modest incomes. With their low-income strategies, budget stores have shown impressive growth in the harsh economic conditions of recent years and are increasingly attracting more affluent customers as well. For example, in recent years, Aldi and Lidl, the two major discounter supermarkets, have taken significant market share from the traditional big four supermarkets (Tesco, Sainsbury's, Asda and Morrisons) in the UK, and also overtaken some other stronger brands (e.g., Co-operative and Waitrose) in terms of grocery market share. Indeed, the recent troubled economy in Europe has provided challenges for marketers targeting all income groups. Consumers at all income levels – including affluent consumers – are cutting back on their spending and seeking greater value from their purchases. In many cases, luxury marketers targeting high-income consumers have been hardest hit. Even consumers who can still afford to buy luxuries appear to be pushing the pause button. 'It's conspicuous *non*consumption', says one economist. 'The wealthy still have the wealth, [but] it's the image you project in a bad economy of driving a nice car when your friends or colleagues may be losing their businesses.'[5]

Psychographic segmentation

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

Psychographic segmentation Dividing a market into different segments based on lifestyle or personality characteristics.

In Chapter 5, we discussed how the products people buy reflect their *lifestyles*. As a result, marketers often segment their markets by consumer lifestyles and base their marketing strategies on lifestyle appeals. For example, veganism has become an increasingly popular lifestyle for more and more people. To target this growing segment, many retailers, such as Marks & Spencer, Sainsbury's, Tesco and Pret a Manger, have offered a vegan range of products. Wagamama, a British restaurant chain serving Asian food, has a new vegan menu. Other restaurant chains, such as Pizza Hut, Pizza Express and Zizzi, offer vegan pizzas. There are also some restaurants that serve solely vegan food.

Marketers also use *personality* variables to segment markets. For example, some holiday cruise lines target adventure seekers. Royal Caribbean appeals to high-energy couples and families by providing hundreds of activities, such as rock wall climbing and ice skating. Its commercials urge travellers to 'declare your independence and become a citizen of our nation – Royal Caribbean, The Nation of Why Not'. By contrast, the Regent Seven Seas Cruise Line targets more serene and cerebral adventurers, mature couples seeking a more elegant ambiance and exotic destinations, such as the Orient. Regent invites them to come along as 'luxury goes exploring'.[6]

Behavioural segmentation Dividing a market into segments based on consumer knowledge, attitudes, uses of a product, or responses to a product.

Occasion segmentation Dividing the market into segments according to occasions when buyers get the idea to buy, actually make their purchase or use the purchased item.

Behavioural segmentation

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

Occasions

Buyers can be grouped according to the occasions when they get the idea to buy, actually make their purchases or use the purchased items. **Occasion segmentation** can help firms build up product usage. Heinz and Campbell's advertise its soups more heavily in the cold winter months, and B&Q runs special springtime promotions for lawn and garden products. And for more than a dozen years, Starbucks has welcomed the autumn season with its pumpkin spice latte (PSL). Sold only in the autumn, PSLs pull in an estimated £60 million in revenues for Starbucks each year.[7] In 2013, PSL arrived at Starbucks in the UK.[8]

Other companies try to boost consumption by promoting usage during non-traditional occasions. For example, most consumers drink orange juice in the morning, but orange growers have promoted drinking orange juice as a cool, healthful refresher at other times of the day. Indeed, some holidays, such as Mother's Day and Father's Day, were originally promoted to increase the sales of chocolate, flowers, cards and other gifts. Many marketers prepare special offers and ads for these and other holiday occasions. For example, Cadbury has an Easter special commercial to promote its Easter egg product range. It partners with the National Trust in the UK to run the Cadbury Easter Egg Hunt at the various National Trust sites, with over 250 hunts across the country in 2018.[9]

Cadbury partners with the National Trust in the UK to run the Cadbury Easter Egg Hunt.

Source: The National Trust Photolibrary/Alamy Stock Photo

Benefit segmentation
Dividing the market into segments according to the different benefits that consumers seek from the product.

Benefits sought

A powerful form of segmentation is grouping buyers according to the different *benefits* that they seek from a product. **Benefit segmentation** requires finding the major benefits people look for in a product class, the kinds of people who look for each benefit, and the major brands that deliver each benefit.

For example, people who buy wearable health and activity trackers are looking for a variety of benefits, everything from counting steps taken and calories burned to heart-rate monitoring and high-performance workout tracking and reporting. To meet these varying benefit preferences, Fitbit makes health and fitness tracking devices aimed at buyers in three major benefit segments: Everyday Fitness, Active Fitness and Performance Fitness:[10]

> Everyday Fitness buyers want only very basic fitness tracking. So Fitbit's simplest device, the Fitbit Zip, offers these consumers 'A fun, simple way to track your day.' It tracks steps taken, distance travelled, calories consumed, and active minutes. The Fitbit One, also aimed at Everyday Fitness buyers, does all that and also monitors how long and well they sleep; the Fitbit Charge adds a wristband and watch. At the other extreme, for the Performance Fitness segment, the high-tech Fitbit Surge helps serious athletes 'Train smarter. Go Farther.' The Surge is 'the ultimate fitness super watch', with GPS tracking, heart-rate monitoring, all-day activity tracking, automatic workout tracking and recording, sleep monitoring, text notification, music control, and wireless synching to Fitbit's smartphone and computer app. In all, within Fitbit's family of fitness products, no matter what bundle of benefits one seeks, 'There's a Fitbit product for everyone.'

User status

Markets can be segmented into non-users, ex-users, potential users, first-time users and regular users of a product. Marketers want to reinforce and retain regular users, attract targeted non-users and reinvigorate relationships with ex-users. Included in the potential users group are consumers facing life-stage changes – such as new parents and newlyweds – who can be turned into heavy users. For example, many home improvement and maintenance companies and tradesmen offer special deals to new home owners in the local areas.

Usage rate

Markets can also be segmented into light, medium and heavy product users. Heavy users are often a small percentage of the market but account for a high percentage of total consumption. To enhance its appeal to the lighter users, Three, a British telecommunications and internet service provider, launched a sub-brand, Smarty, which gives discounts to customers who do not use up all their data. The deals offered by Smarty are cheaper than those from the main Three brand. It targets low-spending demographic by being positioned as 'simple and honest' mobile phone services.[11] Companies also offer incentives and discounts to target heavy users. For example, Tesco offers a higher percentage discount on the shopping bill for shoppers making a higher-value purchase in one visit.

Loyalty status

A market can also be segmented by consumer loyalty. Consumers can be loyal to brands (Daz), stores (Waitrose) and companies (Apple). Buyers can be divided into groups according to their degree of loyalty. Some consumers are completely loyal – they buy one brand all the time and can't wait to tell others about it. For example, whether they own a MacBook Pro, an iPhone or an iPad, Apple devotees are granite-like in their devotion to the brand. At one end are the quietly satisfied Apple users, folks who own one or several Apple devices and use them for browsing, texting, email and social networking. At the other extreme, however, are the Apple zealots – the so-called MacHeads or Macolytes – who can't wait to tell anyone within earshot about their latest

Apple gadget. Such loyal Apple devotees helped keep Apple afloat during the lean years a decade ago, and they are now at the forefront of Apple's huge iPhone, iPad, iPod and iTunes empire.

Other consumers are somewhat loyal – they are loyal to two or three brands of a given product or favour one brand while sometimes buying others. Still other buyers show no loyalty to any brand – they either want something different each time they buy, or they buy whatever's on sale.

A company can learn a lot by analysing loyalty patterns in its market. It should start by studying its own loyal customers. Highly loyal customers can be a real asset. They often promote the brand through personal word of mouth and social media. Instead of just marketing to loyal customers, companies should engage them fully and make them partners in building the brand and telling the brand story. Some companies actually put loyalists to work for the brand. For example, Heineken has almost 160 student brand ambassadors working for its attraction, The Heineken Experience, inside the Heineken brewery in Amsterdam. The attraction shows off the brand's history and craftsmanship in beer brewing and has become the most-visited attraction in the city with the help of these brand loyalists.[12]

Patagonia relies on its most tried-and-true customers – what it calls Patagonia ambassadors – to field-test products in harsh environments, provide input for 'ambassador-driven' lines of apparel and gear, and share their product experiences with others.[13] In contrast, by studying its less-loyal buyers, a company can detect which brands are most competitive with its own. By looking at customers who are shifting away from its brand, the company can learn about its marketing weaknesses and take actions to correct them.

Using multiple segmentation bases

Marketers rarely limit their segmentation analysis to only one or a few variables. Rather, they often use multiple segmentation bases in an effort to identify smaller, better-defined target groups. Several business information services – such as Nielsen, TNS, GfK and Experian – provide multivariable segmentation systems that merge geographic, demographic, lifestyle and behavioural data to help companies segment their markets down to postal codes, neighbourhoods and even households.

One of the leading segmentation systems is the ACORN product provided in the UK by CACI Ltd, the UK subsidiary of CACI International in the United States.[14] ACORN is used to understand consumers' lifestyle, behaviour and attitudes, as well as the needs of local neighbourhoods or communities. ACORN (acronym for 'A Classification Of Residential Neighbourhoods') is a geodemographic segmentation of the UK's population around small neighbourhoods, postcodes or consumer households. ACORN classifies population into five categories (Wealthy Achievers, Urban Prosperity, Comfortably Off, Moderate Means and Hard-Pressed) and within these categories identifies 17 groups and 56 types. For example, Wealthy Achievers comprises around 25 per cent of the UK's population, and Affluent Greys is one group within this category, and those living in farming communities constitute one of the types within this category.

ACORN and other such systems can help marketers segment people and locations into marketable groups of like-minded consumers. Each category and group is likely to have its own pattern of likes, dislikes, lifestyles and purchase behaviours. For example, Affluent Greys living in Farming Communities have distinct demographic characteristics, but also differ from others regarding car ownership, shopping preferences, internet activity and media usage. Such rich segmentation provides a powerful tool for marketers of all kinds. It can help companies identify and better understand key customer segments, reach them more efficiently, and tailor market offerings and messages to their specific needs.

Segmenting business markets

Consumer and business marketers use many of the same variables to segment their markets. Business buyers can be segmented geographically, demographically (industry, company size), or by benefits sought, user status, usage rate and loyalty status. Yet business marketers also use some additional variables, such as customer *operating characteristics*, *purchasing approaches*, *situational factors* and *personal characteristics*.

Almost every company serves at least some business markets. For example, Starbucks has developed distinct marketing programmes for each of its two business segments: the office coffee segment and the food service segment. In the office coffee and vending segment, Starbucks Office Coffee Solutions markets a variety of workplace coffee services to businesses of any size, helping them to make Starbucks coffee and related products available to their employees in their workplaces. Starbucks helps these business customers design the best office solutions involving its coffees, teas, syrups and branded paper products, and methods of serving them – portion packs, single cups or vending. The Starbucks Foodservice division teams up with businesses and other organisations – ranging from airlines, restaurants, colleges and hospitals to baseball stadiums – to help them serve the well-known Starbucks brand to their own customers. Starbucks provides not only the coffee, tea and paper products to its food service partners but also equipment, training, and marketing and merchandising support.[15]

Many companies establish separate systems for dealing with larger or multiple-location customers. For example, Steelcase, a major producer of office furniture systems in the United States, first divides customers into several segments: healthcare, education, hospitality, legal, US and Canadian governments, and state and local governments. Next, company salespeople work with independent Steelcase dealers to handle smaller, local or regional Steelcase customers in each segment. But many national, multiple-location customers, such as ExxonMobil or IBM, have special needs that may reach beyond the scope of individual dealers. Therefore, Steelcase uses national account managers to help its dealer networks handle national accounts.

Segmenting international markets

Few companies have either the resources or the will to operate in all, or even most, of the countries that dot the globe. Although some large companies, such as Coca-Cola or Unilever, sell products in more than 200 countries, most international firms focus on a smaller set. Different countries, even those that are close together, can vary greatly in their economic, cultural and political makeup. Thus, just as they do within their domestic markets, international firms need to group their world markets into segments with distinct buying needs and behaviours.

Companies can segment international markets using one or a combination of several variables. They can segment by *geographic location*, grouping countries by regions such as Western Europe, the Pacific Rim, South Asia or Africa. Geographic segmentation assumes that nations close to one another will have many common traits and behaviours. Although this is sometimes the case, there are many exceptions. For example, although the United Kingdom and France have much in common, both differ culturally and economically from neighbouring Spain. Even within a region, consumers can differ widely. For example, it may be tempting for international marketers to group all Central and South American countries together. However, the Dominican Republic is no more like Brazil than Italy is like Sweden. Many Central and South Americans don't even speak Spanish, including 200 million Portuguese-speaking Brazilians and the millions in other countries who speak a variety of Indian dialects.

World markets can also be segmented based on *economic factors*. Countries might be grouped by population income levels or by their overall level of economic development. A country's economic structure shapes its population's product and service needs and therefore the marketing opportunities it offers. For example, many companies are now targeting the BRIC countries – Brazil, Russia, India and China – which are fast-growing developing economies with rapidly increasing buying power.

Countries can also be segmented by *political and legal factors* such as the type and stability of government, receptivity to foreign firms, monetary regulations and amount of bureaucracy. *Cultural factors* can also be used, grouping markets according to common languages, religions, values and attitudes, customs and behavioural patterns.

Segmenting international markets based on geographic, economic, political, cultural and other factors presumes that segments should consist of clusters of countries. However, as new communications technologies, such as satellite TV and online and social media, connect consumers around the world, marketers can define and reach segments of like-minded consumers no matter where in the world they are. Using **intermarket segmentation** (also called **cross-market segmentation**), they form segments of consumers who have similar needs and buying behaviours even though they are located in different countries.

Intermarket (cross-market) segmentation Forming segments of consumers who have similar needs and buying behaviours even though they are located in different countries.

For example, retailer H&M targets fashion-conscious but frugal shoppers in 43 countries with its low-priced, trendy apparel and accessories. And Coca-Cola creates special programmes to target teens, core consumers of its soft drinks the world over. By 2020, one-third of the world's population – some 2.5 billion people – will be under 18 years of age. Coca-Cola reaches this important market through the universal teen themes, such as music. For example, it joined forces with Spotify to provide a global music network that helps teens discover new music, connect with other music-loving teens and share their experiences with friends worldwide both online and offline. And its teen-focused 'The Ahh Effect' digital campaign serves up 'snackable pieces of content' – games, videos and -music – designed to engage the world's teens with the Coca-Cola brand. 'The Aah Effect' is 'that multidimensional feeling of happiness, satisfaction and delicious refreshment one experiences after drinking an ice-cold Coke – the sound a smile would make if smiles made sounds.'[16]

Requirements for effective segmentation

Clearly, there are many ways to segment a market, but not all segmentations are effective. For example, buyers of table salt could be divided into blonde and brunette customers. But hair colour obviously does not affect the purchase of salt. Furthermore, if all salt buyers bought the same amount of salt each month, believed that all salt is the same and wanted to pay the same price, the company would not benefit from segmenting this market.

To be useful, market segments must be:

- *Measurable.* The size, purchasing power and profiles of the segments can be measured.
- *Accessible.* The market segments can be effectively reached and served.
- *Substantial.* The market segments are large or profitable enough to serve. A segment should be the largest possible homogeneous group worth pursuing with a tailored marketing programme. It would not pay, for example, for a car manufacturer to develop cars especially for people whose height is greater than seven feet.
- *Differentiable.* The segments are conceptually distinguishable and respond differently to different marketing mix elements and programmes. If men and women respond similarly to marketing efforts for soft drinks, they do not constitute separate segments.
- *Actionable.* Effective programmes can be designed for attracting and serving the segments. For example, although one small airline identified seven market segments, its staff was too small to develop separate marketing programmes for each segment.

Market targeting

Author comment

After dividing the market into segments, it's time to answer that first seemingly simple marketing strategy question we raised in Figure 7.1: Which customers will the company serve?

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

Evaluating market segments

In evaluating different market segments, a firm must look at three factors: segment size and growth, segment structural attractiveness, and company objectives and resources. First, a company wants to select segments that have the right size and growth characteristics. But 'right size and growth' is a relative matter. The largest, fastest-growing segments are not always the most attractive ones for every company. Smaller companies may lack the skills and resources needed to serve larger segments. Or they may find these segments too competitive. Such companies may target segments that are smaller and less attractive, in an absolute sense, but that are potentially more profitable for them.

The company also needs to examine major structural factors that affect long-term segment attractiveness.[17] For example, a segment is less attractive if it already contains many strong and aggressive *competitors* or if it is easy for *new entrants* to come into the segment. The existence of many actual or potential *substitute products* may limit prices and the profits that can be earned in a segment. The relative *power of buyers* also affects segment attractiveness. Buyers with strong bargaining power relative to sellers will try to force prices down, demand more services and set competitors against one another – all at the expense of seller profitability. Finally, a segment may be less attractive if it contains *powerful suppliers* that can control prices or reduce the quality or quantity of ordered goods and services.

Even if a segment has the right size and growth and is structurally attractive, the company must consider its own objectives and resources. Some attractive segments can be dismissed quickly because they do not mesh with the company's long-term objectives. Or the company may lack the skills and resources needed to succeed in an attractive segment. For example, the economy segment of the car market is large and growing. But given its objectives and resources, it would make little sense for luxury-performance car maker Mercedes-Benz to enter this segment. A company should only enter segments in which it can create superior customer value and gain advantages over its competitors.

Selecting target market segments

Target market A set of buyers who share common needs or characteristics that a company decides to serve.

After evaluating different segments, the company must decide which and how many segments it will target. A **target market** consists of a set of buyers who share common needs or characteristics that a company decides to serve. Market targeting can be carried out at several different levels. Figure 7.2 shows that companies can target very broadly (*undifferentiated marketing*), very narrowly (*micromarketing*) or somewhere in between (*differentiated or concentrated marketing*).

Undifferentiated marketing

Undifferentiated (mass) marketing A market-coverage strategy in which a firm decides to ignore market segment differences and go after the whole market with one offer.

Using an **undifferentiated marketing** (or **mass marketing**) strategy, a firm might decide to ignore market segment differences and target the whole market with one offer. Such a strategy focuses on what is *common* in the needs of consumers rather than on what is *different*. The company designs a product and a marketing programme that will appeal to the largest number of buyers.

As noted earlier in the chapter, most modern marketers have strong doubts about this strategy. Difficulties arise in developing a product or brand that will satisfy all consumers. Moreover, mass marketers often have trouble competing with more-focused firms that do a better job of satisfying the needs of specific segments and niches.

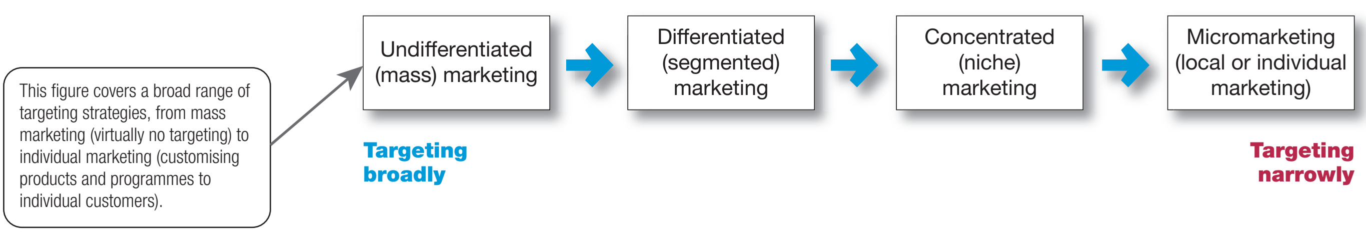


Figure 7.2 Market-targeting strategies

Differentiated marketing

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

By offering product and marketing variations to segments, companies hope for higher sales and a stronger position within each market segment. Developing a stronger position within several segments creates more total sales than undifferentiated marketing across all segments. Thanks to their differentiated approach, Unilever and P&G are dominating the laundry detergent market with their various different brands and product lines targeting different segments.[18]

Unilever and P&G dominate the laundry detergent market with their various different brands and product lines targeting different segments.

Source: Monticello/Shutterstock

But differentiated marketing also increases the costs of doing business. A firm usually finds it more expensive to develop and produce, say, 10 units of 10 different products than 100 units of a single product. Developing separate marketing plans for separate segments requires extra marketing research, forecasting, sales analysis, promotion planning and channel management. And trying to reach different market segments with different advertising campaigns increases promotion costs. Thus, the company must weigh increased sales against increased costs when deciding on a differentiated marketing strategy.

Differentiated (segmented) marketing A market-coverage strategy in which a firm targets several market segments and designs separate offers for each.

Concentrated marketing

When using a **concentrated marketing** (or **niche marketing**) strategy, instead of going after a small share of a large market, a firm goes after a large share of one or a few smaller segments or niches. For example, consider nicher Stance Socks:[19]

Concentrated (niche) marketing A market-coverage strategy in which a firm goes after a large share of one or a few segments or niches.

> 'Rihanna designs them, Jay Z sings about them, and the rest of the world can't seem to get enough of Stance socks', says one observer. They've even become the official on-court sock of the NBA and a favourite of many professional players on game day. Nicher Stance sells socks and only socks. Yet it's thriving in the shadows of much larger competitors who sell socks mostly as a sideline. Five years ago, Stance's founders discovered socks as a large but largely overlooked and undervalued market. While walking through the sock section a local Target store, says Stance's CEO and cofounder, Jeff Kearl, 'It was like, black, white, brown, and gray – with some argyle – in plastic bags. I thought, we could totally [reinvent] socks, because everyone was ignoring them.'
>
> So Stance set out to breathe new life into the sock category by creating technically superior socks that also offered fun, style and status. Mission accomplished. You'll now find colourful displays of Stance's comfortable but quirky socks in stores in more than 40 countries. Stance sold an estimated 15 million pairs of socks over the four years until 2017. That's small potatoes for giant competitors such as Nike, but it's nicely profitable for nicher Stance. Next up? Another often overlooked niche – Stance men's underwear.

Through concentrated marketing, the firm achieves a strong market position because of its greater knowledge of consumer needs in the niches it serves and the special reputation it acquires. It can market more *effectively* by fine-tuning its products, prices and programmes to the needs of carefully defined segments. It can also market more *efficiently*, targeting its products or services, channels and communications programmes toward only consumers that it can serve best and most profitably.

Niching lets smaller companies focus their limited resources on serving niches that may be unimportant to or overlooked by larger competitors. Many companies start as nichers to get a foothold against larger, more resourceful competitors and then grow into broader competitors. For example, easyJet began in 1995 by offering low-cost scheduled air services with two routes from London Luton to Edinburgh and Glasgow. Now it is the leading low-budget airline in Europe and has been successful in the business market with several awards in this sector including the Best Low-Cost Airline awarded by the Business Traveller Awards 2018.[20] And Enterprise Rent-A-Car began by building a network of neighbourhood offices rather than competing with Hertz and Avis in airport locations. Enterprise is now the USA's largest car rental company.

Today, the low cost of setting up shop on the internet makes it even more profitable to serve seemingly small niches. Small businesses, in particular, are realising riches from serving niches on the web. Consider online women's fashion retailer Stitch Fix, an online subscription and personal shopping service in the United States with a plan of coming to the UK in 2019:[21]

> Stitch Fix offers affordable personal styling services online to busy women on the go. It positions itself as 'Your partner in personal style.' Although 'personal service' and 'online' might seem a contradiction, Stitch Fix pulls it off with a team of more than 2,000 personal stylists who apply a sophisticated algorithm to determine each customer's unique sense of style. A customer begins by filling out a detailed style profile that goes far beyond the usual sizing charts. It probes personal preferences with questions such as 'What do you like to flaunt?' and 'How adventurous do you want your Fix selections to be?' (One answer choice: 'Frequently: Adventure is my middle name, bring it on!') The customer also rates photo montages of different fashions and can even submit links to her own Pinterest pages or other social media. Combining the algorithm with large doses of human judgement (the stylist may completely override the algorithm), the personal stylist assembles and ships the customer's first fashion 'Fix' – a box containing five clothing or accessory items pegged to the customer's special tastes. 'Our professional stylists will pick out items they think you'll love – sometimes a little out of your comfort zone, but that's part of the fun', says the company. The customer keeps what she likes and returns the rest, along with detailed feedback. The first Fix is the hardest because the stylist and algorithm are still learning. But after that, the Stitch Fix experience becomes downright addictive for many shoppers. More than 80 per cent of customers visit the site within 90 days for a second order, and one-third spend 50 per cent of their clothing budget with Stitch Fix. Thanks to the power and personalisation qualities of the internet, Stitch Fix is attracting attention and growing fast. The online nicher has inspired a virtual army of pro-Stitch Fix blog and social media posters, and its revenues have skyrocketed.

Concentrated marketing can be highly profitable. At the same time, it involves higher-than-normal risks. Companies that rely on one or a few segments for all of their business will suffer greatly if the segment turns sour. Or larger competitors may decide to enter the same segment with greater resources. In fact, many large companies develop or acquire niche brands of their own. For example, Coca-Cola's Venturing and Emerging Brands unit markets a cooler full of niche beverages. Its brands include Honest Tea (an organic bottled tea brand), NOS (an energy drink popular among car enthusiasts), FUZE (a fusion of tea, fruit, and other flavours), Zico (pure premium coconut water), Odwalla (natural beverages and bars that 'bring goodness to your life'), Fairlife (unfiltered milk) and many others. Such brands let

Coca-Cola compete effectively in smaller, specialised markets, and some will grow into future powerhouse brands.[22]

Micromarketing

Differentiated and concentrated marketers tailor their offers and marketing programmes to meet the needs of various market segments and niches. At the same time, however, they do not customise their offers to each individual customer. **Micromarketing** is the practice of tailoring products and marketing programmes to suit the tastes of specific individuals and local customer segments. Rather than seeing a customer in every individual, micromarketers see the individual in every customer. Micromarketing includes *local marketing* and *individual marketing*.

Micromarketing Tailoring products and marketing programmes to the needs and wants of specific individuals and local customer segments; it includes *local marketing* and *individual marketing*.

Local marketing

Local marketing involves tailoring brands and promotions to the needs and wants of local customers. For example, Marriott's Renaissance Hotels has rolled out its Navigator programme, which hyper-localises guest experiences at each of its 155 lifestyle hotels around the world:[23]

Local marketing Tailoring brands and marketing to the needs and wants of local customer segments – cities, neighbourhoods and even specific stores.

> Renaissance Hotels' Navigator programme puts a personal and local face on each location by 'micro-localising' recommendations for guests' food, shopping, entertainment and cultural experiences at each destination. The programme is anchored by on-site Renaissance Hotels 'Navigators' at each location. Whether it's Omar Bennett, a restaurant-loving Brooklynite at the Renaissance New York Times Square Hotel, or James Elliott at the St. Pancras Renaissance London Hotel, a history buff and local pub expert, Navigators are extensively trained locals who are deeply passionate about the destination and often have a personal connection to the locale. Based on 100-plus hours of intense training plus their own personal experiences and ongoing research, they work with guests personally to help them experience 'the hidden gems throughout the neighbourhood of each hotel through the eyes of those who know it best'.

In addition, Renaissance Hotels engages locals in each city to participate by inviting them to follow their local Navigator via social media as well as adding their own favourites to the system, creating each hotel's own version of Yelp. Navigators then – through submitted tips – feature the best recommendations alongside their own for sharing within the hotel lobby or on its web, mobile and social media channels. Since introducing the hyper-localised Navigator programme as part of Renaissance Hotels' 'Live Life to Discover' campaign two years ago, the hotel's website traffic has grown more than 80 per cent, Facebook Likes have exploded from 40,000 to more than 900,000, and Twitter followers have surged from 5,000 to 110,000.

Advances in communications technology have given rise to new high-tech versions of location-based marketing. Thanks to the explosion in smartphones and tablets that integrate geolocation technology, companies can now track consumers' whereabouts closely and engage them on the go with localised deals and information fast, wherever they may be. It's called *SoLoMo* (*social* + *local* + *mobile*) marketing. Services such as Foursquare and Shopkick and retailers have jumped onto the SoLoMo bandwagon, primarily in the form of smartphone and tablet apps. In the UK, Costa Coffee, with its pioneering location-based campaign supported by the Waze satnav app, had been successful in driving up sales by helping motorists out on the road find its brand at over 5,000 self-serve coffee bars across the UK. It targeted drivers on their morning commute, encouraging them to reroute to a Costa Express site. It succeeded in helping 23 per cent of its users to visit a Costa Express location and achieved 15,000 reroutes to Costa Express sites.[24] In the US, mobile app Shopkick excels at SoLoMo:[25]

Shopkick, a US-based smartphones and tablets shopping app that rewards users for shopping activities both online and in stores, sends special offers and rewards to shoppers simply for checking into client stores and buying brands from Shopkick partners such as P&G, Unilever, Disney and L'Oréal. When shoppers are near a participating store, the Shopkick app on their phone picks up a signal from the store and spits out store coupons, deal alerts and product information. When Shopkickers walk into their favourite retail stores, the app automatically checks them in and they rack up rewards points or 'kicks'. If they buy something or scan product bar codes, they get even more kicks. Users can use their kicks for discounted or free merchandise of their own choosing. Shopkick helps users get the most out of their efforts by mapping out potential kicks in a given geographic area. Shopkick has grown quickly to become one of the nation's top shopping apps, with more 15 million users and 300 brand partners.

Local marketing has some drawbacks, however. It can drive up manufacturing and marketing costs by reducing the economies of scale. It can also create logistics problems as companies try to meet the varied requirements of different local markets. Still, as companies face increasingly fragmented markets and as new supporting digital technologies develop, the advantages of local marketing often outweigh the drawbacks.

Individual marketing

Individual marketing
Tailoring products and marketing programmes to the needs and preferences of individual customers.

In the extreme, micromarketing becomes **individual marketing** – tailoring products and marketing programmes to the needs and preferences of individual customers. Individual marketing has also been labelled *one-to-one marketing*, *mass customisation* and *markets-of-one marketing*.

The widespread use of mass marketing has obscured the fact that for centuries consumers were served as individuals: The tailor custom-made a suit, the cobbler designed shoes for an individual and the cabinetmaker made furniture to order. Today, new technologies are permitting many companies to return to customised marketing. Detailed databases, robotic production and flexible manufacturing, and interactive technologies such as smartphones and online and social media have combined to foster mass customisation. *Mass customisation* is the process by which firms interact one to one with masses of customers to design products, services and marketing programmes tailor-made to individual needs.

Companies these days are hyper-customising everything from food, artwork, earphones and sneakers to high-end luxury products. At one end of the spectrum, confectionery lovers can go online and buy M&Ms with personalised messages or pictures embossed on each little sweet. Visit Nike ID or Puma Factory online to design and order your very own personalised sneakers. At the other extreme are 'bespoke' luxury goods (a fancy word for 'custom-made' or 'made to order'). For the right price, well-heeled customers can buy custom-designed goods ranging from bespoke fashions and accessories by Hermes and Gucci to bespoke cars from Aston Martin or Rolls-Royce.[26]

Ninety-five per cent of Rolls-Royce buyers customise their cars in some way. Customers can sit down with a Rolls-Royce Bespoke design team – colour experts, leather-smiths, master woodworkers – in a lounge filled with images, materials and other inspirational elements to design their own unique Rolls-Royces. Want to match the exterior paint and interior leather to your favourite pale pink leather gloves? No problem. Want to customise your door handles, have your initials and a meaningful logo stitched into the headrests or install mother-of-pearl inlays, crocodile skin seating, rabbit-pelt linings or mahogany trim? Easily done. One customer even wanted his car's interior trim to be made from a favourite tree that had recently fallen on his estate. After analysing a sample, a Rolls-Royce craftsman deemed the wood acceptable and the customer's tree will now live forever in the dash and door panels of his custom Rolls-Royce. 'Outside of compromising the safety of the car – or disfiguring the Spirit of Ecstasy – we won't say no', says a Rolls-Royce executive.

Beyond customising products, marketers also customise their marketing messages to engage customers on a one-to-one basis. For example, Nike collected data on its most enthusiastic customers, those who train using FuelBands and apps such as Nike + Running. It then used the data to create 100,000 customised animated videos based on each individual's actual workout activities. For example, one video might feature an animation of a person in London running past Tower Bridge; another might show a person in Paris running along the River Seine. Nike then emailed the unique customised videos to each of the 100,000 Nike + users, challenging them to achieve new heights in the coming year. The videos not only engaged Nike's biggest fans, they also spread to the broader Nike community. 'These are some of the most social people on the planet', says one campaign manager. 'They share like crazy. So that becomes a pretty awesome flagship marketing move for Nike.'[27]

Choosing a targeting strategy

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

Another factor is *market variability*. If most buyers have the same tastes, buy the same amounts, and react the same way to marketing efforts, undifferentiated marketing is appropriate. Finally, *competitors' marketing strategies* should be considered. When competitors use differentiated or concentrated marketing, undifferentiated marketing can be suicidal. Conversely, when competitors use undifferentiated marketing, a firm can gain an advantage by using differentiated or concentrated marketing, focusing on the needs of buyers in specific segments.

Socially responsible target marketing

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

For example, fast-food chains have generated controversy over the years by their attempts to target inner-city minority consumers. They've been accused of pitching their high-fat, salt-laden fare to low-income, urban residents who are much more likely than suburbanites to be heavy consumers. Similarly, big banks and mortgage lenders have been criticised for targeting consumers in poor urban areas with attractive adjustable-rate home mortgages that they can't really afford.

Children are seen as an especially vulnerable audience. Marketers in a wide range of industries– from cereal, soft drinks and fast food to toys and fashion – have been criticised for their marketing efforts directed toward children. Critics worry that enticing premium offers and high-powered advertising appeals will overwhelm children's defences. In recent years, for instance, McDonald's has been criticised by various health advocates and parent groups concerned that its popular Happy Meals offers – featuring trinkets and other items tied in with popular children's movies and TV shows – create a too-powerful connection between children and less-healthy eating.

McDonald's has responded by putting the Happy Meal on a diet, cutting the overall calorie count by 20 per cent, adding fruit to every meal and promoting Happy Meals only with milk, water and juice. And for a two-week span each year, McDonald's replaces the toys in its Happy Meals with children's books.[28]

The digital era may make children even more vulnerable to targeted marketing messages. Traditional child-directed TV and print ads usually contain fairly obvious pitches that are easily detected and controlled by parents. However, marketing in digital media may be subtly embedded within the content and viewed by children on personal, small-screen devices that are beyond even the most watchful parent's eye. In digital platforms, the lines between educational, entertainment and commercial content are often blurred. Thus, as children consume increasing amounts of online and digital content, one expert advises that kids 'shouldn't be entirely left to their own devices'.[29]

More broadly, the growth of the internet, smartphones and other carefully targeted direct media has raised fresh concerns about potential targeting abuses. The internet and mobile marketing allow more precise targeting, letting the makers of questionable products or deceptive advertisers zero in on the most vulnerable audiences. Unscrupulous marketers can now send tailor-made, deceptive messages by email directly to millions of unsuspecting consumers.

Today's marketers are also using sophisticated analytical techniques to track consumers' digital movements and to build amazingly detailed customer profiles containing highly personal information. Such profiles can then be used to hyper-target individual consumers with personalised brand messages and offers. However, with such targeting, marketers often walk a fine line between serving customers better and stalking them:

> How well does your smartphone know you? What stories could your laptop tell? In truth, your digital devices probably know more about you than you know about yourself. Smartphones and other digital equipment have become fundamental extensions of our lives. Whatever you do – at work, at play, socialising, shopping – your phone, tablet, laptop or desktop is almost always a part of the action. These devices go where you go, entertain you, connect you with friends, take you browsing and shopping, feed you news and information, and listen in on even your most intimate voice, text and email conversations. And more and more, these devices are sharing all that personal information with marketers. Companies have now developed sophisticated new ways that border on wizardry to extract intimate insights about consumers. For brands and marketers, such information is pure gold.

Marketers argue that using all of this up-close-and-personal information better serves both customers and a company. Customers receive tailored, relevant information and offers from brands that really understand and interest them. However, many consumers and privacy advocates are concerned that such intimate information in the hands of unscrupulous marketers could result in more harm than benefit to consumers. They often view big data and hyper-targeting less as 'getting to know consumers better to serve them better' and more as 'stalking' consumers and 'profiling' them. Although most consumers are willing to share some personal information if it means getting better service or deals, many consumers worry that marketers might go too far.

Thus, in target marketing, the issue is not really *who* is targeted but rather *how* and for *what*. Controversies arise when marketers attempt to profit at the expense of targeted segments – when they unfairly target vulnerable segments or target them with questionable products or tactics. Socially responsible marketing calls for segmentation and targeting that serve not just the interests of the company but also the interests of those targeted.

Differentiation and positioning

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

Product position The way a product is defined by consumers on important attributes – the place it occupies in consumers' minds relative to competing products.

Daz is positioned as a powerful, all-purpose family detergent; Tide is 'a washing miracle', an all-purpose, heavy-duty family detergent that gets out grime and tough stains. Asda customers are promised 'Always low prices . . . Always'. American Express, 'Don't live life without it'. In the car market, the small Nissans and Hondas are positioned on economy, Mercedes and Cadillac on luxury, and Porsche and BMW on performance. And IKEA does more than just sell affordable home furnishings; it's the 'Life improvement store'.

Author comment

At the same time that a company is answering the first simple-sounding question (Which customers will we serve?), it must also be asking the second question (How will we serve them?).

Consumers are overloaded with information about products and services. They cannot re-evaluate products every time they make a buying decision. To simplify the buying process, consumers organise products, services and companies into categories and 'position' them in their minds. A product's position is the complex set of perceptions, impressions and feelings that consumers have for the product compared with competing products.

Consumers position products with or without the help of marketers. But marketers do not want to leave their products' positions to chance. They must *plan* positions that will give their products the greatest advantage in selected target markets, and they must design marketing mixes to create these planned positions.

Positioning maps

In planning their differentiation and positioning strategies, marketers often prepare *perceptual positioning maps* that show consumer perceptions of their brands versus those of competing products on important buying dimensions. Figure 7.3 shows a positioning map for the US large luxury SUV market.[30] The position of each circle on the map indicates the brand's perceived

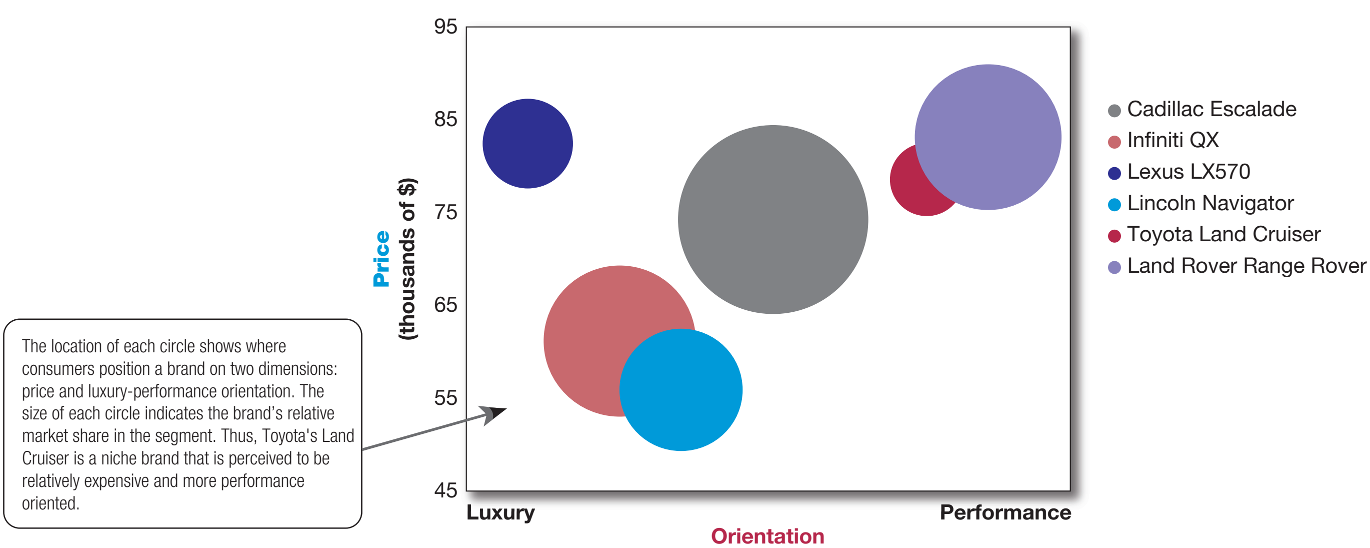


Figure 7.3 Positioning map: large luxury SUVs

Source: based on data provided by WardsAuto.com and Edmunds.com, 2010.

positioning on two dimensions: price and orientation (luxury versus performance). The size of each circle indicates the brand's relative market share.

Thus, customers view the market-leading Cadillac Escalade as a moderately priced, large, luxury SUV with a balance of luxury and performance. The Escalade is positioned on urban luxury, and in its case, 'performance' probably means power and safety performance. You'll find no mention of off-road adventuring in an Escalade ad.

By contrast, the Range Rover and the Land Cruiser are positioned on luxury with nuances of off-road performance. For example, the Toyota Land Cruiser began in 1951 as a four-wheel-drive, jeep-like vehicle designed to conquer the world's most gruelling terrains and climates. In recent years, the Land Cruiser has retained this adventure and performance positioning but with luxury added. Its website brags of 'legendary off-road capability', with off-road technologies such as an Acoustic Control Induction System to get the most out of the RPMs, 'so you can make molehills out of mountains'. Despite its ruggedness, however, the company notes that 'its Bluetooth hands-free technology, DVD entertainment, and a sumptuous interior have softened its edges'.

Choosing a differentiation and positioning strategy

Some firms find it easy to choose a differentiation and positioning strategy. For example, a firm well known for quality in certain segments will go after this position in a new segment if there are enough buyers seeking quality. But in many cases, two or more firms will go after the same position. Then each will have to find other ways to set itself apart. Each firm must differentiate its offer by building a unique bundle of benefits that appeal to a substantial group within the segment.

Above all else, a brand's positioning must serve the needs and preferences of well-defined target markets. For example, although both McDonald's McCafe outlets and Starbucks are coffee and snack shops, they target very different customers, who want very different things from their favourite coffee seller. Starbucks targets more upmarket professionals with more high-brow positioning. In contrast, McCafe targets the average person with a decidedly more low-brow, 'everyman' kind of positioning – no fancy pseudo-Italian names for coffees or cup sizes for example. Yet each brand succeeds because it creates the right value proposition for its unique mix of customers.

The differentiation and positioning task consists of three steps: identifying a set of differentiating competitive advantages on which to build a position, choosing the right competitive advantages and selecting an overall positioning strategy. The company must then effectively communicate and deliver the chosen position to the market.

Identifying possible value differences and competitive advantages

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

Competitive advantage
An advantage over competitors gained by offering greater customer value, either by having lower prices or providing more benefits that justify higher prices.

But solid positions cannot be built on empty promises. If a company positions its product as *offering* the best quality and service, it must actually differentiate the product so that it *delivers* the promised quality and service. Companies must do much more than simply shout out their positions with slogans and taglines. They must first *live* the slogan. For example, online shoes and accessories seller Zappos's 'powered by service' positioning would ring hollow if not backed by truly outstanding customer care. Zappos aligns its entire organisation and all of its people around providing the best possible customer service. The online seller's number-one core value: 'Deliver WOW through service.'[31]

To find points of differentiation, marketers must think through the customer's entire experience with the company's product or service. An alert company can find ways to differentiate itself at every customer contact point. In what specific ways can a company differentiate itself or its market offer? It can differentiate along the lines of *product*, *services*, *channels*, *people* or *image*.

Through *product differentiation*, brands can be differentiated on features, performance, or style and design. Thus, premium audio brand Bose positions its audio products on the innovative, high-quality listening experiences. BMW positions itself as 'The Ultimate Driving Machine' that's 'designed for driving pleasure'.

Beyond differentiating its physical product, a firm can also differentiate the services that accompany the product. Some companies gain *services differentiation* through speedy, convenient service. For example, innovative and unconventional new Metro Bank in the UK opens its stores seven days a week, including some evenings. In an age where customer satisfaction with airline service is in constant decline, Singapore Airlines sets itself apart through extraordinary customer care and the grace of its flight attendants.

Firms that practise *channel differentiation* gain competitive advantage through the way they design their channel's coverage, expertise and performance. Amazon, for example, set themselves apart with their smooth-functioning direct channels. Companies can also gain a strong competitive advantage through *people differentiation* – hiring and training better people than their competitors do. People differentiation requires that a company select its customer-contact people carefully and train them well. For example, in all its global locations, Disney World people are known to be friendly and upbeat. People differentiation requires that a company select its customer-contact people carefully and train them well. For example, Disney trains its theme park people thoroughly to ensure that they are competent, courteous and friendly – from the hotel check-in staff, to the transport drivers, to the ride attendants, to the people who sweep the roads in the parks. Each employee is carefully trained to understand customers and to 'make people happy'.

Even when competing offers look the same, buyers may perceive a difference based on company or brand *image differentiation*. A company or brand image should convey a product's distinctive benefits and positioning. Developing a strong and distinctive image calls for creativity and hard work. A company cannot develop an image in the public's mind overnight by using only a few ads. If Ritz-Carlton means quality, this image must be supported by everything the company is, says and does.

Symbols, such as the McDonald's golden arches, the colourful Google logo, the Twitter bird, the Nike swoosh or Apple's 'bite mark' logo, can provide strong company or brand recognition and image differentiation. The company might build a brand around a famous person, as H&M has done with its David Beckham underwear range. Some companies even become associated with colours, such as Coca-Cola (red), IBM (blue) or UPS (brown). The chosen symbols, characters and other image elements must be communicated through advertising that conveys the company's or brand's personality.

Choosing the right competitive advantages

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

How many differences to promote

Many marketers think that companies should aggressively promote only one benefit to the target market. Former advertising executive Rosser Reeves, for example, said a company should develop a *unique selling proposition (USP)* for each brand and stick to it. Each brand should pick an attribute and tout itself as 'number one' on that attribute. Buyers tend to remember number one better, especially in this overcommunicated society. Thus, for example, across the world Burger King promotes personal choice – 'have it your way'.

Other marketers think that companies should position themselves on more than one differentiator. This may be necessary if two or more firms are claiming to be best on the same attribute. For example, Microsoft differentiates its innovative Surface tablet as being both a laptop and tablet in one. It's the 'One device for everything in your life' – lighter and thinner than a laptop but with a click-in keyboard and fuller features than competing tablets. It's 'Powerful as a laptop, lighter than Air.' Microsoft's challenge is to convince buyers that its one brand can do it all.

Today, at a time when the mass market is fragmenting into many small segments, companies and brands are trying to broaden their positioning strategies to appeal to more segments.

Which differences to promote

Not all brand differences are meaningful or worthwhile, and each difference has the potential to create company costs as well as customer benefits. A difference is worth establishing to the extent that it satisfies the following criteria:

- *Important.* The difference delivers a highly valued benefit to target buyers.
- *Distinctive.* Competitors do not offer the difference, or the company can offer it in a more distinctive way.
- *Superior.* The difference is superior to other ways that customers might obtain the same benefit.
- *Communicable.* The difference is communicable and visible to buyers.
- *Pre-emptive.* Competitors cannot easily copy the difference.
- *Affordable.* Buyers can afford to pay for the difference.
- *Profitable.* The company can introduce the difference profitably.

Many companies have introduced differentiations that failed one or more of these tests. When the Westin Stamford Hotel in Singapore once advertised itself as the world's tallest hotel, it was a distinction that was not important to most tourists; in fact, it turned many off. Similarly, Coca-Cola's classic product failure – New Coke – failed the superiority and importance tests among core Coca-Cola drinkers:

> Extensive blind taste tests showed that 60 per cent of all soft drink consumers chose a new, sweeter Coca-Cola formulation over the original Coke, and 52 per cent chose it over Pepsi. So the brand dropped its original-formula Coke and, with much fanfare, replaced it with New Coke, a sweeter, smoother version. However, in its research, Coca-Cola overlooked the many intangibles that have made Coca-Cola so popular for 130 years. To loyal Coke drinkers, the original beverage stands alongside baseball, apple pie and the Statue of Liberty as an American institution. As it turns out, Coca-Cola differentiates its brand not just by taste but by tradition. By dropping the original formula, Coca-Cola trampled on the sensitivities of the huge core of loyal Coke drinkers who loved Coke just the way it was. After only three months, the company brought the classic Coke back.

Thus, choosing competitive advantages on which to position a product or service can be difficult, yet such choices are crucial to success. Choosing the right differentiators can help a brand stand out from the pack of competitors.

Selecting an overall positioning strategy

Value proposition The full positioning of a brand – the full mix of benefits on which it is positioned.

The full positioning of a brand is called the brand's **value proposition** – the full mix of benefits on which a brand is differentiated and positioned. It is the answer to the customer's question 'Why should I buy your brand?' BMW's 'ultimate driving machine/designed for driving pleasure' value proposition hinges on performance but also includes luxury and styling, all for a price that is higher than average but seems fair for this mix of benefits.

Figure 7.4 shows possible value propositions on which a company might position its products. In the figure, the five green cells on the top and right represent winning value propositions – differentiation and positioning that give the company a competitive advantage. The red cells at the lower left, however, represent losing value propositions. The centre cell represents at best a marginal proposition. In the following sections, we discuss the five winning value propositions: more for more, more for the same, the same for less, less for much less, and more for less.

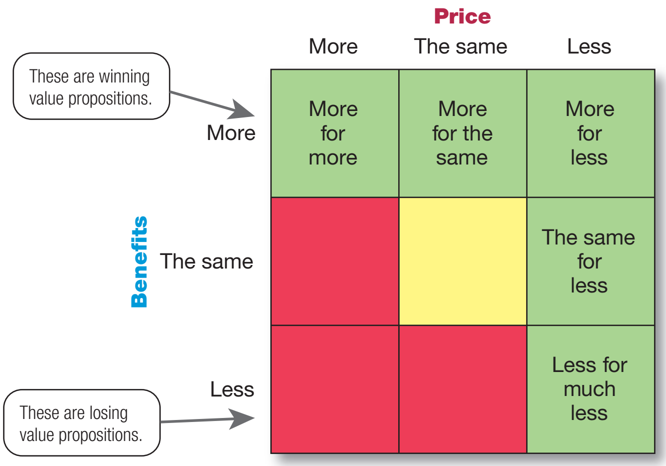


Figure 7.4 Possible value propositions

More for more

More-for-more positioning involves providing the most upmarket product or service and charging a higher price to cover the higher costs. A more-for-more market offering not only offers higher quality, it also gives prestige to the buyer. It symbolises status and a loftier lifestyle. Four Seasons hotels, Rolex watches, Starbucks coffee, Louis Vuitton handbags, Mercedes cars, Sub-Zero appliances – each claim superior quality, craftsmanship, durability, performance or style and therefore charge a higher price.

Similarly, the marketers of Hearts On Fire diamonds have created a more-for-more niche Hearts On Fire diamonds have a unique 'hearts and arrow' design. When viewed under magnification from the bottom, a perfect ring of eight hearts appears; from the top comes a perfectly formed fireburst of light. Hearts On Fire diamonds aren't for everyone, says the company. 'Hearts On Fire is for those who expect more, and give more in return.' The brand commands a 15 to 20 per cent price premium over comparable competing diamonds.[32]

Although more-for-more can be profitable, this strategy can also be vulnerable. It often invites imitators who claim the same quality but at a lower price. For example, more-for-more brand Starbucks now faces 'gourmet' coffee competitors ranging from Costa Coffee to McDonald's. Also, luxury goods that sell well during good times may be at risk during economic downturns when buyers become more cautious in their spending. The recent gloomy economy hit premium brands the hardest.

More for the same

A company can attack a competitor's value proposition by positioning its brand as offering more for the same price. For example, Waitrose & Partners has used this positioning for its Essential Waitrose product range with a tagline of 'Quality you'd expect at prices you wouldn't.' It claims to offer more in terms of store atmosphere, service, stylish merchandise and classy brand image but at prices comparable to those of other big supermarkets in the UK.

The same for less

Offering *the same for less* can be a powerful value proposition – everyone likes a good deal. For example, Morrison's uses this positioning by positioning itself with a slogan 'saves you and your family money' with high-quality food products. And Asda does so with a positioning of 'why pay more?' They don't claim to offer different or better products. Instead, they offer many of the same brands as department stores and speciality stores but at deep discounts based on superior purchasing power and lower-cost operations. Other companies develop imitative but lower-priced brands in an effort to lure customers away from the market leader.

Travelodge suspend some amenities and charge less accordingly.
Source: Greg Balfour Evans/Alamy Stock Photo

For example, Amazon offers a line of Kindle Fire tablets, which sell for less than 40 per cent of the price of the Apple iPad or Samsung Galaxy tablet. Amazon claims that it offers 'Premium products at non-premium prices.'

Less for much less

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

Less-for-much-less positioning involves meeting consumers' lower performance or quality requirements at a much lower price. For example, Costco warehouse stores offer less merchandise selection and consistency and much lower levels of service; as a result, they charge rock-bottom prices. Successful budget airlines easyJet and Ryanair also practise less-for-much-less positioning, based on the Southwest Airlines model from the US. Similarly, at Aldi grocery stores, customers pay super-low prices but must settle for less in terms of the service extras.

Germany-based discount grocer Aldi surprisingly, with more than €70 billion in annual revenues and more than 10,000 stores in over 17 countries, is the world's eighth-largest retailer overall. What's more, Aldi is taking many country markets by storm, growing faster than any of its larger rivals. How does Aldi do it? With a simple less-for-much-less value proposition. At Aldi you get less, but you pay much less for it. The chain gives customers a basic assortment of good-quality everyday items with no-frills service at everyday extra-low prices. These days, many grocers brag about low prices. But at Aldi, they are an absolute fact. Aldi has redesigned the food shopping experience to reduce costs and give customers prices that it claims are up to 50 per cent lower than those of rival supermarkets. To get those super-low prices, however, Aldi customers must settle for less in terms of many of the extras they've come to expect from competitors. For example, they get a smaller selection. Aldi also carries fewer national brands; almost 95 per cent of its items are Aldi store brands. Aldi does no promotional pricing or price matching – it just sticks with its efficient everyday very low prices. To Aldi fans, even though they get less in terms of selection and services, the savings make it all worthwhile.

Whereas Aldi cuts operating costs to the bone, it doesn't scrimp on quality. With its preponderance of store brands, Aldi exercises complete control over the quality of the products on its shelves, and the chain promises that everything it sells is certifiably fresh and tasty. Aldi backs this promise with a Double Guarantee on all items: 'If for any reason you are not 100-percent satisfied with any product, we will gladly replace the product AND refund your money.' To improve the quality of its assortment, Aldi has progressively added items that aren't usually associated with 'discounted' groceries. Beyond the typical canned, boxed and frozen food basics, Aldi carries fresh meat, baked goods and fresh produce. It also carries an assortment of regular and periodic speciality goods. Aldi even offers a selection of gluten-free and organic foods. With such items and with its clean, bright stores, Aldi targets not just low-income customers but frugal middle-class and upper-middle-class customers as well.

None of this is news to German shoppers, who have loved Aldi for decades. In Germany, the chain operates more than 4,200 stores, accounting for more than 28 per cent of the market.

Aldi's no-frills, less-for-much-less approach isn't for everyone. Whereas some shoppers love the low prices, basic assortments and simple store atmosphere, others can't imagine life without at least some of the luxuries and amenities offered by rivals. But most people who shop at Aldi quickly become true believers.

More for less

Of course, the winning value proposition would be to offer *more for less*. Many companies claim to do this. And, in the short run, some companies can actually achieve such lofty positions. Yet in the long run, companies will no doubt find it very difficult to sustain such best-of-both positioning. Offering more usually costs more, making it difficult to deliver on the 'for-less' promise. Companies that try to deliver both may lose out to more focused competitors. All said, each brand must adopt a positioning strategy designed to serve the needs and wants of its target markets. *More for more* will draw one target market, *less for much less* will draw another, and so on. In any market, there is usually room for many different companies, each successfully occupying different positions. The important thing is that each company must develop its own winning positioning strategy, one that makes the company special to its target consumers.

Developing a positioning statement

Positioning statement A statement that summarises company or brand positioning using this form: To (target segment and need) our (brand) is (concept) that (point of difference).

Company and brand positioning should be summed up in a **positioning statement**. The statement should follow the form: To (target segment and need) our (brand) is (concept) that (point of difference).[33] Here is an example using the popular digital information management application Evernote: 'To busy multitaskers who need help remembering things, Evernote is a digital content management application that makes it easy to capture and remember moments and ideas from your everyday life using your computer, phone, tablet and the web.'

Note that the positioning statement first states the product's membership in a category (digital content management application) and then shows its point of difference from other members of the category (easily capture moments and ideas and remember them later). Evernote helps you 'remember everything' by letting you take notes, capture photos, create to-do lists and record voice reminders and then makes them easy to find and access using just about any device, anywhere – at home, at work or on the go. Placing a brand in a specific category suggests similarities that it might share with other products in the category. But the case for the brand's superiority is made on its points of difference.

Communicating and delivering the chosen position

Once it has chosen a position, the company must take strong steps to deliver and communicate the desired position to its target consumers. All the company's marketing mix efforts must support the positioning strategy.

Positioning the company calls for concrete action, not just talk. If the company decides to build a position on better quality and service, it must first *deliver* that position. Designing the marketing mix – product, price, place and promotion – involves working out the tactical details of the positioning strategy. Thus, a firm that seizes on a more-for-more position knows that it must produce high-quality products, charge a high price, distribute through high-quality dealers and advertise in high-quality media. It must hire and train more service people, find retailers that have a good reputation for service, and develop sales and advertising content that supports its superior offer. This is the only way to build a consistent and believable more-for-more position.

Companies often find it easier to come up with a good positioning strategy than to implement it. Establishing a position or changing one usually takes a long time. In contrast, positions that have taken years to build can quickly be lost. Once a company has built the desired position, it must take care to maintain the position through consistent performance and communication.

It must closely monitor and adapt the position over time to match changes in consumer needs and competitors' strategies. However, the company should avoid abrupt changes that might confuse consumers. Instead, a product's position should evolve gradually as it adapts to the ever-changing marketing environment.

Learning outcomes review

In this chapter, you learned about the major elements of a customer value-driven marketing strategy: segmentation, targeting, differentiation and positioning. Marketers know that they cannot appeal to all buyers in their markets – or at least not to all buyers in the same way. Therefore, most companies today practice *target marketing* – identifying market segments, selecting one or more of them, and developing products and marketing mixes tailored to each.

Objective 1 Define the major steps in designing a customer value-driven marketing strategy: market segmentation, targeting, differentiation and positioning (pp. 199–200)

A customer value-driven marketing strategy begins with selecting which customers to serve and determining a value proposition that best serves the targeted customers. It consists of four steps. *Market segmentation* is the act of dividing a market into distinct groups of buyers who have different needs, characteristics or behaviours and who might require separate marketing strategies or mixes. Once the groups have been identified, *market targeting* evaluates each market segment's attractiveness and selects one or more segments to serve. *Differentiation* involves actually differentiating the market offering to create superior customer value. *Positioning* consists of positioning the market offering in the minds of target customers. A customer value-driven marketing strategy seeks to build the *right relationships* with the *right customers*.

Objective 2 List and discuss the major bases for segmenting consumer and business markets (pp. 200–207)

There is no single way to segment a market. Therefore, the marketer tries different variables to see which give the best segmentation opportunities. For consumer marketing, the major segmentation variables are geographic, demographic, psychographic and behavioural. In *geographic segmentation*, the market is divided into different geographical units, such as nations, regions, states, counties, cities or even neighbourhoods. In *demographic segmentation*, the market is divided into groups based on demographic variables, including age, life-cycle stage, gender, income, occupation, education, religion, ethnicity and generation. In *psychographic segmentation*, the market is divided into different groups based on social class, lifestyle or personality characteristics. In *behavioural segmentation*, the market is divided into groups based on consumers' knowledge, attitudes, uses or responses concerning a product.

Business marketers use many of the same variables to segment their markets. But business markets also can be segmented by business *demographics* (industry, company size), *operating characteristics*, *purchasing approaches*, *situational factors* and *personal characteristics*. The effectiveness of the segmentation analysis depends on finding segments that are *measurable*, *accessible*, *substantial*, *differentiable* and *actionable*.

Objective 3 Explain how companies identify attractive market segments and choose a market-targeting strategy (pp. 207–214)

To target the best market segments, the company first evaluates each segment's size and growth characteristics, structural attractiveness, and compatibility with company objectives and resources. It then chooses one of four market-targeting strategies – ranging from very broad to very narrow targeting. The seller can ignore segment differences and target broadly using *undifferentiated* (or *mass*) *marketing*. This involves mass producing, mass distributing and mass promoting the same product in about the same way to all consumers. Or the seller can adopt *differentiated marketing* – developing different market offers for several segments. *Concentrated marketing* (or *niche marketing*) involves focusing on one or a few market segments only. Finally, *micromarketing* is the practice of tailoring products and marketing programmes to suit the tastes of specific individuals and locations. Micromarketing includes *local marketing* and *individual marketing*. Which targeting strategy is best depends on company resources, product variability, product life-cycle stage, market variability and competitive marketing strategies.

Objective 4 Discuss how companies differentiate and position their products for maximum competitive advantage (pp. 215–222)

Once a company has decided which segments to enter, it must decide on its *differentiation and positioning strategy*. The differentiation and positioning task consists of three steps: identifying a set of possible differentiations that create competitive advantage, choosing advantages on which to build a position and selecting an overall positioning strategy.

The brand's full positioning is called its *value proposition* – the full mix of benefits on which the brand is positioned. In general, companies can choose from one of five winning value propositions on which to position their products: more for more, more for the same, the same for less, less for much less or more for less. Company and brand positioning are summarised in positioning statements that state the target segment and need, the positioning concept and specific points of difference. The company must then effectively communicate and deliver the chosen position to the market.

Navigating the key terms

Objective 1

Market segmentation (p. 199)
Market targeting (targeting) (p. 199)
Differentiation (p. 200)
Positioning (p. 200)

Objective 2

Geographic segmentation (p. 200)
Demographic segmentation (p. 201)
Age and life-cycle segmentation (p. 201)
Gender segmentation (p. 202)
Income segmentation (p. 202)
Psychographic segmentation (p. 203)
Behavioural segmentation (p. 203)
Occasion segmentation (p. 203)
Benefit segmentation (p. 204)
Intermarket (cross-market) segmentation (p. 207)

Objective 3

Target market (p. 208)
Undifferentiated (mass) marketing (p. 208)
Differentiated (segmented) marketing (p. 209)
Concentrated (niche) marketing (p. 209)
Micromarketing (p. 211)
Local marketing (p. 211)
Individual marketing (p. 212)

Objective 4

Product position (p. 215)
Competitive advantage (p. 216)
Value proposition (p. 218)
Positioning statement (p. 221)

Discussion and critical thinking

Discussing the concepts

7.1 Why have companies moved away from mass marketing and toward target marketing? Outline the steps in a customer value-driven strategy. (AACSB: Communication)

7.2 How is demographic segmentation used in consumer markets? Provide an example where marketers have used demographic segmentation. (AACSB: Communication; Reflective thinking)

7.3 Discuss the challenges marketers face with international market segmentation. (AACSB: Communication)

7.4 There are many ways to segment a market, but not all segmentations are effective. Explain the five requirements for effective market segmentation. (AACSB: Communication)

7.5 Describe micromarketing, local marketing and individual marketing. When should marketers consider using these segmentation strategies? (AACSB: Communication; Reflective thinking)

7.6 How can a company gain competitive advantage through differentiation? Describe an example of a company that illustrates each type of differentiation discussed in the chapter. (AACSB: Communication)

Critical-thinking exercises

7.7 Identify a product you use every day. Assume you are the marketer of the product and want to convey the ways your product differs from competing products in the marketplace. Create a differentiation strategy to promote your product and create a competitive advantage. (AACSB: Communication; Reflective thinking)

7.8 *Manfluencers* is a term that describes a new marketing trend. To what does this term refer? Describe two examples of how marketers have responded to the *manfluencers* trend. (AACSB: Communication; Reflective thinking)

7.9 In a small group, create an idea for a new business. Using the steps described in the chapter, develop a customer value-driven marketing strategy. Describe your strategy and conclude with a positioning statement for this business. (AACSB: Communication; Reflective thinking)

Mini-cases and applications

Online, mobile and social media marketing: get your Groupon

Local marketing is an effective tool used by marketers to reach intended market segments. Groupon has capitalised on this concept by tailoring brands and marketing to the needs and wants of local customer segments – cities, neighbourhoods and even specific stores. According to its website, Groupon 'offers a vast mobile and online marketplace where people discover and save on amazing things to do, see, eat, and buy. By enabling real-time commerce across local businesses, travel destinations, consumer products, and live events, shoppers can find the best a city has to offer. Groupon is redefining how small businesses attract and retain customers by providing them with customizable and scalable marketing tools and services to profitably grow their businesses'. This concept lies at the heart of Groupon's mission: 'to connect local commerce, increasing consumer buying power while driving more business to local merchants through price and discovery'. To help consumers make those connections, Groupon offers a mobile app, online marketplace and social media touchpoints where customers can readily access information on its daily deals.

7.10 How does Groupon use target marketing? Provide examples. Discuss the ways in which small businesses can utilise local social media marketing in your community. (AACSB: Communication; Use of IT; Reflective thinking)

7.11 Do you use Groupon? Is it effective in helping local businesses to meet the challenges of local marketing? Why or why not? (AACSB: Communication; Reflective thinking)

Marketing ethics: unrealistic bodies

With a global population of overweight children and adolescents, you would think that Mattel's slender Barbie doll would be a good role model for little girls. Not so, according to some critics. If Barbie were a real woman, she would have less than 17 per cent body fat, a neck too thin to hold her head up, a waist too small to house a full liver and intestines, and ankles and feet too tiny to walk. One group of researchers estimated the likelihood of a woman having Barbie's body at one in 100,000. Yet some women strive for impossible bodies, with many suffering from eating disorders such as anorexia and bulimia. Other research has shown that 40 to 60 per cent of pre-adolescent girls are concerned about their weight, and almost 70 per cent of secondary-school-aged girls who read magazines say the pictures of thin models influence their perceptions of an ideal weight. Statistics like these cause consumer advocacy groups to call for action, especially when marketers target young girls.

7.12 Do you think it is wrong for Mattel and other doll manufacturers to market dolls with unrealistic body proportions to young girls? Explain why you think that way. Discuss other examples of marketers targeting females with unrealistic body concepts. (AACSB: Communication; Ethical reasoning)

7.13 Give an example of a company that is countering this trend by offering more realistic dolls for young girls. (AACSB: Communication; Reflective thinking)

Marketing by numbers: USAA

USAA is a financial services company formed in 1922 by 25 army officers who came together to insure each other's cars because they were deemed too high-risk to insure. USAA now has almost 25,000 employees and more than 9 million member customers. It consistently ranks in the top 10 car insurance companies in the USA and offers other types of insurance as well as banking, investment, retirement and financial planning services. USAA practices a niche marketing strategy – it targets only active and former military personnel and their immediate families. Members earn the right to be customers by serving in the military and can pass that on to their spouses and children. The company was originally even more restrictive, targeting only military officers. However, in 1996, eligibility was extended to enlisted personnel and is now extended to anyone who served and was honourably discharged from the military, and their immediate family members.

7.14 Discuss the factors used to evaluate the usefulness of the military segment. (AACSB: Communication; Reflective thinking)

7.15 Using the chain ratio method described in Appendix 2, estimate the market potential in the military (active duty and veterans) market. Be sure to state any assumptions you make. (AACSB: Communication; Use of IT; Analytical reasoning)

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Company case

Volvo cars

The car industry is highly competitive. In terms of the global market share based on revenue, the market leaders are dominated by brands that are mainly targeting the mass market, including Toyota, Volkswagen, Ford, Honda, Nissan and so on. Those luxury brands generally associated with higher prestige, such as Mercedes, BMW, Jaguar, Land Rover and Volvo, tend to enjoy a smaller market share. Then there are those niche and exclusive brands, such as Lotus and Lamborghini. In terms of specific models, the best-selling cars in the world are mainly compact cars, including the Ford F-Series, Toyota Corolla, VW Golf, Nissan X-Trail/Rogue and Honda Civic.

Despite this fierce competition and turbulent external environment (e.g., tightening of regulation) in this sector, Volvo cars have been quite successful in recent years. For example, in 2017, Volvo's global sales increased 7 per cent versus 2016 to reach a record of 571,577 cars (the company's fourth consecutive year of record sales) in about 100 countries, which helped the company to record an operating profit of about £1,200 million and revenue of about £18,000 million. Volvo Cars, employing about 38,000 full-time employees, is one of the most well-known and respected car brands in the world. It is headquartered in Gothenburg, Sweden and has been owned by Zhejiang Geely Holding (Geely Holding) of China since 2010. Volvo's main markets are China (20 per cent of its total sales volume), US (14 per cent), Sweden (13 per cent), UK (8 per cent) and Germany (7 per cent).

Volvo knows how to create value for customers by adopting a differentiated marketing strategy for some key segments. People buy cars for more than basic transport. Some people buy cars for status and prestige, but others for value for money. Some people buy cars mainly for family use, commuting, school run, travelling, or leisure and fun. Because cars are bought for various different purposes, in addition to the basic factor of pricing, people differ in their preferences regarding the product attributes of cars, such as the design, quality of styling, space, comfort, safety features, power and performance, reliability, fuel economy, engine type, greenness rating and so on. To compete effectively in this highly competitive and fragmented sector, Volvo needs to create strong brand value that will appeal to consumers with the appropriate segmentation, targeting and positioning strategy.

Product range

In the UK and many other markets, Volvo Cars produce premium-segment car models in three classifications: saloon (S60, S90), versatile estates (V40, V60, V90) and SUV (sport utility vehicles) (XC40, XC60, XC90). In these model names, the letter represents the body type, such as S for the saloon; and the numbers represent the body size, in that the higher the number the bigger the size. The most expensive and the largest Volvo car model is XC90. The price starts at over £50k. It is positioned as a luxury SUV that competes directly with some very strong competitors, including the BMW X5 and the Audi Q.

The first generation of XC90 was introduced in 2002, with the second generation being introduced in 2014. The second generation is wider and longer, and this upgrade makes it more desirable to those drivers looking for bigger and more-luxury family SUVs. In addition, the new generation of XC90 offers new hybrid engines, while the first generation was mainly powered by diesel engine. To support the launch of the new generation of XC90 in 2015, Volvo launched a new global brand repositioning campaign, titled 'A New Beginning', to change its image from predictable to more 'progressive' and to mark the new generation of the brand. The campaign also aimed to support the future renewal of its other existing models. To reach a younger audience and project a more progressive image, the campaign partnered with Swedish DJ Avicii and relied more heavily upon social media, such as Twitter and YouTube.

The XC60 is smaller than the XC90 with a starting price of about £38,000. Due to the limited body length, it does not offer the seven-seater option. The XC60 competes mainly with BMX X3, Audi Q5, Range Rover Evoque, Land Rover Discovery Sport, and other similar vehicles. Because of the increasing popularity of compact SUVs, which have traditionally been dominated by non-luxury brands, including the Toyota RAV4, Honda CR-V, Mazda CX-5 and so on, Volvo introduced the XC40 in 2017 with a starting price of about £28,000 to enter the compact SUV market. The new XC40 has received a positive reception, including being named Car of the Year by *What Car?* magazine in 2018, and was awarded the European Car of the Year at the 2018 Geneva Motor Show. It was praised for being safe, good-looking, practical and very decent to drive.

Currently Volvo offers two saloon cars, the S60 and S90. The S60 is a compact executive saloon car, first introduced in 2000 and now in its third generation. It competes with the Audi A4, BMW 3-Series, Mercedes-Benz C Class, Jaguar XE and others, for customers who are looking for a more affordable luxury car. The S90 is a mid-size luxury saloon, a class higher than the S60. Accordingly, with a starting price of about £36,000 it competes with the likes of Audi A6, BMW 5-Series, Mercedes-Benz E Class, Jaguar XF and so on. Although Volvo produced the S40 (a sub-compact executive car) from 1995 to 2012, it was replaced by V40 (the estate variant). In terms of the estate range, Volvo also offers the V60 (estate variant of S60) and V90 (estate variant of S90). In general, an estate car (or station wagon) is a body-style variant of a saloon with a rearward-extended roof at the back. It is a popular type of car, particularly for family use, due to its enhanced luggage capacity. However, more recently its popularity has been weakened by the increasing acceptance of the SUV as a family car.

Besides selling to the consumer market, Volvo also invests heavily in the business market. The company cars market is highly attractive and lucrative, as it accounts for about 55 per cent of new cars registered in the UK. Company cars can be segmented by the size of the car and the associated price ranges in the UK. This kind of segmentation makes sense, as there are normally strict restrictions on the prices of company cars, and there are also tax implications. Volvo has done particularly well recently on the price range between £25,000 and £35,000 by introducing the new XC40 to the small premium SUV sector. It has won BusinessCar Awards in the New Company Car of the Year and Best Compact SUV categories. Under this price range, it competes directly with other premium brands such as Jaguar XE and Lexus IS. According to the head of business sales for Volvo Cars UK, 'The XC40 is our first ever model in the premium compact SUV market, but it has secured a place far ahead of the competition with multiple award wins and industry recognition within its first year.'

Safety positioning

Over the years, some brands have built a strong brand reputation that is crucial to their brand positioning. For example, Toyota is known for reliability, and Volvo is a synonym for safety. Volvo knows very well the importance of maintaining and strengthening this most valuable and important brand asset, and embeds it in its segmentation and positioning strategy for all of its models.

Volvo confidently has a strong brand vision that nobody will be killed or seriously injured in, or by, its new cars by 2020. According to Volvo's vice president of global marketing, 'This 2020 vision is a really strong brand purpose for Volvo. . . We want to have a strong social message as if we just went down the same old route as our rivals [with celebrity campaigns] we would just be one of many, we wouldn't be adding anything new. I believe the public want brands to stand for something important.'

It also does not shy away from claiming and exhibiting its new cars' safety features. For example, its new XC90 features the world's first run-off road protection technology that addresses accidental road departure. According to its own description, it 'detects what is happening and the front safety belts are tightened to keep the occupants in position. . . To help prevent spine injuries, an energy-absorbing functionality between the seat and seat frame cushions the vertical forces that can occur when the car encounters a hard landing in the terrain.'

Another safety feature that really engages customers is that the XC90 model, in order to make life easier for parents and safe for their children, enables parents to swivel and lock a child seat counter-clockwise in a rear-facing position to face a parent sitting in the rear passenger seat. It has been reported recently that, according to the independent laboratory Thatcham Research, the Volvo XC90 is the safest car it has ever tested, in that not a single person has been killed while driving it, or as a passenger, in the UK since 2002. In introducing its latest model XC40 in 2017, Volvo worked hard to make sure that its safety features do not fall behind other more established models. Besides being named Car of the Year, winning the European Car of the Year award, it also received five stars and top ratings in its 2018 Euro NCAP (The European New Car Assessment Programme) tests.

Looking into the future: sustainability

Although Volvo is known for its safety record and features, it does not have a particularly good reputation in terms of its contribution to sustainable development. However, in the current environment, sustainability should be a key area for all automotive companies. Volvo Cars has developed an ambitious programme with the aim of minimising its global environmental footprint and build its reputation in terms of sustainability and social responsibility. In 2018, it announced that it aims to use recycled material for at least 25 per cent of the plastics used in its new cars. As the president and CEO of Volvo Cars confirmed, 'environmental care is one of Volvo's core values and we will continue to find new ways to bring this into our business. This car and our recycled plastics ambition are further examples of that commitment.' In 2017, Volvo became the first major traditional car maker to set a date for the complete phase-out of combustion-engine-only models, by announcing that all new models released from 2019 will be available as either a mild hybrid, plug-in hybrid or battery electric vehicle. In 2018, Volvo publicly announced that it aims for fully electric cars to make up 50 per cent of its sales by 2025. In addition, from an operations perspective, Volvo Cars already has a climate-neutral facility (the engine plant) in Skövde, Sweden; moreover it aims to have climate-neutral manufacturing operations by 2025.

Questions for discussion

1 What are the main segmentation criteria that can be applied to explain Volvo's segmentation strategy for its different models? What are their main target segments?

2 How feasible do you think are the segmentation and targeting strategies of Volvo with reference to the segmentation feasibility criteria discussed in the chapter?

3 How do you evaluate Volvo's positioning strategy in terms of its focus on safety?

4 What other segmentation, targeting and positioning strategies could Volvo implement, particularly in terms of ensuring future growth and competitiveness?

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Chapter Eight

Products, services and brands: building customer value

Chapter preview

After examining customer value-driven marketing strategy, we now take a deeper look at the marketing mix: the tactical tools that marketers use to implement their strategies, engage customers and deliver superior customer value. In this and the next chapter, we will study how companies develop and manage products, services and brands. Then, in the chapters that follow, we look at pricing, distribution and marketing communication tools. The product and brand are usually the first and most basic marketing consideration. We start with a seemingly simple question: What is a product? As it turns out, the answer is not so simple.

To dig a little deeper into the question of what is a product, we begin by looking at GoPro. You may never have heard of GoPro, the fast-growing company that makes tiny, wearable HD video cameras. Yet few brands can match the avid enthusiasm and loyalty that GoPro has created in the hearts and minds of its customers. GoPro knows that, deep down, its products are much more than just durable little cameras. More than that, it gives customers a way to share action-charged moments and emotions with friends.

Learning outcomes

- **Objective 1** You will be able to define *product* and describe the major classifications of products and services.
  What is a product? (pp. 233–238)
- **Objective 2** You will be able to describe the decisions companies make regarding their individual products and services, product lines and product mixes.
  Product and service decisions (pp. 238–246)
- **Objective 3** You will be able to identify the four characteristics that affect the marketing of services and the additional marketing considerations that services require.
  Services marketing (pp. 246–251)
- **Objective 4** You will be able to discuss branding strategy – the decisions companies make in building and managing their brands.
  Branding strategy: building strong brands (pp. 251–259)

GoPro: Be a HERO

An ever-growing army of GoPro customers are now strapping amazing little GoPro cameras to their bodies or mounting them on anything from the front bumpers of racing cars to the heels of skydiving boots in order to capture the extreme moments of their lives and lifestyles. Then they can't wait to share those emotion-packed GoPro moments with friends. In fact, the chances are good that you've seen many GoPro-created videos on YouTube, Facebook and Instagram, or even on TV.

Maybe it's the video shot by the skier who sets off an avalanche in the Swiss Alps and escapes by parachuting off a cliff – that amateur video received 2.6 million YouTube views in nine months. Or maybe you saw the one where a seagull picks up a tourist's camera and takes off with it, capturing a bird's-eye view of a castle in Cannes, France (3 million views in seven months). Or what about the video of the mountain biker in Africa who is ambushed by a full-grown gazelle (more than 13 million views in four months)? One video, in which a tech-challenged Irishman used his son's GoPro to capture his entire trip to Las Vegas with the camera mistakenly pointed at himself instead of the sights, snared 6.9 million views in only six days.

GoPro's avid customers have become evangelists for the brand. GoPro holds a 47.5 per cent share of the action camera market. Its sales soared to more than £1 billion with a fivefold increase in only four years. What makes GoPro so successful? Part of the formula is the physical product itself: GoPro cameras are marvels of technology, especially given their affordable starting price of less than £200 for an entry-level model. A GoPro HD video camera looks like little more than a small grey box. But the lightweight, wearable or mountable GoPro is extremely versatile, and it packs amazing power for capturing stunning HD-quality video. A removable housing makes GoPro cameras waterproof to depths of 130 feet. And GoPro cameras are drop-proof from 3,000 feet (so claims one skydiver).

But GoPro knows that it sells much more than just a small metal box that takes action videos. GoPro users – whether extreme sports enthusiasts or just everyday video buffs – don't just want to take videos. More than that, they want to tell the stories and share the emotions and moments in their lives. 'Enabling you to share your life through incredible photos and video is what we do', says GoPro. We 'help people capture and share their lives' most meaningful experiences with others – to celebrate them together'.

When people view a stunning GoPro video clip – like the one of New Zealand's Jed Mildon landing the first-ever BMX triple backflip captured by his helmet camera – to some degree, they experience what the subject experiences. They feel the passion and adrenaline. And when that happens, GoPro creates an emotional connection between the GoPro storyteller and the audience.

Thus, making good cameras is only the start of GoPro's success. GoPro founder Nick Woodman, himself an extreme sports junkie, talks about helping customers through four essential steps in their storytelling and emotion-sharing journeys: capture, creation, broadcast and recognition. *Capture* is what the cameras do – shooting pictures and videos. *Creation* is the editing and production process that turns raw footage into compelling videos. *Broadcast* involves distributing the video content to an audience. *Recognition* is the payoff for the content creator. Recognition might come in the form of YouTube views or Likes and Shares on Facebook. More probably, it's the enthusiastic oohs and ahhs that their videos evoke from friends and family. The company's slogan sums up what it's really selling: 'GoPro: Be a HERO.'

Initially, GoPro focused primarily on the capture step of the customer storytelling experience. It offers a seemingly endless supply of rigs, mounts, harnesses, straps and other accessories that make GoPro cameras wearable or mountable just about anywhere. Users can strap the little cameras to their wrists or mount them on helmets. They can attach them to the tip of a snow ski, the bottom of a skateboard, or the underside of a radio-controlled helicopter. The handy

GoPro's amazing little cameras let even the most rank video amateurs take stunning videos, giving them a way to celebrate the action-charged moments and emotions of their lives with others.
Source: Nrqemi/Shutterstock

little GoPro lets even the most rank video amateur capture some pretty incredible footage.

But to fuel continuing growth, GoPro has broadened its offer to address the full range of customer needs and motivations – not just capture but also creation, broadcast and recognition. For example, on the creation side, GoPro offers free GoPro Studio software that makes it easier for users to create professional-quality videos from their GoPro content. With the GoPro App, users can 'Control. View. Share.' – using their phones, tablets or Apple Watches to control their GoPros remotely, trim and edit images, and share their favourites wirelessly with friends by text or post or on the GoPro Channel, which is already distributed though social media platforms such as YouTube, Facebook, Twitter, Instagram, Vimeo, Pinterest and GoPro.com/Channels. As for recognition, GoPro now airs TV commercials created from the best videos submitted by customers at its website. GoPro's future lies in enabling and integrating the full user experience, from capturing video to sharing stories and life's emotions with others.

GoPro's rich understanding of what product it's really selling is serving the company well. Its enthusiastic customers are among the most loyal and engaged of any brand. For example, GoPro's Facebook fan base is more than 9.2 million and growing fast. To put that in perspective, much larger Canon USA has only 1.1 million Facebook followers. Beyond uploading nearly half a million videos a year, GoPro fans interact heavily across a broad range of social media. For example, the GoPro hashtag is used more than 45,000 times daily across major social networks. 'I think we have the most socially engaged online audience of any consumer brand in the world', claims Woodman.

All that customer engagement and enthusiasm have made GoPro the world's fastest-growing camera company. Today GoPro cameras are available in more than 40,000 stores in more than 100 countries. GoPro's remarkable little cameras have also spread beyond amateurs. They have become standard equipment for many professional filmmakers – whether it's the Discovery Channel or a news show team filming rescues, wildlife and storms or the production crews of hit reality-TV shows such as *Deadliest Catch* taking pictures of underwater crab pots or the sides of ships in heavy seas. When stuntman Felix Baumgartner made his breathtaking 128,000-foot jump from the edge of space, he was wearing five GoPros. The use of GoPro equipment by professionals lends credibility that fuels even greater consumer demand.

The moral of this story: GoPro knows that it doesn't just sell cameras. More than that, it enables customers to share important moments and emotions. Says Woodman: 'We spent a lot of time recently thinking about, What are we really doing here? We know that our cameras are arguably the most socially networked consumer devices of our time, so it's clear we're not just building hardware.' The company sums it up this way: 'Dream it. Do it. Capture it with your GoPro. Capture and share your world.'[1]

As the GoPro story shows, in their quest to create customer relationships, marketers must build and manage products and brands that connect with customers. This chapter begins with a deceptively simple question: *What is a product?* After addressing this question, we look at ways to classify products in consumer and business markets. Then we discuss the important decisions that marketers make regarding individual products, product lines and product mixes. Next, we examine the characteristics and marketing requirements of a special form of product – services. Finally, we look into the critically important issue of how marketers build and manage product and service brands.

What is a product?

We define a **product** as anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy a want or need. Products include more than just tangible objects, such as cars, clothing or mobile phones. Broadly defined, products also include services, events, persons, places, organisations and ideas or a mixture of these. Throughout this text, we use the term *product* broadly to include any or all of these entities. Thus, an Apple iPhone, a Range Rover Evoque and a Caffé Mocha at Starbucks are products. But so are a trip to London, E*Trade online investment services, your Instagram account and advice from your family doctor.

Product Anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy a want or need.

Author comment

As you'll see, this deceptively simple question has a very complex answer. For example, think back to the opening GoPro story. What is the GoPro 'product'?

Because of their importance in the world economy, we give special attention to services. **Services** are a form of product that consists of activities, benefits or satisfactions offered for sale that are essentially intangible and do not result in the ownership of anything. Examples include banking, hotel, airline travel, retail, wireless communication and home-repair services. We will look at services more closely later in this chapter.

Service An activity, benefit, or satisfaction offered for sale that is essentially intangible and does not result in the ownership of anything.

Products, services and experiences

Products are a key element in the overall *market offering*. Marketing mix planning begins with building an offering that brings value to target customers. This offering becomes the basis on which the company builds profitable customer relationships.

A company's market offering often includes both tangible goods and services. At one extreme, the market offer may consist of a *pure tangible good*, such as soap, toothpaste or salt; no services accompany the product. At the other extreme are *pure services*, for which the market offer consists primarily of a service. Examples include a doctor's examination and financial services. Between these two extremes, however, many goods-and-services combinations are possible.

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

Experiences have always been an important part of marketing for some companies. Disney has long manufactured dreams and memories through its movies and theme parks – it wants theme park cast members to deliver a thousand 'small wows' to every customer. And Nike has long declared, 'It's not so much the shoes but where they take you.' Today, however, all kinds of firms are recasting their traditional goods and services to create experiences. For example, Apple's highly successful retail stores don't just sell the company's products. They create an engaging Apple brand experience:[2]

> Apple's retail stores are very seductive places, where 'life-feels-good' experiences abound. The store design is clean, simple and just oozing with style – much like an Apple iPad or a featherweight MacBook Air. The bustling stores feel more like community centres than retail outlets, with crowds of customers sampling the goods and buzzing excitedly about all things Apple. The stores encourage a lot of purchasing, to be sure. But they also encourage lingering, with tables full of fully functioning Macs, iPods, iPads and iPhones sitting out for visitors to try and dozens of laid-back Apple employees close at hand to answer questions and cater to every whim. The stores offer expert technical assistance at the Genius Bar and a full schedule of workshops where customers at all experience levels can learn about their Apple devices and explore their creative sides. You don't just visit an Apple store – you experience it in a way that no other consumer electronics company can match. As one Apple retail executive explains, 'I don't want to be sold to when I walk into a store. Don't sell! No! Because that's a turn-off. Build an amazing brand experience, and then [sales] will just naturally happen.'

Apple's highly successful retail stores don't just sell the company's products. They create an engaging Apple brand experience.
Source: TonyV3112/Shutterstock

Levels of product and services

Product planners need to think about products and services on three levels (see Figure 8.1). Each level adds more customer value. The most basic level is the *core customer value*, which addresses the question: *What is the buyer really buying?* When designing products, marketers must first define the core, problem-solving benefits or services that consumers seek. A woman buying lipstick buys more than lip colour. Charles Revson of Revlon saw this early: 'In the factory, we make cosmetics; in the store, we sell hope.' And people who buy an Apple iPad are buying much more than just a tablet computer. They are buying entertainment, self-expression, productivity, and connectivity with friends and family – a mobile and personal window to the world.

At the second level, product planners must turn the core benefit into an *actual product*. They need to develop product and service features, a design, a quality level, a brand name and packaging. For example, the iPad is an actual product. Its name, parts, styling, operating system, features, packaging and other attributes have all been carefully combined to deliver the core customer value of staying connected.

Finally, product planners must build an *augmented product* around the core benefit and actual product by offering additional consumer services and benefits. The iPad is more than just a digital device. It provides consumers with a complete connectivity solution. Thus, when consumers buy an iPad, Apple and its resellers also might give buyers a warranty on parts and workmanship, quick repair services when needed, and web and mobile sites to use if they have problems or questions. Apple also provides access to a huge assortment of apps and accessories, along with an iCloud service that integrates buyers' photos, music, documents, apps, calendars, contacts and other content across all of their devices from any location.

Consumers see products as complex bundles of benefits that satisfy their needs. When developing products, marketers first must identify the *core customer value* that consumers seek from

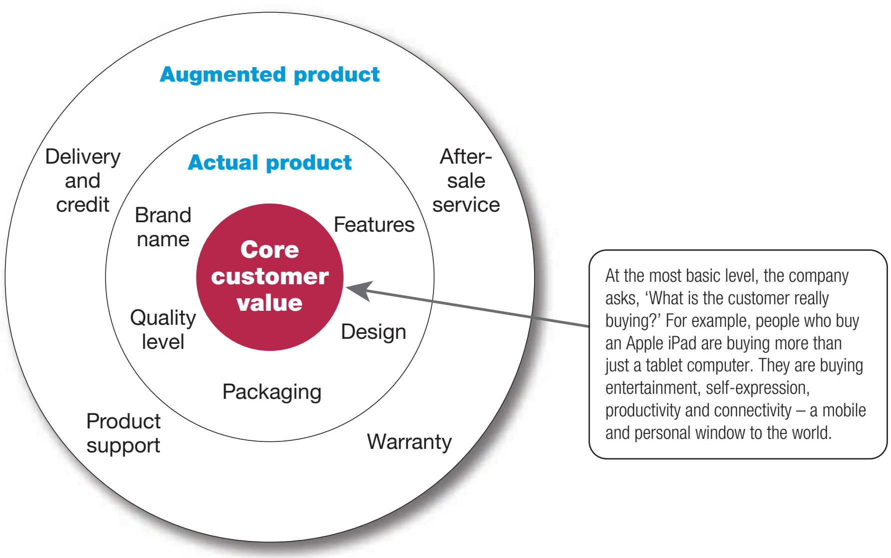

Figure 8.1 Three levels of product

the product. They must then design the *actual* product and find ways to *augment* it to create customer value and a full and satisfying brand experience.

Product and service classifications

Products and services fall into two broad classes based on the types of consumers who use them: *consumer products* and *industrial products*. Broadly defined, products also include other marketable entities such as experiences, organisations, persons, places and ideas.

Consumer products

Consumer products are products and services bought by final consumers for personal consumption. Marketers usually classify these products and services further based on how consumers go about buying them. Consumer products include *convenience products*, *shopping products*, *specialty products*, and *unsought products*. These products differ in the ways consumers buy them and, therefore, in how they are marketed (see Table 8.1).

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

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

Speciality products are consumer products and services with unique characteristics or brand identifications for which a significant group of buyers is willing to make a special purchase effort. Examples include specific brands of cars, high-priced photography equipment, designer clothes, gourmet foods, and the services of medical or legal specialists. A Lamborghini car, for example,

Consumer product A product bought by final consumers for personal consumption.

Convenience product A consumer product that customers usually buy frequently, immediately, and with minimal comparison and buying effort.

Shopping product A consumer product that the customer, in the process of selecting and purchasing, usually compares on such attributes as suitability, quality, price, and style.

Speciality product A consumer product with unique characteristics or brand identification for which a significant group of buyers is willing to make a special purchase effort.

Table 8.1 Marketing considerations for consumer products

Marketing considerations	Type of consumer product: Convenience	Shopping	Speciality	Unsought
Customer buying behaviour	Frequent purchase; little planning; little comparison or shopping effort; low customer involvement	Less frequent purchase; much planning and shopping effort; comparison of brands on price, quality and style	Strong brand preference and loyalty; special purchase effort; little comparison of brands; low price sensitivity	Little product awareness or knowledge (or, if aware, little or even negative interest)
Price	Low price	Higher price	High price	Varies
Distribution	Widespread distribution; convenient locations	Selective distribution in fewer outlets	Exclusive distribution in only one or a few outlets per market area	Varies
Promotion	Mass promotion by the producer	Advertising and personal selling by both the producer and resellers	More carefully targeted promotion by both the producer and resellers	Aggressive advertising and personal selling by the producer and resellers
Examples	Toothpaste, magazines and laundry detergent	Major appliances, televisions, furniture and clothing	Luxury goods, such as Rolex watches or fine crystal	Life insurance and National Blood Service blood donations

is a speciality product because buyers are usually willing to travel great distances to buy one. Buyers normally do not compare speciality products. They invest only the time needed to reach dealers carrying the wanted brands.

Unsought product
A consumer product that the consumer either does not know about or knows about but does not normally consider buying.

Unsought products are consumer products that a consumer either does not know about or knows about but does not normally consider buying. Most major new innovations are unsought until consumers become aware of them through marketing. Classic examples of known but unsought products and services are life insurance, pre-planned funeral services and blood donations to the National Blood Service. By their very nature, unsought products require a lot of promoting, personal selling and other marketing efforts.

Industrial products

Industrial product A product bought by individuals and organisations for further processing or for use in conducting a business.

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

The three groups of industrial products and services are materials and parts, capital items, and supplies and services. *Materials and parts* include raw materials as well as manufactured materials and parts. Raw materials consist of farm products (wheat, cotton, livestock, fruits, vegetables) and natural products (fish, lumber, crude petroleum, iron ore). Manufactured materials and parts consist of component materials (iron, yarn, cement, wires) and component parts (small motors, tyres, castings). Most manufactured materials and parts are sold directly to industrial users. Price and service are the major marketing factors; branding and advertising tend to be less important.

Capital items are industrial products that aid in the buyer's production or operations, including installations and accessory equipment. Installations consist of major purchases such as buildings (factories, offices) and fixed equipment (generators, drill presses, large computer systems, elevators). Accessory equipment includes portable factory equipment and tools (hand tools, lift trucks) and office equipment (computers, photocopiers, desks). These types of equipment have shorter lives than do installations and simply aid in the production process.

The final group of industrial products is *supplies and services*. Supplies include operating supplies (lubricants, coal, paper, pencils) and repair and maintenance items (paint, nails, brooms). Supplies are the convenience products of the industrial field because they are usually purchased with a minimum of effort or comparison. Business services include maintenance and repair services (window cleaning, computer repair) and business advisory services (legal, management consulting, advertising). Such services are usually supplied under contract.

Business services include maintenance and repair services (window cleaning, computer repair) and business advisory services (legal, management consulting, advertising).
Source: FrameAngel/Shutterstock

Organisations, persons, places and ideas

In addition to tangible products and services, marketers have broadened the concept of a product to include other market offerings: organisations, persons, places and ideas.

Organisations often carry out activities to 'sell' the organisation itself. *Organisation marketing* consists of activities undertaken to create, maintain or change the attitudes and behaviour of target consumers toward an organisation. Both profit and not-for-profit organisations practise organisation marketing.

Business firms sponsor public relations or *corporate image marketing* campaigns to market themselves and polish their images. For example, healthy-cereals producer Jordans promotes its sustainable and nature-friendly farming to make its cereals more attractive to environmentally-minded consumers:[3]

> **Jordans' Good Food Commitment** – We're committed to sustainable, nature-friendly farming and support the work of the Prince's Countryside Fund. This is far more than Corporate Social Responsibility, it's part of everything we do to operate sustainably and shapes what we call our 'Good Food Commitment'.
> **Partnership with Wildlife Trusts** – Our partnership with Jordans Cereals uses our local expertise to inspire, empower and enable the farmers who grow their cereals to farm in harmony with nature. Farmers look after over 70 per cent of the UK's land area and are key to nature's recovery. The 40+ farms which grow cereals for Jordans look after 14,000ha. Every farmer has worked with experts from their local Wildlife Trust to meet an industry leading standard, developed in partnership between The Wildlife Trusts and Jordans. Overall, a quarter of the land area of the farms, nearly 4,000ha, is managed for wildlife. Well managed field margins, woodland, waterways and hedgerows all enable wildlife to thrive and to move through the landscape.

People can also be thought of as products. *Person marketing* consists of activities undertaken to create, maintain, or change attitudes or behaviour toward particular people. People ranging from presidents, entertainers and sports figures to professionals such as doctors, lawyers, and architects use person marketing to build their reputations. And businesses, charities, and other organisations use well-known personalities to help sell their products or causes. For example, Nike is represented by hundreds of well-known athletes around the globe in sports ranging from tennis and basketball to ice hockey and cricket.

Place marketing involves activities undertaken to create, maintain or change attitudes or behaviour toward particular places. Cities, states, regions and even entire nations compete to attract tourists, new residents, conventions, and company offices and factories. Tourism Ireland offers information about the country and its attractions, a travel planner, special holiday offers, lists of tour operators and much more information that makes it easier to say 'yes' to visiting Ireland.[4] Similarly VisitScotland (the national tourism agency for Scotland) engages in various advertising, public relations and other marketing campaigns to attract visitors, business and consumer, to Scotland. It helped Scotland to experience a 17 per cent increase in visitor numbers and a quarter increase in spending during 2017.[5] Tourism Australia provides a website and smartphone app complete with videos, holiday ideas, destination information and anything else travellers might need to plan an Australian holiday.[6]

Ideas can also be marketed. In one sense, all marketing is the marketing of an idea, whether it is the general idea of brushing your teeth or the specific idea that Crest toothpastes create 'healthy, beautiful smiles for life'. Here, however, we narrow our focus to the marketing of *social ideas*. This area has been called **social marketing** and consists of using traditional business marketing concepts and tools to encourage behaviours that will create individual and societal well-being.

Social marketing programmes cover a wide range of issues ranging from healthcare, education and environmental sustainability to human

Social marketing The use of traditional business marketing concepts and tools to encourage behaviours that will create individual and societal well-being.

VisitScotland engages in various advertising, public relations and other marketing campaigns to attract visitors, business and consumers, to Scotland.
Source: Andrea Obzerova/Alamy Stock Photo

Author comment
Now that we've answered the 'What is a product?' question, we dig into the specific decisions that companies must make when designing and marketing products and services.

rights and personal safety. But social marketing involves much more than just advertising. It involves a broad range of marketing strategies and marketing mix tools designed to bring about beneficial social change.[7]

Product and service decisions

Marketers make product and service decisions at three levels: individual product decisions, product line decisions and product mix decisions. We discuss each in turn.

Individual product and service decisions

Figure 8.2 shows the important decisions in the development and marketing of individual products and services. We will focus on decisions about *product attributes*, *branding*, *packaging*, *labelling and logos* and *product support services*.

Product and service attributes

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

Product quality

Product quality The characteristics of a product or service that bear on its ability to satisfy stated or implied customer needs.

Product quality is one of the marketer's major positioning tools. Quality affects product or service performance; thus, it is closely linked to customer value and satisfaction. In the narrowest sense, quality can be defined as 'no defects'. But most marketers go beyond this narrow definition. Instead, they define quality in terms of creating customer value and satisfaction. Quality refers to the characteristics of a product or service that bear on its ability to satisfy stated or implied customer needs. Similarly, Siemens defines quality this way: 'Quality is when our customers come back and our products don't.'[8]

Total quality management (*TQM*) is an approach in which all of the company's people are involved in constantly improving the quality of products, services and business processes. For most top companies, customer-driven quality has become a way of doing business. Today, companies are taking a *return-on-quality* approach, viewing quality as an investment and holding quality efforts accountable for bottom-line results.

Product quality has two dimensions: level and consistency. In developing a product, the marketer must first choose a *quality level* that will support the product's positioning. Here, product quality means *performance quality* – the product's ability to perform its functions. For example, a Rolls-Royce provides higher performance quality than a Honda Civic: It has a smoother ride, lasts longer and provides more craftsmanship, custom design, luxury and 'creature comforts'. Companies rarely try to offer the highest possible performance quality level; few customers want or can afford the high levels of quality offered in products such as a Rolls-Royce car or a Rolex watch. Instead, companies choose a quality level that matches target market needs and the quality levels of competing products.

Beyond quality level, high quality also can mean high levels of quality consistency. Here, product quality means *conformance quality* – freedom from defects and consistency in delivering

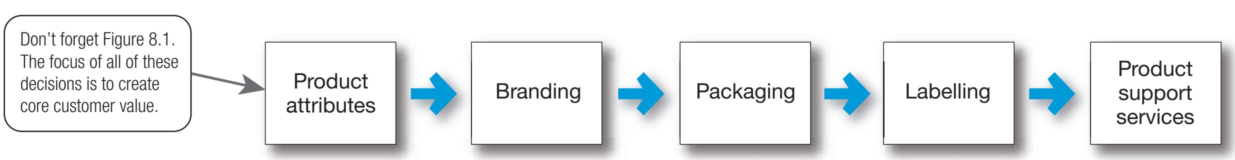

Figure 8.2 Individual product decisions

a targeted level of performance. All companies should strive for high levels of conformance quality. In this sense, a Honda Civic can have just as much quality as a Rolls-Royce. Although a Honda Civic doesn't perform at the same level as a Rolls-Royce, it can just as consistently deliver the quality that customers pay for and expect.

Similarly, the Five Guys burgers and fries fast food chain, which was launched in the UK in 2013, doesn't aspire to provide gourmet dining experiences. However, by consistently meeting or exceeding customers' quality expectations, the chain has been crowned Britain's favourite fast-food restaurant with top scores in food quality and friendliness, against tough competition in the sector.[9]

Five Guys doesn't aspire to provide gourmet dining experiences. However, by consistently meeting or exceeding customers' quality expectations, the chain has been crowned Britain's favourite fast-food restaurant with top scores in food quality and friendliness, against tough competition in the sector.

Source: Timothy Budd/Alamy Stock Photo

Product features

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

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

Product style and design

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

Good design doesn't start with brainstorming new ideas and making prototypes. Design begins with observing customers, understanding their needs and shaping their product-use experience. Product designers should think less about technical product specifications and more about how customers will use and benefit from the product. For example, using smart design based on consumer needs, Sonos created a wireless, internet-enabled speaker system that's easy to use and fills a whole house with great sound:[10]

> In the past, setting up a whole-house entertainment or sound system required routing wires through walls, floors and ceilings, creating a big mess and lots of expense. And if you moved, you couldn't take it with you. Enter Sonos, which took home-audio and theatre systems to a new level worthy of the digital age. The innovative company created a wireless speaker system that's not just stylish but also easy to set up, easy to use and easy to move to meet changing needs. With Sonos, you can stream high-quality sound through a variety of stylish speakers anywhere

in your home with just an app and a tap on your smartphone. Smart design has paid off handsomely for Sonos. Founded in 2002, Sonos went public in 2018 with an estimated market value of $1.95 billion.

Also consider the impact of inventor James Dyson of the world of electrical appliances for the household and workplace:[11]

James Dyson is an inventor who started his electrical goods company in 1992, and in 2017 saw sales of products reach £3.5 billion with £801 million profit. In spite of tough markets, Dyson is struggling to keep up with demand for products ranging from the bagless cyclone carpet cleaner and battery-powered vacuum cleaners to the Airblade hand dryer and a bladeless cooling fan, with the most growth coming from the Asian markets. The breakthrough was Dyson's cyclonic bagless carpet cleaner, using centrifugal force to extract dirt from carpets. Dyson spent 14 years and produced more than 5,000 prototypes before he was satisfied he had come up with a better design. With innovative design and engineering, and a high price, Dyson's carpet cleaner has become the leading cleaner brand in the US, UK and Japan. The design aesthetics have made the Dyson cleaner a lifestyle brand, not simply a way of cleaning the carpet. Dyson's principle is to find things in everyday life that do not work very well and to make a better alternative. The Dyson Airblade commercial hand dryer works with a slim jet of air moving at 400 miles an hour. Although the Dyson approach is engineering-led, the industrial design principles are impressive too – Dyson products have been put on display in a host of museums, including the Metropolitan Museum of Art in New York. In 2010, Dyson's Air Multiplier (a 'fan without blades') hit the market with a futuristic appearance and innovative air-cooling technology. Dyson has revealed a plan to release electric cars in 2020 or 2021 to capitalise on its technological strength in batteries.

Brand A name, term, sign, symbol or design, or a combination of these that identifies the products or services of one seller or group of sellers and differentiates them from those of competitors.

The Dyson Airblade commercial hand dryer works with a slim jet of air moving at 400 miles an hour.
Source: B Christopher/Alamy Stock Photo

Branding

Perhaps the most distinctive skill of professional marketers is their ability to build and manage brands. A **brand** is a name, term, sign, symbol or design, or a combination of these that identifies the maker or seller of a product or service. Consumers view a brand as an important part of a product, and branding can add value to a consumer's purchase. Customers attach meanings to brands and develop brand relationships. As a result, brands have meaning well beyond a product's physical attributes. Consider this story:[12]

One Tuesday evening in January, Joshua Bell, one of the world's finest violinists, played at Boston's stately Symphony Hall before a packed audience who'd paid an average of $100 a seat. Based on the well-earned strength of the 'Joshua Bell brand', the talented musician routinely drew standing-room-only audiences at all of his performances around the world. Three days later, however, as part of a *Washington Post* social experiment, Bell found himself standing in a Washington, DC, metro station, dressed in jeans, a T-shirt and a Washington Nationals baseball cap. As morning commuters streamed by, Bell pulled out his $4 million Stradivarius violin, set the open case at his feet, and began playing the same revered classics he'd played in Boston. During the next 45 minutes, some 1,100 people passed by but few stopped to listen. Bell earned a total of $32. No one recognised the 'unbranded' Bell, so few appreciated his artistry. What does that tell you about the meaning of a strong brand?

Branding has become so strong that today hardly anything goes unbranded. Salt is packaged in branded containers, common nuts and bolts are packaged with a distributor's label, and car parts – spark plugs, tyres, filters – bear brand names that differ from those of the car makers. Even fruits, vegetables, dairy products, and poultry are branded – Fyffes bananas, Florette's pre-packed salad range, Yeo Valley organic milk and Bernard Matthews turkey products.

Branding helps buyers in many ways. Brand names help consumers identify products that might benefit them. Brands also say something about product quality and consistency – buyers who always buy the same brand know that they will get the same features, benefits and quality each time they buy. Branding also gives the seller several advantages. The seller's brand name and trademark provide legal protection for unique product features that otherwise might be copied by competitors. Branding helps the seller to segment markets. For example, rather than offering just one general product to all consumers, Toyota Motor Corporation can offer the major Lexus and Toyota brands to European car buyers, each with numerous sub-brands – such as iQ, AYGO, Yaris, Verso, Auris, Avensis, RAV4 Land Cruiser and others.

Finally, a brand name becomes the basis on which a whole story can be built about a product's special qualities. For example, the Smartwater brand of bottled water sets itself apart from ordinary bottled water with a clear message 'smart because it's made that way'. It targets the bottled water drinkers who are young professionals with a fast-paced lifestyle, juggling work, entrepreneurial and social activities.[13] Building and managing brands are perhaps the marketer's most important tasks. We will discuss branding strategy in more detail later in the chapter.

Packaging

Packaging involves designing and producing the container or wrapper for a product. Traditionally, the primary function of the package was to hold and protect the product. In recent times, however, packaging has become an important marketing tool as well. Increased competition and clutter on retail store shelves means that packages must now perform many sales tasks – from attracting buyers to communicating brand positioning to closing the sale. Not every customer will see a brand's advertising, social media pages or other promotions. However, all consumers who buy and use a product will interact regularly with its packaging. Thus, the humble package represents prime marketing space.

Packaging The activities of designing and producing the container or wrapper for a product.

Companies realise the power of good packaging to create immediate consumer recognition of a brand. For example, in the UK a Tesco supermarket stocks up to 90,000 items.[14] The typical shopper makes three out of four purchase decisions in stores and passes by some 300 items per minute. In this highly competitive environment, the package may be the seller's best and last chance to influence buyers. So the package itself becomes an important promotional medium.[15]

Innovative packaging can give a company an advantage over competitors and boost sales. Distinctive packaging may even become an important part of a brand's identity. For example, an otherwise plain brown carton imprinted with the familiar curved arrow from the Amazon logo – variously interpreted as 'a to z' or even a smiley face – leaves no doubt as to who shipped the package sitting on your doorstep. And Tiffany's distinctive blue boxes have come to embody the exclusive jewellery retailer's premium legacy and positioning. As the company puts it, 'Glimpsed on a busy street or resting in the palm of a hand, Tiffany Blue Boxes make hearts beat faster and epitomize Tiffany's great heritage of elegance, exclusivity, and flawless craftsmanship.'[16]

Poorly designed packages can cause headaches for consumers and lost sales for the company. Think about all those hard-to-open packages, such as DVD cases sealed with impossibly sticky labels, packaging with finger-splitting wire twist-ties, or sealed plastic clamshell containers that cause 'wrap rage' and send thousands of people to the hospital each year with lacerations and puncture wounds. Another packaging issue is overpackaging – as when a tiny USB flash drive in an oversized cardboard and plastic display package is delivered in a giant corrugated shipping carton. Overpackaging creates an incredible amount of waste, frustrating those who care about the environment.

Amazon offers Frustration-Free Packaging to alleviate both wrap rage and overpackaging. The online retailer works with more than 2,000 companies, such as Fisher-Price, Mattel, Unilever, Microsoft and others, to create smaller, easy-to-open, recyclable packages that use less packaging material and no frustrating plastic clamshells or wire ties. It currently offers more than 200,000 such items and by 2013 had shipped more than 75 million of them to 175 countries. In the process, the initiative has eliminated nearly 60 million square feet of cardboard and 25 million pounds of packaging waste.[17]

In recent years, product safety has also become a major packaging concern. We have all learned to deal with hard-to-open 'childproof' packaging. Due to the rash of product-tampering scares in the 1980s, most drug producers and food makers now put their products in tamper-resistant packages. In making packaging decisions, the company also must heed growing environmental concerns. Fortunately, many companies have gone 'green' by reducing their packaging and using environmentally responsible packaging materials.

Labelling and logos

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

Labels and brand logos can support the brand's positioning and add personality to the brand. In fact, they can become a crucial element in the brand-customer connection. Customers often become strongly attached to logos as symbols of the brands they represent. Consider the feelings evoked by the logos of companies such as Google, Coca-Cola, Twitter, Apple and Nike. Logos must be redesigned from time to time. A logo is no longer just a static symbol placed on a printed page, package, TV ad, billboard or store display. Instead, today's logos must also meet the demands of an ever-more-diverse set of digital devices and media. A brand logo that looks great and communicates well on a package or in a magazine ad might fail miserably in a social media setting on a smartphone screen. Today's logos must stand out visually on screens of all sizes, from big-screen TVs to tablets, mobile phones and even smartwatches. Often, they must also function as interactive icons or animated activity indicators on web, mobile and social media pages.

As a result, companies are adapting their logos to keep them in sync with the rapidly evolving digital times. For example, brands ranging from Yahoo! and eBay to Pizza Hut and Starbucks have successfully adapted their logos to keep them contemporary and to meet the needs of new digital devices and interactive platforms such as mobile apps and social media. Most logo modifications focus on creating simpler, brighter, more modern designs that present better on digital screens and platforms. Such redesigns have multiple aims, but the primary objective is to make the logos more digital device friendly. Some logo redesigns go much, much deeper. For example, consider the recent changes to Google's familiar blue, red, green and yellow logo.[18]

At first glance, the changes seem minor – you might not even have noticed them. The letter colours remain largely the same, as does the childlike quality that we've come to associate with the Google brand. The biggest difference is the new typeface – Google changed its old serif typeface (with little lines and squiggles at the ends of letters) to a sans-serif typeface (one like this, without the added lines and squiggles). The result is a simpler, cleaner, more readable logo. The streamlined font shrinks down more legibly than fancier fonts, so it transfers more readily across all kinds of screens. Google claims that its new logo can be read just as well on a 2.5-inch Android Wear watch as it can on a 50-inch TV screen.

But Google didn't just change the logo typeface. It created a full kit of new brand logo tools befitting the digital age. For example, recognising that six letters are just too many for some uses, Google also created a more compact one-letter version, a *G* in the new sans typeface, partitioned into the four familiar Google colours. It also fashioned a contemporary four-color microphone icon that users can tap to speak into an Android device. Finally, it crafted a set of four animated dots (one in each colour) for use during interactive and transitional moments to indicate activities such as waiting, thinking, speaking and replying.

All of the new Google logo elements work seamlessly together. So, for example, when you pick up your phone and activate the Google microphone icon, 'the Google logo will morph from 'Google' into the dots, which undulate like water in anticipation of your query', notes one reporter. 'As you talk, the dots will become an equalizer, reacting to the sound of your vocalizations. Then when you're done talking, the waveform becomes dots again, which spin as Google looks up your results. Then once the results are presented, the dots return to good old "Google" again.' Thus, the Google logo is no longer just a static emblem that sits atop an online search bar. It's a full set of dynamic symbols that bring the brand and its many functions to life across today's digital screens and platforms.

However, companies must take care when changing such important brand symbols. Customers often form strong connections to the visual representations of their brands and may react strongly to changes. Studies show that the stronger their attachments to a brand, the more resistant consumers are to logo changes. For example, although most experts would agree that the new Hershey logo is a vast improvement, some consumers balked, suggesting that the silhouette Kiss resembles a lump of poop. 'All I can see is the emoji poo', says one perplexed observer. 'With apologies to Hershey: Your new logo kinda stinks.' And, a few years ago when Gap introduced a more contemporary redesign of its familiar old logo – the well-known white text on a blue square – customers went ballistic and imposed intense online pressure. Gap reinstated the old logo after only one week. When logo changes are required – as they most certainly will be at some point – the best course is to alert customers to the upcoming changes and to explain why they are needed. Google did that in a widely distributed video showing the evolution of its logo and the reasons behind the most recent redesign. That's one reason that its massive logo makeover went so smoothly.

Along with the positives, there has been a long history of legal concerns about labels and packaging. False, misleading or deceptive labels or packages constitute unfair competition. Labels can mislead customers, fail to describe important ingredients or fail to include needed safety warnings, and most countries have legal regulation applying to labelling standards.

Labelling has been affected in recent times by *unit pricing* (stating the price per unit of standard measure), *open dating* (stating the expected shelf life of a product) and *nutritional labelling* (stating the nutritional values in a product). As a minimum, sellers must ensure that their labels contain all information required by law, which may vary by country even within Europe. In the UK, labelling is regulated by the UK Food Information Regulations 2014, which replaced the earlier Food Labelling Regulations 1996 to implement a new EU Regulation on food labelling (1169/2011). The legally required items on the label include information such as manufacturer's name and contact details, name of the product, description of the product, ingredients, storage instruction, place of origin, allergy information, weight and so on. The new regulation requires the packaging to have nutrition information for pre-packaged food, improved date marking (including date of first freezing) and so on.

Product support services

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

Land Rover excelled in after-sale customer service and has topped the customer satisfaction ranking
Source: Razvan Iosif/Shutterstock

Support services are an important part of the customer's overall brand experience. Land Rover knows that good marketing doesn't end with making a sale. Keeping customers happy *after* the sale is the key to building lasting relationships. Land Rover excelled in after-sale customer service and has topped the customer satisfaction ranking for the last two years. To obtain the highest score in customer satisfaction, Land Rover dealers need to perform exceptionally well in areas such as offer digital amenities (e.g. Wi-Fi access, workspaces to plug in personal devices), internet scheduling, excellent service advisors, appropriate explanation of work and charges, vehicle pick-up and other onsite service facilities.[19]

The first step in designing support services is to survey customers periodically to assess the value of current services and obtain ideas for new ones. Once the company has assessed the quality of various support services to customers, it can take steps to fix problems and add new services that will both delight customers and yield profits to the company.

Many companies now use a sophisticated mix of phone, email, online, social media, mobile and interactive voice and data technologies to provide support services that were not possible before. For example, NatWest offers a vigorous dose of customer service at its branches, call centres and online locations that makes banking easier, answers customer questions and handles problems. Customers can access NatWest's extensive support by visiting the branches, phone, website, mobile app and Twitter.[20]

Product line decisions

Product line A group of products that are closely related because they function in a similar manner, are sold to the same customer groups, are marketed through the same types of outlets, or fall within given price ranges.

Beyond decisions about individual products and services, product strategy also calls for building a product line. A **product line** is a group of products that are closely related because they function in a similar manner, are sold to the same customer groups, are marketed through the same types of outlets or fall within given price ranges. For example, Nike produces several lines of athletic shoes and apparel, and Marriott offers several lines of hotels.

The major product line decision involves *product line length* – the number of items in the product line. The line is too short if the manager can increase profits by adding items; the line is too long if the manager can increase profits by dropping items. Managers need to analyse their product lines periodically to assess each item's sales and profits and understand how each item contributes to the line's overall performance.

A company can expand its product line in two ways: by *line filling* or *line stretching*. *Product line filling* involves adding more items within the present range of the line. There are several reasons for product line filling: reaching for extra profits, satisfying dealers, using excess capacity, being the leading full-line company and plugging holes to keep out competitors. However, line filling is overdone if it results in cannibalisation (eating up sales of the company's own existing products) and customer confusion. The company should ensure that new items are noticeably different from existing ones.

Product line stretching occurs when a company lengthens its product line beyond its current range. The company can stretch its line downward, upward or both ways. Companies located at the upper end of the market can stretch their lines *downward*. For example, Mercedes has stretched downward with the CLA line to draw in younger, first-time buyers. A company may stretch downward to plug a market hole that otherwise would attract a new competitor or to respond to a competitor's attack on the upper end. Or it may add low-end products because it finds faster growth taking place in the low-end segments. Companies can also stretch their product lines *upward*. Sometimes, companies stretch upward to add prestige to their current products or to reap higher margins. For example, some years ago, each of the leading Japanese car companies introduced an upmarket car: Honda launched Acura in its major global markets; Toyota launched Lexus; and Nissan launched Infiniti. They used entirely new names rather than their own existing brands.

As they grow and expand, many companies both stretch and fill their product lines. Consider BMW:[21]

> Over the years, BMW Group has transformed itself from a single-brand, five-model car maker into a powerhouse with three brands and dozens of distinct models. The company has expanded downward with its MINI Cooper line and upward with Rolls-Royce. Its BMW line brims with models from the low end to the high end to everything in between. The brand's 'Series' lines range from the entry-level 1-Series subcompact to the luxury-compact 3-Series to the midsize 5-Series sedan to the luxurious full-size 7-Series. In between, BMW has filled the gaps with its X1, X3, X4, X5 and X6 SUVs; M-Series performance models; the Z4 roadster; and the i3 and i8 hybrids. Thus, through skilful line stretching and filling, while staying within its premium positioning, BMW now has brands and lines that successfully appeal to the rich, the super-rich and the hope-to-be-rich.

Product mix decisions

An organisation with several product lines has a product mix. A **product mix** (or **product portfolio**) consists of all the product lines and items that a particular seller offers for sale. For example, Unilever's product mix consists of three major product lines: home care, personal care, and food and refreshment. Each product line consists of several sub-lines.[22] Each line and sub-line has many individual items. Altogether, Unilever's product mix includes dozens of items.

Product mix (or product portfolio) The set of all product lines and items that a particular seller offers for sale.

A company's product mix has four important dimensions: width, length, depth and consistency. Product mix *width* refers to the number of different product lines the company carries. For example, Colgate markets a fairly narrow product mix, consisting of dozens of brands that constitute the 'Colgate World of Care' – products that 'every day, people like you trust to care for themselves and the ones they love.' By contrast, GE manufactures as many as 250,000 items across a broad range of categories, from lightbulbs to medical equipment, jet engines and diesel locomotives.

Product mix *length* refers to the total number of items a company carries within its product lines. Unilever carries a wide range of brands within each line. For example, its personal care line includes Dove soaps and body washes, Lynx body sprays, shower gels and deodorants, Sure deodorant and the Simple facial beauty brand among others. The home care line includes Persil and Surf laundry detergents, and Cif and Domestos cleaning products, and so on. The food and refreshment line includes Magnum, Carte D'Or, Cornetto, Wall's, Viennetta, and Ben & Jerry's ice creams, Lyons, PG tips and Lipton teas, and Pot Noodle instant noodles, among others.

Product line *depth* refers to the number of versions offered of each product in the line. Colgate toothpastes come in several varieties, including Colgate Total Advanced, Colgate Total Sensitive, Colgate Max and Colgate Smiles children's toothpaste. Each variety comes with special forms and formulations. For example, you can buy Colgate Total in whitening, freshening and clean versions.

Product line stretching and filling: Through skilful line stretching and filling, BMW now has brands and lines that successfully appeal to the rich, the super-rich, and the hope-to-be-rich.
Source: imageBROKER/Alamy Stock Photo

Finally, the *consistency* of the product mix refers to how closely related the various product lines are in end use, production requirements, distribution channels, or some other way. Colgate's product lines are consistent insofar as they are consumer products that go through the same distribution channels. The lines are less consistent insofar as they perform different functions for buyers.

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

From time to time, a company may also have to streamline its product mix to pare out marginally performing lines and to regain its focus. For example, P&G pursues a mega-brand strategy built around 23 billion-euro-plus brands in the household care and beauty and grooming categories. During the past decade, the consumer products giant has sold off dozens of major brands that no longer fit either its evolving focus or the billion-dollar threshold, ranging from Jif peanut butter, Crisco shortening, Folgers coffee, Pringles snack crisps, and Sunny Delight drinks to Noxzema skin care products, Right Guard deodorant, Aleve pain reliever, Duracell batteries, CoverGirl and Max Factor cosmetics, Wella and Clairol hair care products, and Iams and other pet food brands. These divestments allow P&G to focus investment and energy on the 70 to 80 core brands that yield 90 per cent of its sales and more than 95 per cent of profits. 'Less [can] be much more', says P&G's CEO.[23]

Services marketing

Author comment

As noted at the start of this chapter, services are 'products,' too – intangible ones. So all the product topics we've discussed so far apply to services as well as to physical products. However, in this section, we focus on the special characteristics and marketing needs that set services apart.

Services have grown dramatically in recent years. In the developed countries, the rapidly expanding services sector is contributing more to economic growth and job creation worldwide than any other sector. The services sector accounts for some three-quarters of the gross domestic product (GDP) of the European Union countries. In addition, over three-quarters of European Union jobs are now in the services sector.[24] Services are growing quickly in the world economy, making up about 70 per cent of gross world product.[25]

Service industries vary greatly. *Governments* offer services through courts, employment services, hospitals, military services, police and fire services and schools. *Private not-for-profit organisations* offer services through museums, charities, churches, colleges, foundations and hospitals. In addition, a large number of *business organisations* offer services – airlines, banks, hotels, insurance companies, consulting firms, medical and legal practices, entertainment and telecommunications companies, real estate firms, retailers and others.

The nature and characteristics of a service

A company must consider four special service characteristics when designing marketing programmes: intangibility, inseparability, variability and perishability (see Figure 8.3).

Service intangibility Services cannot be seen, tasted, felt, heard or smelled before they are bought.

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

Therefore, the service provider's task is to make the service tangible in one or more ways and send the right signals about quality. One analyst calls this *evidence management*, in which the service organisation presents its customers with organised, honest evidence of its capabilities.[26]

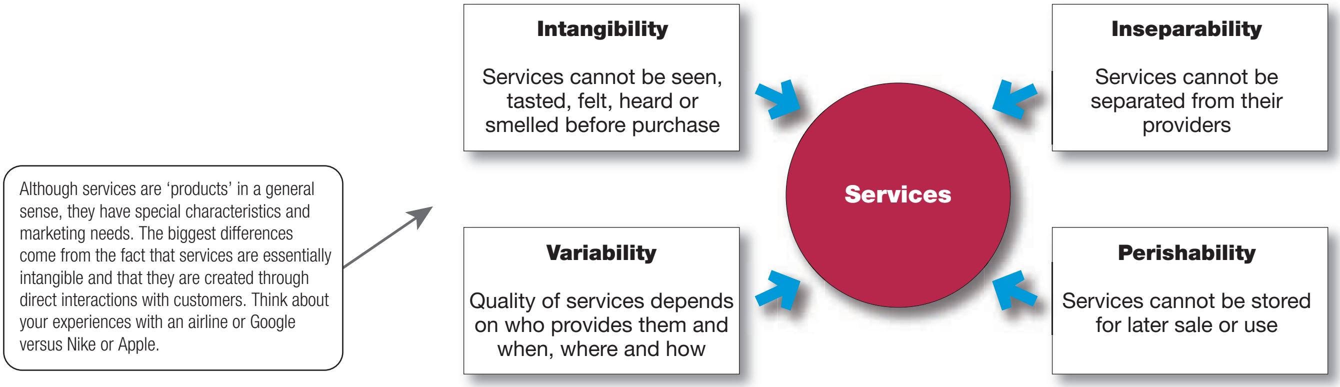

Figure 8.3 Four service characteristics

Physical goods are produced, then stored, then later sold and then still later consumed. In contrast, services are first sold and then produced and consumed at the same time. **Service inseparability** means that services cannot be separated from their providers, whether the providers are people or machines. If a service employee provides the service, then the employee becomes a part of the service. And customers don't just buy and use a service; they play an active role in its delivery. Customer cop-roduction makes *provider–customer interaction* a special feature of services marketing. Both the provider and the customer affect the service outcome.

Service inseparability Services are produced and consumed at the same time and cannot be separated from their providers.

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

Service variability The quality of services may vary greatly depending on who provides them and when, where, and how they are provided.

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

Service perishability Services cannot be stored for later sale or use.

Marketing strategies for service firms

Just like manufacturing businesses, good service firms use marketing to position themselves strongly in chosen target markets. British Airways is there 'To fly. To serve' and budget hotel Premier Inn offers 'Everything's premier but the price'. These and other service firms establish their positions through traditional marketing mix activities. However, because services differ from tangible products, they often require additional marketing approaches.

The service profit chain

In a service business, the customer and the front-line service employee *interact* to co-create the service. Effective interaction, in turn, depends on the skills of front-line service employees and on the support processes backing these employees. Thus, successful service companies focus

Service profit chain The chain that links service firm profits with employee and customer satisfaction.

their attention on both their customers and their employees. They understand the **service profit chain**, which links service firm profits with employee and customer satisfaction. This chain consists of five links:[27]

1. *Internal service quality.* Superior employee selection and training, a quality work environment and strong support for those dealing with customers, which results in . . .
2. *Satisfied and productive service employees.* More satisfied, loyal and hardworking employees, which results in . . .
3. *Greater service value.* More effective and efficient customer value creation, engagement and service delivery, which results in . . .
4. *Satisfied and loyal customers.* Satisfied customers who remain loyal, make repeat purchases and refer other customers, which results in . . .
5. *Healthy service profits and growth.* Superior service firm performance.

For example, at Four Seasons Hotels and Resorts, creating delighted customers involves much more than just crafting a lofty customer-focused marketing strategy and handing it down from the top. At Four Seasons, satisfying customers is everybody's business. And it all starts with satisfied employees:[28]

> Four Seasons has perfected the art of high-touch, carefully crafted service. Whether it's at the tropical island paradise at the Four Seasons Resort Mauritius or the luxurious sub-Saharan 'camp' at the Four Seasons Safari Lodge Serengeti, guests paying $1,000 or more a night expect to have their minds read. For these guests, Four Seasons doesn't disappoint. As one Four Seasons Maui guest once told a manager, 'If there's a heaven, I hope it's run by Four Seasons.' What makes Four Seasons so special? It's really no secret. It's the quality of the Four Seasons staff. Four Seasons knows that happy, satisfied employees make for happy, satisfied customers. So just as it does for customers, Four Seasons respects and pampers its employees.
>
> Four Seasons hires the best people, pays them well, orients them carefully, instils in them a sense of pride and rewards them for outstanding service deeds. It treats employees as it would its most important guests. For example, all employees – from the maids who make up the rooms to the general manager – dine together (free of charge) in the hotel cafeteria. Perhaps best of all, every employee receives free stays at other Four Seasons resorts, six free nights per year after one year with the company. The room stays make employees feel as important and pampered as the guests they serve and motivate employees to achieve even higher levels of service in their own jobs. Says one Four Seasons staffer, 'You come back from those trips on fire. You want to do so much for the guests.' As a result of such actions, the annual turnover for full-time employees at Four Seasons is only 18 per cent, half the industry average. Four Seasons has been included for 18 straight years on *Fortune* magazine's list of 100 Best Companies to Work For. And that's the biggest secret to Four Seasons' success.

Internal marketing Orienting and motivating customer-contact employees and supporting service employees to work as a team to provide customer satisfaction.

Services marketing requires more than just traditional external marketing using the four Ps. Figure 8.4 shows that services marketing also requires *internal marketing* and *interactive marketing*. **Internal marketing** means that the service firm must orient and motivate its customer-contact employees and supporting service people to work as a team to provide customer satisfaction. Marketers must get everyone in the organisation to be customer centred. In fact, internal marketing must *precede* external marketing. For example, a service firm should start by hiring the right people and carefully orienting and inspiring them to give unparalleled customer service. The idea is to make certain that employees themselves believe in the brand so that they can authentically deliver the brand's promise to customers.

For example, in retailing, even something as simple as a smile and polite greeting by staff can make a difference. Generally, shoppers who are cheered up by a nice welcome spend more money. Research in Mothercare stores in the UK suggests that shoppers who responded with a smile when greeted nicely by staff spent on average 67 per cent more than other customers.

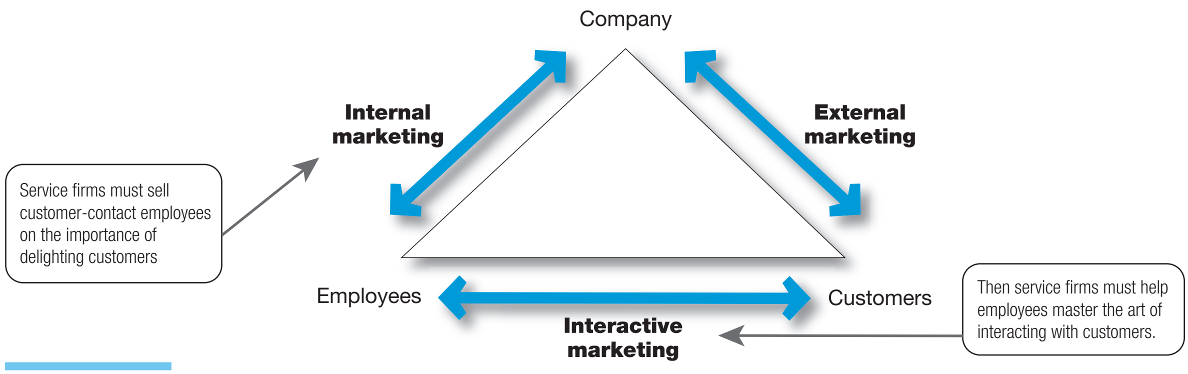

Figure 8.4 Three types of services marketing

For retailers in this kind of business, improving the way staff interacts with customers has a positive link to sales.[29] The exception appears to be luxury goods and designer labels where the snooty attitudes of shop assistants in high-end shops may actually boost sales. Research in Canada suggests that customers who felt 'rejected' by assistants in designer stores liked the brand more and were willing to pay more for it, than customers who were treated well.[30] Service marketers have to consider carefully the different ways in which employees may 'live' the brand message.

Interactive marketing means that service quality depends heavily on the quality of the buyer–seller interaction during the service encounter. In product marketing, product quality often depends little on how the product is obtained. But in services marketing, service quality depends on both the service deliverer and the quality of delivery. Service marketers, therefore, have to master interactive marketing skills. Thus, luxury hotels, such as Four Seasons, select only people with an innate 'passion to serve' and instructs them carefully in the fine art of interacting with customers to satisfy their every need. All new hires – at all levels of the company – complete a four-week customer-loyalty training regimen.

Interactive marketing
Training service employees in the fine art of interacting with customers to satisfy their needs.

Today, as competition and costs increase and as productivity and quality decrease, more services marketing sophistication is needed. Service companies face three major marketing tasks: They want to increase their *service differentiation*, *service quality* and *service productivity*.

Managing service differentiation

In these days of intense price competition, service marketers often complain about the difficulty of differentiating their services from those of competitors. To the extent that customers view the services of different providers as similar, they care less about the provider than the price. The solution to price competition is to develop a differentiated offer, delivery and image.

The *offer* can include innovative features that set one company's offer apart from competitors' offers. For example, some retailers differentiate themselves with offerings that take you well beyond the products they stock. Apple's highly successful stores offer a Genius Bar for technical support and a host of free workshops on everything from iPhone, iPad and Mac basics to the intricacies of using iMovie to turn home movies into blockbusters.

Pets at Home isn't your average pet shop. The stores offer pet-food, toys, bedding, medication, insurance and accessories, with the choice of ordering online for home delivery or store collection. But many locations also offer Groom Room salons for sprucing up the scruffy pet (and microchipping them as well) and links to Companion Care, veterinary surgeries. The goal is to make Pets at Home your one-stop shop for all your pet's needs.

Innovative services closely tailored to customer needs provide unique offers. British start-up Luggage Mule takes away the stress of poor airline baggage handling (the deal when you go to Paris, France and your luggage goes to Paris, Texas). Luggage Mule collects your bags from the home or office a couple of days before you fly and couriers them to your destination address. You just show up at the airport with hand baggage knowing your bags are already safely at the destination – and the service is cheaper than excess baggage charges. The service now extends to bulky items like bicycles and to sea cruises.[31]

Service companies can differentiate their service *delivery* by having more able and reliable customer-contact people, developing a superior physical environment in which the service product is delivered, or designing a superior delivery process. For example, many grocery chains now offer online shopping and home delivery as a better way to shop than having to drive, park, wait in line and tote groceries home. And most banks offer mobile phone apps that allow you to more easily transfer money, check account balances and make mobile cheque deposits.

Finally, service companies also can work on differentiating their *images* through symbols and branding. For example, online insurance price comparison website Gocompare.com uses a flamboyant and incredibly annoying opera singer – Gio Compario – in TV and outdoor advertising. Singing his 'Go Compare' theme song and being extremely annoying, he has been the brand's mascot since 2009. Since 2013 he has been banned from singing but has been equally annoying in many other amusing situations – in 2015 Gio began singing again. Gio Compario has helped make the previously unknown insurance company memorable and approachable.

Managing service quality

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

Unfortunately, service quality is harder to define and judge than product quality. For instance, it is harder to agree on the quality of a haircut than on the quality of a hairdryer. Customer retention is perhaps the best measure of quality; a service firm's ability to hang on to its customers depends on how consistently it delivers value to them.

Top service companies set high service-quality standards. They watch service performance closely, both their own and that of competitors. They do not settle for merely good service – they strive for 100 per cent defect-free service. Unlike product manufacturers who can adjust their machinery and inputs until everything is perfect, service quality will always vary, depending on the interactions between employees and customers. As hard as they may try, even the best companies will have an occasional late delivery, burned steak or grumpy employee. However, good *service recovery* can turn angry customers into loyal ones. In fact, good recovery can win more customer purchasing and loyalty than if things had gone well in the first place.

For example, Southwest Airlines has a proactive customer communications team whose job is to find the situations in which something went wrong – a mechanical delay, bad weather, a medical emergency or a berserk passenger – then remedy the bad experience quickly, within 24 hours if possible. [32] The team's communications to passengers, usually emails or texts these days, have three basic components: a sincere apology, a brief explanation of what happened and a gift to make it up, usually a voucher in dollars that can be used on their next Southwest flight. Surveys show that when Southwest handles a delay situation well, customers score it 14 to 16 points higher than on regular on-time flights.

These days, social media such as Facebook and Twitter can help companies root out and remedy customer dissatisfaction with service. Companies now monitor the digital space to spot customer issues quickly and respond in real time. For example, Southwest has a dedicated team of 29 people who respond to roughly 80,000 Facebook and Twitter posts monthly. A quick and thoughtful response can turn a dissatisfied customer into a brand advocate. [33]

Managing service productivity

With their costs rising rapidly, service firms are under great pressure to increase service productivity. They can do so in several ways. They can train current employees better or hire new ones who will work harder or more skilfully. Or they can increase the quantity of their service by giving up some quality. Finally, a service provider can harness the power of technology. Although we often think of technology's power to save time and costs in manufacturing companies, it also has great – and often untapped – potential to make service workers more productive.

However, companies must avoid pushing productivity so hard that doing so reduces quality. Attempts to streamline a service or cut costs can make a service company more efficient in the short term. But that can also reduce its longer-term ability to innovate, maintain service quality, or respond to consumer needs and desires. For example, some airlines have learned this lesson the hard way as they attempt to economise in the face of rising costs. Passengers on most airlines now encounter 'time-saving' check-in kiosks rather than personal counter service. And most airlines have stopped offering even the little things for free – such as in-flight snacks – and now charge extra for everything from checked luggage to aisle seats. The result is a plane full of disgruntled customers. In their attempts to improve productivity, many airlines have mangled customer service.

Thus, in attempting to improve service productivity, companies must be mindful of how they create and deliver customer value. They should be careful not to take *service* out of the service. In fact, a company may purposely lower service productivity in order to improve service quality, in turn allowing it to maintain higher prices and profit margins.

Branding strategy: building strong brands

Some analysts see brands as *the* major enduring asset of a company, outlasting the company's specific products and facilities. John Stewart, former CEO of Quaker Oats, once said, 'If this business were split up, I would give you the land and bricks and mortar, and I would keep the brands and trademarks, and I would fare better than you.' A former CEO of McDonald's declared, 'If every asset we own, every building, and every piece of equipment were destroyed in a terrible natural disaster, we would be able to borrow all the money to replace it very quickly because of the value of our brand. . . The brand is more valuable than the totality of all these assets.'[34]

Thus, brands are powerful assets that must be carefully developed and managed. In this section, we examine the key strategies for building and managing product and service brands.

Author comment

A brand represents everything that a product or service *means* to consumers. As such, brands are valuable assets to a company. For example, when you hear someone say 'Coca-Cola', what do you think, feel or remember? What about 'Waitrose'? Or 'Google'?

Brand equity and brand value

Brands are more than just names and symbols. They are a key element in the company's relationships with consumers. Brands represent consumers' perceptions and feelings about a product and its performance – everything that the product or the service *means* to consumers. In the final analysis, brands exist in the heads of consumers. As one well-respected marketer once said, 'Products are created in the factory, but brands are created in the mind.'[35]

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

Brand equity The differential effect that knowing the brand name has on customer response to the product or its marketing.

Brands vary in the amount of power and value they hold in the marketplace. Some brands – such as Coca-Cola, Nike, Disney, GE, McDonald's, Harley-Davidson and others – become larger-than-life icons that maintain their power in the market for years, even generations. Other brands – such as Google, Zappos, Uber, GoPro, Instagram and Wikipedia – create fresh consumer excitement and loyalty. These brands win in the marketplace not simply because they deliver unique benefits or reliable service. Rather, they succeed because they forge deep connections with customers. People really do have relationships with brands. For example, to devoted Nike fans around the world, the Nike brand stands for much more than just sneakers, apparel and sports equipment. It stands for gritty sports inspiration, fitness and achievement – a 'Just do it' attitude. As Nike once stated, 'It's not so much the shoes but where they take you.'

Ad agency Young & Rubicam's BrandAsset Valuator measures brand strength along four consumer perception dimensions: *differentiation* (what makes the brand stand out), *relevance* (how consumers feel it meets their needs), *knowledge* (how much consumers know about the brand), and *esteem* (how highly consumers regard and respect the brand). Brands with strong brand equity rate high on all four dimensions. The brand must be distinct, or consumers will have no reason to choose it over other brands. However, the fact that a brand is highly differentiated doesn't necessarily mean that consumers will buy it. The brand must stand out in ways that are relevant to consumers' needs. Even a differentiated, relevant brand is far from an automatic winner. Before consumers will respond to the brand, they must first know about and understand it. And that familiarity must lead to a strong, positive consumer–brand connection.[36]

Brand value The total financial value of a brand.

Thus, positive brand equity derives from consumer feelings about and connections with a brand. A brand with high brand equity is a very valuable asset. **Brand value** is the total financial value of a brand. Measuring such value is difficult. However, according to one estimate, the brand value of Apple is a whopping $246 billion, with Google at $174 billion, Microsoft at $115 billion, IBM at $94 billion, AT&T at $92 billion and Verizon at $86 billion. Other brands rating among the world's most valuable include McDonald's, Facebook, Alibaba and Amazon.[37]

High brand equity provides a company with many competitive advantages. A powerful brand enjoys a high level of consumer brand awareness and loyalty. Because consumers expect stores to carry the particular brand, the company has more leverage in bargaining with resellers. Because a brand name carries high credibility, the company can more easily launch line and brand extensions. A powerful brand also offers the company some defence against fierce price competition and other competitor marketing actions.

Above all, however, a powerful brand forms the basis for building strong and profitable customer engagement and relationships. The fundamental asset underlying brand equity is *customer equity* – the value of customer relationships that the brand creates. A powerful brand is important, but what it really represents is a profitable set of loyal customers. The proper focus of marketing is building customer equity, with brand management serving as a major marketing tool. Companies need to think of themselves not as portfolios of brands but as portfolios of customers.

Building strong brands

Branding poses challenging decisions to the marketer. Figure 8.5 shows that the major brand strategy decisions involve *brand positioning*, *brand name selection*, *brand sponsorship* and *brand development*.

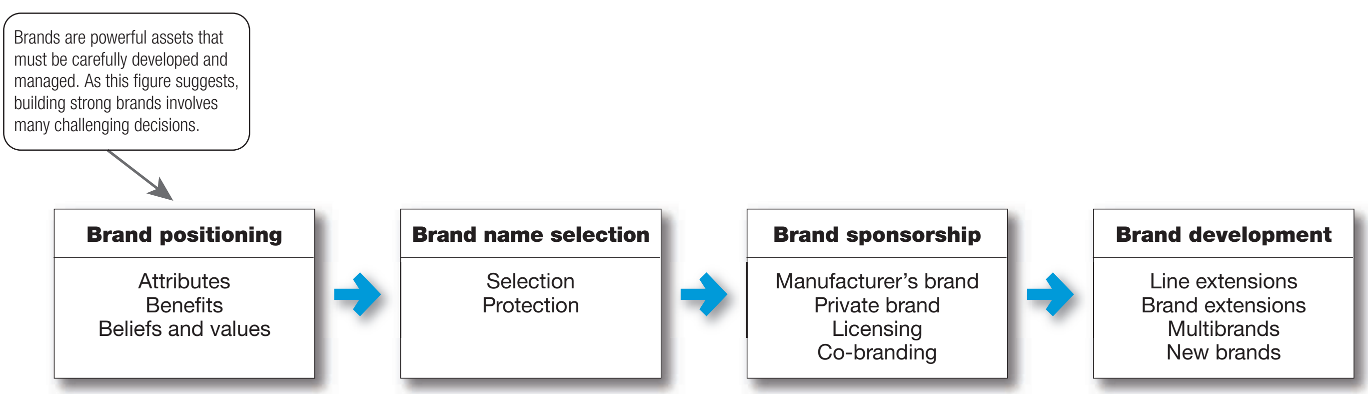

Figure 8.5 Major brand strategy decisions

Brand positioning

Marketers need to position their brands clearly in target customers' minds. They can position brands at any of three levels.[38] At the lowest level, they can position the brand on *product attributes*. For example, Hotpoint can position its major home appliance products on attributes such as quality, selection, style and innovative features. In general, however, attributes are the least desirable level for brand positioning. Competitors can easily copy attributes. More important, customers are not interested in attributes as such – they are interested in what the attributes will do for them.

A brand can be better positioned by associating its name with a desirable *benefit*. Thus, Hotpoint can go beyond technical product attributes and talk about benefits such as taking the hassle out of cooking and cleaning, better energy savings or more stylish kitchens. For example, recently Hotpoint's parent company GE Appliances has started to position its brand based on the long-lasting ownership experience with the tagline of 'good things, for life'.[39] Some successful brands positioned on benefits are FedEx (guaranteed on-time delivery), Asda (why pay more?), and Instagram (capturing and sharing moments).

The strongest brands go beyond attribute or benefit positioning. They are positioned on strong *beliefs and values*, engaging customers on a deep, emotional level. For example, Whirlpool's research showed that home appliances are more than just 'cold metal' to customers. They have a deeper meaning connected with the value that they play in customers' lives and relationships. So Whirlpool launched a major positioning campaign – called 'Every Day, Care' – based on the warm emotions of taking care of the people you love with Whirlpool appliances. One ad shows a father leaving a note in his son's lunch, accompanied by Johnny Cash singing 'You Are My Sunshine' in the background. Another ad centres on a mother's interactions with her daughter around their Whirlpool washer-dryer, and still another shows a couple cooking dinner together with the wish, 'May your 'tatoes be fluffy and white.' Warming up cold metal worked wonders for Whirlpool. Within just six months, the brand's sales rose 6.6 per cent, market share increase 10 per cent and positive social media sentiment surged sixfold.[40]

Advertising agency Saatchi & Saatchi suggests that brands should strive to become *lovemark*s, products or services that 'inspire loyalty beyond reason'. Brands ranging from Disney, Apple, Nike and Coca-Cola to Google and Pinterest have achieved this status with many of their customers. Lovemark brands pack an emotional wallop. Customers don't just like these brands; they have strong emotional connections with them and love them unconditionally.[41] For example, Disney is a classic lovemark brand. As one Walt Disney World Resort regular affirms: 'I have a deep love and bond to all things Disney. Walking down Main Street and seeing Cinderella's castle for the first time always makes my heart jump. It's a moment I can guarantee and rely on. A constant in my life. No matter what I'm going through. . . suddenly the world is filled with magic and wonder and possibilities all over again and I feel a wave of happiness flow over me and a smile creep back onto my face easily, not forced or painted on. A real, true smile.'[42]

When positioning a brand, the marketer should establish a mission for the brand and a vision of what the brand must be and do. A brand is the company's promise to deliver a specific set of features, benefits, services and experiences consistently to buyers. The brand promise must be clear, simple and honest. Accor's French budget hotel Formula 1, for example, offers clean rooms, low prices and good service but does not promise expensive furnishings or large bathrooms. In contrast, the Ritz-Carlton offers luxurious rooms and a truly memorable experience but does not promise low prices.

Brand name selection

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

Desirable qualities for a brand name include the following: (1) It should suggest something about the product's benefits and qualities: Silentnight, Slimfast, Snapchat, Pinterest. (2) It should be easy to pronounce, recognise and remember: iPad, Tide, Daz, Twitter, easyJet. (3) The brand name should be distinctive, such as Rolex and Ugg. (4) It should be extendable – Amazon began as an online bookseller but chose a name that would allow expansion into other categories. (5) The name should translate easily into foreign languages. The official name of Microsoft's Bing search engine in China is *bi ying*, which literally means 'very certain to respond' in Chinese. (6) It should be capable of registration and legal protection. A brand name cannot be registered if it infringes on existing brand names.

Choosing a new brand name is hard work. After a decade of choosing quirky names (Yahoo!, Google) or trademark-proof made-up names (Novartis, Aventis, Accenture), today's style is to build brands around names that have real meaning. For example, names like Silk (soya milk), Method (home products), Smartwater (beverages), and Snapchat (photo messaging app) are simple and make intuitive sense. But with trademark applications soaring, *available* new names can be hard to find. Try it yourself. Pick a product and see if you can come up with a better name for it. How about Moonshot? Tickle? Vanilla? Treehugger? Simplicity? Mindbender? Google them and you'll find that they are already taken.

Once chosen, the brand name must be protected. Many firms try to build a brand name that will eventually become identified with the product category. Brand names such as Kleenex, Hoover, Sellotape, Velcro, Formica, Magic Marker and Post-it Notes have succeeded in this way. However, their very success may threaten the company's rights to the name. Many originally protected brand names – such as cellophane, aspirin, nylon, kerosene, linoleum, yo-yo, trampoline, escalator, thermos and shredded wheat – are now generic names that any seller can use.

To protect their brands, marketers present them carefully using the word *brand* and the registered trademark symbol, as in 'BAND-AID® Brand Adhesive Bandages'. Similarly, a recent Kleenex ad advises advertisers and others that the name Kleenex should always be followed by the registered trademark symbol and the words 'Brand Tissue.' 'You may not realise it, but by using the name Kleenex® as a generic term for tissue,' says the ad, 'you risk erasing our coveted brand name that we've worked so hard for all these years.'

Brand sponsorship

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

Manufacturers' brands versus store brands

Store brand (or private brand) A brand created and owned by a reseller of a product or service.

Manufacturers' brands have long dominated the retail scene. In recent times, however, increasing numbers of retailers and wholesalers have created their own **store brands** (or **private brands**). Store brands have been gaining strength for more than two decades, but recent tighter economic times have created a store-brand boom. Studies show that consumers are now buying even more private brands, which on average yield at least 20 to 25 per cent savings.[43] More frugal times give store brands a boost as consumers become more price-conscious and less brand-conscious.

In fact, store brands have grown much faster than manufacturer brands in recent years. In a recent survey, 65 per cent of consumers indicated that they buy store brands whenever they are available in a supermarket. Similarly, for apparel sales, department store private-label brands have shot up.

Many large retailers skilfully market a deep assortment of store-brand merchandise. European retailers have generally been more successful than those in the US in positioning their own-brands as successful alternatives to manufacturers' brands. For example, in the UK, at

Consumers are now buying even more private brands that can appeal to different segments with different sub-brands.

Source: Annie Eagle/Alamy Stock Photo

leading supermarket Tesco, own-brands account for around half of all sales, and Tesco *Finest* (premium) and *Value* (low price) brands are both worth more than £1 billion in annual sales. At the other end of the grocery spectrum, upscale Whole Foods Market offers an array of store brand products under its own label.

Once known as 'generic' or 'no-name' brands, today's store brands have shed their image as cheap knock-offs of manufacturer brands. Store brands now offer much greater selection, and they are rapidly achieving name-brand quality. In fact, some retailers are out-innovating many of their manufacturer-brand competitors. As a result, consumers are becoming loyal to store brands for reasons besides price. In some cases, consumers are even willing to pay more for store brands that have been positioned as gourmet or premium items.

In the so-called *battle of the brands* between manufacturer and private brands, retailers have many advantages. They control what products they stock, where they go on the shelf, what prices they charge and which ones they will feature in local promotions. Retailers often price their store brands lower than comparable manufacturer brands and feature the price differences in side-by-side comparisons on store shelves. Although store brands can be hard to establish and costly to stock and promote, they also yield higher profit margins for the reseller. And they give resellers exclusive products that cannot be bought from competitors, resulting in greater store traffic and loyalty. Those retailers that carry a higher percentage of store brands largely control their own brand destiny rather than relying on producers to make and manage the brands they need to serve their customers best.

To compete with store brands, manufacturer brands must sharpen their value propositions, especially when appealing to today's more frugal consumers. Many manufacturer brands are fighting back by rolling out more discounts and coupons to defend their market share. In the long term, however, leading brand marketers must compete by investing in new brands, new features and quality improvements that set them apart. They must design strong advertising programmes to maintain high awareness and preference. And they must find ways to partner with major distributors to find distribution economies and improve joint performance.

For example, in response to the surge in private-label sales, consumer product giant Procter & Gamble has redoubled its efforts to develop and promote new and better products, particularly at lower price points. 'We invest $2 billion a year in research and development, $400 million on consumer knowledge, and about 10 percent of sales on advertising', says P&G's CEO. 'Store brands don't have that capacity.' As a result, P&G brands still dominate in their categories. For example, its premium laundry detergent brands capture a combined 60 per cent of the $7 billion US detergent market.[44]

Nonetheless, Nielsen research in 2013 suggested that cash-strapped shoppers across the world are continuing to opt for retailer own-labels. They found that two-thirds of shoppers across the globe are choosing retailer brands over manufacturer brands when it comes to new products. Consumers seem to be defecting even with 'innovation products' which firms like P&G, Unilever and Nestlé have sought to make their own. According to Nielsen, French consumers are the biggest fans of supermarkets' own-labels and 'value' products, with 80 per cent of them going for these when available, compared with 59 per cent of UK shoppers and 64 per cent of US shoppers. These trends are not restricted to Europe, but are hitting the Asia-Pacific and Latin American regions as well.[45]

Licensing

Most manufacturers take years and spend millions to create their own brand names. However, some companies license names or symbols previously created by other manufacturers, names of well-known celebrities, or characters from popular movies and books. For a fee, any of these can provide an instant and proven brand name. For example, consider the Kodak brand with its familiar red and yellow colours, which has retained its value even after the company went bankrupt and discontinued its consumer products:[46]

> Consumer products carrying the Kodak name are no longer made by Eastman Kodak, which now focuses exclusively on printing-related commercial equipment and technology following its bankruptcy a few years ago. But the Kodak brand name and associated 'Kodak moments' still resonate powerfully with consumers. So even though Eastman Kodak has dropped its consumer lines, we'll still be seeing a lot of Kodak-branded consumer products made by other companies under licensing agreements with Eastman Kodak. For example, Sakar International now makes Kodak cameras and accessories, and the Bullitt Group will soon launch a variety of Kodak electronics, including an Android smartphone and a tablet computer. Video monitoring company Seedonk makes and sells a Kodak baby monitoring system.
>
> Thus, the venerable old Kodak name still has value to both Eastman Kodak and the licensees who put it on their products. For Kodak, brand licensing agreements earn the company upward of $200 million a year. In turn, licensees get a name that's immediately familiar and trusted – it will be a lot easier to market a Kodak phone than a Bullitt phone or a Kodak baby monitoring system than a Seedonk one. 'It was difficult to find a brand that resonated – family values, taking care of loved ones', says a Seedonk executive. 'Then the Kodak opportunity came up. Kodak Moments, these are things that are important to our customers.'

Apparel and accessories sellers pay large royalties to adorn their products – from blouses to ties and linens to luggage – with the names or initials of well-known fashion innovators such as Calvin Klein, Tommy Hilfiger, Gucci or Armani. Sellers of children's products attach an almost endless list of character names to clothing, toys, school supplies, linens, dolls, lunch boxes, cereals and other items. Licensed character names range from classics such as Sesame Street, Disney, Star Wars, Scooby Doo, Hello Kitty, SpongeBob and Dr. Seuss characters to the more recent Doc McStuffins, Monster High, Frozen and Minions. And currently, numerous top-selling retail toys are products based on television shows and movies.

Name and character licensing have grown rapidly in recent years. Annual retail sales of licensed products worldwide have grown from only $4 billion in 1977 to $55 billion in 1987 and more than $259 billion today. Licensing can be a highly profitable business for many companies. For example, Nickelodeon's hugely popular SpongeBob SquarePants character by itself has generated some $12 billion worth of endorsement deals over the past 15 years. Disney is the world's biggest licensor with a studio full of popular characters, from the Disney Princesses and Disney Fairies to heroes from *Toy Story* and *Star Wars* and classic characters such as Mickey and Minnie Mouse. Disney characters reaped a reported $45 billion in worldwide merchandise sales last year.[47]

Co-branding

Co-branding The practice of using the established brand names of two different companies on the same product.

Co-branding occurs when two established brand names of different companies are used on the same product. Co-branding offers many advantages. Because each brand operates in a different category, the combined brands create broader consumer appeal and greater brand equity. For example, high-end shaving products brand The Art of Shaving partnered with mainstream marketer Gillette to create the Fusion Chrome Collection, featuring a power razor priced at more than £100 and billed as 'the world's most technologically advanced razor'. Through the partnership, The Art of Shaving gains access to Gillette's broader market; Gillette, in turn, adds high-end lustre to its shaving products line.

Co-branding can take advantage of the complementary strengths of two brands. It also allows a company to expand its existing brand into a category it might otherwise have difficulty entering alone. For example, Nike and Apple co-branded the Nike+iPod Sport Kit, which lets runners link their Nike shoes with their iPods to track and enhance running performance in real time. The Nike+iPod arrangement gave Apple a presence in the sports and fitness market. At the same time, it helps Nike bring new value to its customers.

Co-branding can also have limitations. Such relationships usually involve complex legal contracts and licenses. Co-branding partners must carefully coordinate their advertising, sales promotion and other marketing efforts. Finally, when co-branding, each partner must trust that the other will take good care of its brand. If something damages the reputation of one brand, it can tarnish the co-brand as well.

Brand development

A company has four choices when it comes to developing brands (see Figure 8.6). It can introduce *line extensions*, *brand extensions*, *multi-brands* or *new brands*.

Line extensions

Line extension Extending an existing brand name to new forms, colours, sizes, ingredients or flavours of an existing product category.

Line extensions occur when a company extends existing brand names to new forms, colours, sizes, ingredients or flavours of an existing product category. For example, over the years, KFC has extended its 'finger lickin' good' chicken line-up well beyond original recipe, bone-in Kentucky fried chicken. It now offers grilled chicken, boneless fried chicken, chicken tenders, hot wings, chicken bites, chicken popcorn nuggets, a Doublicious chicken-bacon-cheese sandwich and KFC Go Cups – chicken and potato wedges in a handy car-cup holder that lets customers snack on the go, but the range available varies in different countries.

A company might introduce line extensions as a low-cost, low-risk way to introduce new products. Or it might want to meet consumer desires for variety, use excess capacity or simply command more shelf space from resellers. However, line extensions involve some risks. An over-extended brand name might cause consumer confusion or lose some of its specific meaning.

For example, in its efforts to offer something for everyone – from basic burger buffs to practical parents to health-minded fast-food seekers – McDonald's has created a menu bulging with options. Some customers find the crowded menu a bit overwhelming, and offering so many choices has complicated the chain's food assembly process and slowed service at counters and drive-throughs. In response, McDonald's has recently begun efforts to cut items and simplify its menu, especially at its drive-throughs, which account for 70 per cent of sales.[48]

At some point, additional extensions might add little value to a line. A line extension works best when it takes sales away from competing brands, not when it 'cannibalises' the company's other items.

Brand extensions

Brand extension Extending an existing brand name to new product categories.

A **brand extension** extends a current brand name to new or modified products in a new category. For example, Nest – the maker of stylish, connected, learning thermostats that can be controlled remotely from a phone – extended its line with an equally smart and stylish Nest Protect home smoke and carbon monoxide alarm. It's now extending the Nest line to include

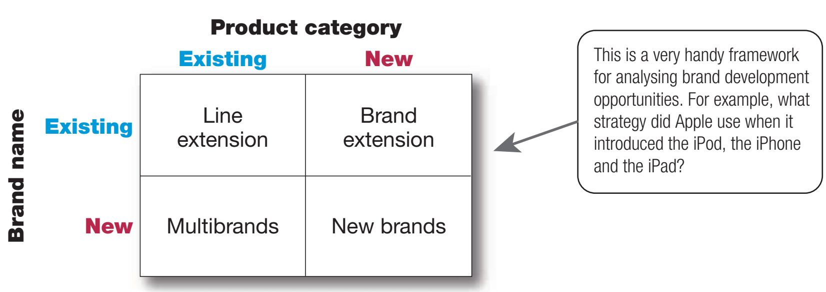

Figure 8.6 brand development strategies

'Works with Nest', applications developed with a variety of partners that let its smart devices interact with and control everything from home video-monitoring devices, smart door locks and home lighting systems to home appliances and fitness tracking bands. All of the extensions fit together under Nest's smart homes mission.[49]

And Kellogg's has extended its Special K healthy breakfast cereal brand into a full line of cereals plus a line of biscuits, and snack and nutrition bars. Victorinox extended its venerable Swiss Army brand from multi-tool knives to products ranging from cutlery and ballpoint pens to watches, luggage and apparel. Starbucks has extended its retail coffee shops by adding packaged supermarket coffees, a coffee liqueur alcoholic drink, a chain of teahouses (Teavana Fine Teas + Tea Bar), and even a single-serve home coffee, espresso and latte machine – the Verismo.

As it cuts production of its luxury sports cars to emphasise their exclusivity, Ferrari is looking to revenues from extending its brand to the Ferrari World indoor theme park in Abu Dhabi, and clothing lines like Prima (expensive leather jackets and other clothes for driving). Ferrari aims to be not just a car maker but a compilation of services and brand extension opportunities.[50]

These days, a large majority of new products are extensions of already-successful brands. Compared with building new brands, extensions can create immediate new-product familiarity and acceptance at lower development costs. For example, it's not just any new wireless charging mat for your mobile devices, it's a Duracell Powermat. Extensions such as the Duracell Powermat make good sense – they connect well with the core brand's values and build on its strengths.

A brand extension gives a new product instant recognition and faster acceptance. It also saves the high advertising costs usually required to build a new brand name. At the same time, a brand extension strategy involves some risk. The extension may confuse the image of the main brand. Brand extensions such as Heinz pet food met early deaths. Furthermore, a brand name may not be appropriate to a particular new product, even if it is well made and satisfying – would you consider flying on Hooters Air or wearing an Evian water-filled padded bra (both failed)? And if a brand extension fails, it may harm consumer attitudes toward other products carrying the same brand name. Thus, a company can't just take a familiar brand name and put it on a product in another category. Instead, a good brand extension should fit the parent brand, and the parent brand should give the extension competitive advantage in its new category.

Multi-brands

Companies often market many different brands in a given product category. For example, in the United States, PepsiCo markets at least eight brands of soft drinks, three brands of sports and energy drinks, four brands of bottled teas and coffees, three brands of bottled waters and nine brands of fruit drinks. Each brand includes a long list of sub-brands.

Multi-branding offers a way to establish different features that appeal to different customer segments, lock up more reseller shelf space and capture a larger market share. For example, although PepsiCo's many brands of beverages compete with one another on supermarket shelves, the combined brands reap a much greater overall market share than any single brand ever could. Similarly, by positioning multiple brands in multiple segments, Pepsi's eight soft drink brands combine to capture much more market share than any single brand could capture by itself.

A major drawback of multi-branding is that each brand might obtain only a small market share, and none may be very profitable. The company may end up spreading its resources over many brands instead of building a few brands to a highly profitable level. These companies should reduce the number of brands they sell in a given category and set up tighter screening procedures for new brands. In the early 2000s, Unilever trimmed its brand portfolio from 1,600 brand names to 400, with the goal that the money saved by the cost cutting was then spent promoting Unilever's core, high-yield brands. The company has since focused on its core food brands (e.g., Ben & Jerry's, Lipton Teas), personal care (e.g., Dove, Lynx) and home care (e.g., Persil, Comfort).

New brands

A company might believe that the power of its existing brand name is waning, so a new brand name is needed. Or it may create a new brand name when it enters a new product category for which none of its current brand names is appropriate. For example, Toyota created the separate Lexus brand aimed at luxury car consumers and the Scion brand targeted toward Millennial consumers.

As with multi-branding, offering too many new brands can result in a company spreading its resources too thin. And in some industries, such as consumer packaged goods, consumers and retailers have become concerned that there are already too many brands with too few differences between them. Thus, P&G, PepsiCo and other large marketers of consumer products are now pursuing megabrand strategies – weeding out weaker or slower-growing brands and focusing their marketing efforts on brands that can achieve the number-one or number-two market share positions with good growth prospects in their categories.

Managing brands

Companies must manage their brands carefully. First, the brand's positioning must be continuously communicated to consumers. Major brand marketers often spend huge amounts on advertising to create brand awareness and build preference and loyalty. For example, worldwide, Coca-Cola spends more than $3 billion annually to advertise its many brands, GM spends nearly $3.4 billion, Unilever spends $7.9 billion and P&G spends an astounding $11.5 billion.[51]

Such advertising campaigns can help create name recognition, brand knowledge and perhaps even some brand preference. However, the fact is that brands are not maintained by advertising but by customers' *engagement* with brands and customers' *brand experiences*. Today, customers come to know a brand through a wide range of contacts and touchpoints. These include advertising but also personal experience with the brand, word of mouth and social media, company web pages and mobile apps, and many others. The company must put as much care into managing these touchpoints as it does into producing its ads. As one former Disney top executive put it: 'A brand is a living entity, and it is enriched or undermined cumulatively over time, the product of a thousand small gestures.'[52]

The brand's positioning will not take hold fully unless everyone in the company lives the brand. Therefore, the company needs to train its people to be customer centred. Even better, the company should carry on internal brand building to help employees understand and be enthusiastic about the brand promise. Many companies go even further by training and encouraging their distributors and dealers to serve their customers well.

Finally, companies need to periodically audit their brands' strengths and weaknesses. They should ask: Does our brand excel at delivering benefits that consumers truly value? Is the brand properly positioned? Do all of our consumer touchpoints support the brand's positioning? Do the brand's managers understand what the brand means to consumers? Does the brand receive proper, sustained support? The brand audit may turn up brands that need more support, brands that need to be dropped, or brands that must be rebranded or repositioned because of changing customer preferences or new competitors.

Learning outcomes review

A product is more than a simple set of tangible features. Each product or service offered to customers can be viewed on three levels. The *core customer value* consists of the core problem-solving benefits that consumers seek when they buy a product. The *actual product* exists around the core and includes the quality level, features, design, brand name, and packaging. The *augmented product* is the actual product plus the various services and benefits offered with it, such as a warranty, free delivery, installation, and maintenance.

Objective 1 Define *product* and describe the major classifications of products and services (pp. 223–238)

Broadly defined, a *product* is anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy a want or need. Products include physical objects but also services, events, persons, places, organisations, ideas, or mixtures of these entities. *Services* are products that consist of activities, benefits or satisfactions offered for sale that are essentially intangible, such as banking, hotels, tax preparation and home-repair services.

Products and services fall into two broad classes based on the types of consumers who use them. *Consumer products* – those bought by final consumers – are usually classified according to consumer shopping habits (convenience products, shopping products, speciality products and unsought products). *Industrial products* – those purchased for further processing or for use in conducting a business – include materials and parts, capital items, and supplies and services. Other marketable entities – such as organisations, persons, places and ideas – can also be thought of as products.

Objective 2 Describe the decisions companies make regarding their individual products and services, product lines and product mixes (pp. 238–246)

Individual product decisions involve product attributes, branding, packaging, labelling and product support services. *Product attribute* decisions involve product quality, features, and style and design. *Branding* decisions include selecting a brand name and developing a brand strategy. *Packaging* provides many key benefits, such as protection, economy, convenience and promotion. Package decisions often include designing *labels and logos*, which identify, describe and possibly promote the product. Companies also develop *product support services* that enhance customer service and satisfaction and safeguard against competitors.

Most companies produce a product line rather than a single product. A *product line* is a group of products that are related in function, customer-purchase needs or distribution channels. All product lines and items offered to customers by a particular seller make up the *product mix*. The mix can be described by four dimensions: width, length, depth and consistency. These dimensions are the tools for developing the company's product strategy.

Objective 3 Identify the four characteristics that affect the marketing of services and the additional marketing considerations that services require (pp. 246–251)

Services are characterised by four key aspects: they are *intangible*, *inseparable*, *variable* and *perishable*. Each characteristic poses problems and marketing requirements. Marketers work to find ways to make the service more tangible, increase the productivity of providers who are inseparable from their products, standardise quality in the face of variability, and improve demand movements and supply capacities in the face of service perishability.

Good service companies focus attention on *both* customers and employees. They understand the *service profit chain*, which links service firm profits with employee and customer satisfaction. Services marketing strategy calls not only for external marketing but also for *internal marketing* to motivate employees and *interactive marketing* to create service delivery skills among service providers. To succeed, service marketers must create *competitive differentiation*, offer high *service quality*, and find ways to increase *service productivity*.

Objective 4 Discuss branding strategy – the decisions companies make in building and managing their brands (pp. 251–259)

Some analysts see brands as *the* major enduring asset of a company. Brands are more than just names and symbols; they embody everything that the product or the service *means* to consumers. *Brand equity* is the positive differential effect that knowing the brand name has on customer response to the product or the service. A brand with strong brand equity is a very valuable asset.

In building brands, companies need to make decisions about brand positioning, brand name selection, brand sponsorship and brand development. The most powerful *brand positioning* builds around strong consumer beliefs and values. *Brand name selection* involves finding the best brand name based on a careful review of product benefits, the target market and proposed marketing strategies. A manufacturer has four *brand sponsorship* options: It can launch a *national brand* (or manufacturer's brand), sell to resellers that use a *private brand*, market *licensed brands*, or join forces with another company to *co-brand* a product. A company also has four choices when it comes to developing brands. It can introduce *line extensions*, *brand extensions*, *multi-brands* or *new brands*.

Companies must build and manage their brands carefully. The brand's positioning must be continuously communicated to consumers. Advertising can help. However, brands are not maintained by advertising but by customers' *brand experiences*. Customers come to know a brand through a wide range of contacts and interactions. The company must put as much care into managing these touchpoints as it does into producing its ads. Companies must periodically audit their brands' strengths and weaknesses.

Navigating the key terms

Objective 1

Product (p. 233)
Service (p. 233)
Consumer product (p. 235)
Convenience product (p. 235)
Shopping product (p. 235)
Speciality product (p. 235)
Unsought product (p. 236)
Industrial product (p. 236)
Social marketing (p. 237)

Objective 2
Product quality (p. 238)
Brand (p. 240)
Packaging (p. 241)
Product line (p. 244)
Product mix (or product portfolio) (p. 245)

Objective 3
Service intangibility (p. 246)
Service inseparability (p. 247)
Service variability (p. 247)
Service perishability (p. 247)
Service profit chain (p. 248)
Internal marketing (p. 248)
Interactive marketing (p. 249)

Objective 4
Brand equity (p. 251)
Brand value (p. 252)
Store brand (or private brand) (p. 254)
Co-branding (p. 256)
Line extension (p. 257)
Brand extension (p. 257)

Discussion and critical thinking

Discussing the concepts

8.1 What is a consumer product? Describe the characteristics of each type of consumer product and give examples of each. (AACSB: Communication; Reflective thinking)

8.2 Compare and contrast the two dimensions of product quality. (AACSB: Communication)

8.3 What is a product line? Discuss the various product line decisions marketers make and how a company can expand its product line. (AACSB: Communication)

8.4 Discuss brand equity and brand value. How do marketers use these concepts to build powerful brands? (AACSB: Communication; Reflective thinking)

8.5 Explain the four choices companies have when developing brands. Provide an example of each. (AACSB: Communication; Reflective thinking)

Critical-thinking exercises

8.6 Walt Disney created the Disney brand from humble beginnings based on his love of drawing and animation. The Walt Disney Company has since expanded successfully into a global entertainment and media brand. Using the internet, research the components that make up the Disney brand and discuss how The Walt Disney Company has expanded its product mix. (AACSB: Communication; Use of IT; Reflective thinking)

8.7 Companies must consider four special service characteristics when designing service marketing programmes. Discuss a recent service experience using the four characteristics. Compare your service experience with that of a classmate. How do they differ? (AACSB: Communication; Reflective thinking)

8.8 What is 'genericide'? Discuss a recent case and make recommendations regarding how marketers can avoid it. (AACSB: Communication; Reflective thinking)

Mini-cases and applications

Online, mobile and social media marketing: feeding pets from your smartphone

People lead busy lives, often taking time away from their pets. So Petnet has developed the SmartFeeder, allowing pet owners to schedule feeding times, monitor food intake and personalise pet nutrition information. The SmartFeeder measures out the appropriate amount of food for a pet based on age, activity and weight. Additional features include the ability to conveniently store two to three kilograms of pet food in an attached hopper. Petnet has also seamlessly integrated its products with a smartphone app, available with iOS (Apple) products. Pet owners can now control feeding times, portion sizes and food supply, and even order pet food to be delivered directly to their homes, all from a mobile device.

8.9 What kind of product is Petnet's SmartFeeder? How should this type of product be marketed? (AACSB: Communication; Reflective thinking)

8.10 What are customers really buying when they purchase a Petnet SmartFeeder? Identify the core, actual and augmented product levels for this product. (AACSB: Communication; Reflective thinking)

Marketing ethics: geographical indication

Scotch whisky, Champagne sparkling wine, Parmesan cheese, Dijon mustard – what do all of these have in common? They are not brand names but rather geographical indicators (GIs) of the origin of these foodstuffs. Europe has a long history of gastronomical delicacies that the European Union has been strong to protect for economic reasons. For example, not just any sparkling wine can be labelled 'champagne' because only sparkling wine produced in the Champagne region of France can put that on the label. The British government is launching a registry of Scottish whisky makers to protect its $4 billion industry from imitators who label their whisky as Scotch. True Scotch must be aged in oak casks in Scotland for at least three years. Dijon mustard must be produced in Dijon, France, made with wine from the Burgundy region. Parmesan cheese was developed more than 2,000 years ago in Parma, Italy, which also boasts Parma ham (Prosciutto di Parma). True Swiss cheeses, such as Emmental, Gruyere and other varieties, are produced in Switzerland following strict rules to guarantee purity, and the authorities there identify counterfeits with DNA fingerprinting based on the 10,000 strains of milk bacteria that are used for authentic Swiss cheeses. All of these come with a higher price tag for consumers. For example, Portuguese Algarve salt or French Fleur de Sel sea salt cost about £60 per pound compared with £0.20 per pound for regular table salt.

8.11 Are products with geographical indications actually superior to similar ones not originating from that geographical region? Is it ethical for makers of these products to command higher prices when others can make or grow them just as well? (AACSB: Communication; Reflective thinking; Ethical reasoning)

8.12 Do geographical indications (GIs) offer benefits to consumers? Are there disadvantages for sellers? Explain. (AACSB: Communication; Reflective thinking)

Marketing by numbers: Pop-Tarts Gone Nutty!

Kellogg's, maker of Pop-Tarts, recently introduced Pop-Tarts Gone Nutty! The new product includes flavours such as peanut butter and chocolate peanut butter. Although the new Gone Nutty! product will reap a higher wholesale price for the company (€1.20 per eight-pack of the new product versus €1.00 per pack for the original product), it also comes with higher variable costs (€0.55 per eight-pack for the new product versus €0.30 per eight-pack for the original product).

8.13 What brand development strategy is Kellogg undertaking? (AACSB: Communication; Reflective thinking)

8.14 Assume the company expects to sell 5 million packages of Pop-Tarts Gone Nutty! in the first year after introduction globally, but expects that 80 per cent of those sales will come from buyers who would normally purchase existing Pop-Tart flavours (that is, they will be cannibalised sales). Assuming the sales of regular Pop-Tarts are normally 300 million packs per year and that the company will incur an increase in fixed costs of €500,000 during the first year to launch Gone Nutty!, will the new product be profitable for the company? Refer to the discussion of cannibalisation in Appendix 2 for an explanation regarding how to conduct the analysis. (AACSB: Communication; Analytical reasoning)

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Company case

Telenor Health and Tonic digital health services

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'There is great opportunity in the digital health space. In a country where almost everyone carries one, a mobile phone can be a powerful weapon to help solve problems and make an impact on millions': Sajidur Rahman, CEO of Telenor Health comments on the positive outlook for Tonic in Bangladesh. Tonic is one of Asia's first mobile-based health and wellness services brands, providing a range of digital services from information to a healthcare helpline and medically related financial benefits. Telenor Health launched its flagship brand, Tonic, in 2016 through Telenor's Group's mobile operator Grameenphone (GP), which is the market leader in Bangladesh.

As an emerging market, Bangladesh faces several challenges in healthcare provision. It is the world's eighth largest country with a population of 167 million people, yet there are about 0.4 doctors per 1,000 people and the World Health Organization estimates that 60 per cent of national healthcare spend is not covered by insurance. In addition, over 60 per cent of the population abide in rural areas, which are not easily accessible. However, with mobile penetration at over 51 per cent, which is above the Asian average, and mobile internet penetration at 33 per cent, Telenor Health believe that mobile access can transform healthcare services in Bangladesh.

The Tonic brand

Tonic's brand mission is an extension of Telenor Group. Its promise to consumers is that 'we are there for you, to help you and your family live longer, healthier lives'. By combining prevention-focused digital content, phone-based access to primary care and tools to finance hospital care, Tonic wants to differentiate itself from competitors by serving as the gateway toward Universal Health Coverage (UHC) and help customers and their families make better choices across their entire health journey. The key focus of Tonic's digital content is the prevention of non-communicable diseases (NCDs) such as heart and lung diseases, cancers and diabetes.

Grameenphone's 56 million mobile phone subscribers can join Tonic for free via a short code, online at www.mytonic.com or using their mobile app, by calling GP or at any GP retailer. To continue membership for the next month, a customer needs to use his\her GP SIM for a chargeable phone call, SMS or data pack. Tonic is designed in such a way that people with low-end feature phones can access it and smartphones are not necessary, except for their app-based consultation service, which happens via instant messaging.

By the beginning of 2018, around 5 million customers had subscribed to Tonic's free services, such as health information and cash coverage. Sajidur describes Tonic's business model as a unique one: 'Globally, you will see companies that are focusing on health content; there are digital health insurance companies and there are companies that provide on-demand doctors solutions, focusing on health consultation. I think we are probably the only company which is trying to do all these things together.'

Between 2017 and 2018, Tonic delivered about 300,000 consultation services to customers who would have no access to such services otherwise. The duration of people engaging in Tonic health consultation over the phone has also risen and it is estimated that 40 per cent are returning customers. To promote Tonic services, Telenor Health has leveraged television, radio, press and digital channels to create customer pull accompanied by retail push across GP customer care centres, GP express retailers and mobile top-up vendors.

Tonic services: safe, patient-centred and accessible

Tonic caters to customers in four key areas:

1. *Tonic Jibon* ('life') is one of the first Bengali-language services to provide information on health and illness, suggestions for positive health change and editorial-style content, all of which are verified by doctors. Content is accessible through the web (www.mytonic.com), mobile short message service (SMS) and Tonic's Facebook page.
2. *Tonic Doctor* enables members to access immediate medical advice on basic health topics via a 24-7 helpline at an affordable call rate of BDT 5 ($0.06) per minute plus taxes. This service is designed to decrease the healthcare burden on the brick and mortar system and enables members to get basic diagnosis even if they live far from a doctor or need information out of hours. Customers can also message doctors online and a video option may be added in future. The process for service delivery is as follows: when a patient has an ailment such as a headache and calls Tonic's helpline, Tonic's call centre doctor asks specific questions and based on the patient's answers, the doctor follows a decision tree and provides solutions. Simultaneously Tonic's back-end service system collects data about patients and maintains a record of such consultations. When a customer calls for a second consultation, any Tonic doctor can view the customer's medical history using a mobile number or ID.
3. *Tonic Discounts* offers exclusive offers on key health services at more than 200 popular clinics, hospitals, pharmacies and lifestyle outlets across Bangladesh. Via a quick SMS with a partner code, Tonic members can access care- and health-related services at a lower cost.
4. *Tonic Cash* provides members BDT 1000 ($12) if the member is hospitalised for three consecutive nights or more, paid directly to the member's mobile banking wallet. Members can claim Tonic Cash up to four times a year (total BDT 4000 annually) and no medical issues are excluded. This cash benefit programme serves to mitigate financial risk for families as well as play a role in building credibility of insurance providers.

Tonic's business-to-business relationships: a double-edged sword?

For businesses, Telenor Health offers Tonic service bundles in various customised formats, depending on the specific client's requirements. Clients can have a dashboard to track the services used by their employees. New paid packages such as Tonic Astha and Tonic Shurokkha have been launched, which offer additional premium services such as access to renowned health specialists, appointment booking with doctors and discounted executive health check-ups. These paid subscription products require a monthly subscription fee ranging from around BDT 130 to 300.

Although Telenor Health utilises traditional channels of marketing to promote its brand, they also partner with pharmacies to create awareness among customers so that whenever customers come to purchase medication, they also receive the benefits of Tonic services. Telenor Health has continued to build relationships with different partners from the health industry, even competitors, such as health insurance providers and Doctoral, which is a doctor-appointment scheduling service provider. In Sajidur's view, there are no conflicts of interest with their partners and their partners benefit from increases in their customer bases: 'Health is a big problem in Bangladesh as well as globally. We don't think we can solve it alone. . . it's not possible for one company to solve the problem.'

Looking ahead: a mixed forecast

In 2018, *Fortune* listed Telenor in its fourth annual 'Change the World' list of companies for its work in bringing affordable healthcare to the mass market through Tonic. The strategic priority for Telenor Health is to design services that cater to an entire family rather than an individual only and become the healthcare partner for the entire family. Personalisation of Tonic services is also on the agenda. For example, if a customer has diabetes, Tonic health records should allow delivery of customised information and assistance related to this disease. The use of artificial intelligence (AI) is also being considered to make efficiency improvements, for example, to reduce customer lead time, AI can be used to collect the initial data from the patient until a doctor becomes available through the Tonic helpline. International expansion to other Asian and African countries is also on the cards and Tonic's launch in Bangladesh is helping Telenor Health better understand the digital health services market.

Sajidur summarises the challenges that face Telenor Health in the Bangladeshi healthcare industry: 'Whenever you scale, maintaining the quality is important. We have to be meticulous about the clinical quality. . . free is going to be a big part of our strategy, but we will have to find a way to make it sustainable. . . there are not many large digital healthcare companies around the world because this is such a sensitive and difficult market to crack.' Therefore persuading customers to use digital health content and seek medical advice digitally remains a challenge.

An additional challenge for Telenor Health comes from within their organisation: their employee turnover. Telenor Health has grown their workforce rapidly since inception and their employees consist of diverse teams of managers, doctors and coders. Employee attrition can be expected in technological start-up companies. Start-up cultures are often viewed as environments that inspire employees to happily burn the midnight oil towards the achievement of lofty goals. However, research on 100 early-stage start-ups indicates that such cultural utopia diminishes for about 70 per cent of start-ups in their third or fourth year. Firms that monitor and address their cultural issues witness a rebound in their culture starting in years five and six. Telenor Health will need to place increasing focus on their internal culture as it continues in its quest to become the leading healthcare services brand in the country.

Questions for discussion

1. Discuss examples of the three product levels for Tonic digital health services.
2. How do you think technology has helped Telenor Health manage the challenges associated with service characteristics such as intangibility, heterogeneity, perishability and inseparability?
3. Explain with examples the extent to which physical evidence and process factors are important for Tonic services.
4. How would you describe Tonic's brand positioning strategy? Provide examples of how Tonic is differentiating its services from those of competitors.
5. Using the service profit chain perspective, recommend steps that Telenor Health can take to reduce employee turnover and revitalise their company culture.

Sources: David Niu and Mark Roberge, 'How morale changes as a startup grows', 24 March 2017, *HBR*, https://hbr.org/2017/03/how-morale-changes-as-a-startup-grows; https://telenorhealth.com/; Jon Russell; 'Telecom giant Telenor launches a digital health service for emerging markets', https://techcrunch.com/2016/06/07/telecom-giant-telenor-launches-a-digital-health-service-for-emerging-markets/?guccounter=2; GSMA; 'Economic impact: Bangladesh mobile industry', https://www.gsma.com/spectrum/wp-content/uploads/2017/01/Economic-Impact-Bangladesh-Mobile-Industry.pdf; Star Business Desk, 'Fortune recognises Telenor's Tonic', 28 August 2018, https://www.thedailystar.net/news/business/telecom/fortune-recognises-telenors-tonic-1625536; https://futurestartup.com/2018/02/05/telenor-health-sees-steady-growth-tonics-strategy-ambition-interview-sajid-rahman-ceo-telenor-health/; https://futurestartup.com/2017/04/10/sajid-rahman-on-telenor-health-technology-and-life/; https://www.mobileworldlive.com/featured-content/home-banner/telenor-health-pushes-power-of-mobile/amp/; https://microensure.com/telenor-launches-tonic-health-service-microensure-bangladesh/, accessed May 2019.

Chapter Nine

Developing new products and managing the product life cycle

Chapter preview

In the previous chapter, you learned how marketers manage and develop products and brands. In this chapter, we examine two additional product topics: developing new products and managing products through their life cycles. New products are the lifeblood of an organisation. However, new product development is risky, and many new products fail. So, the first part of this chapter lays out a process for finding and growing successful new products. Once introduced, marketers then want their products to enjoy long and happy lives. In the second part of this chapter, you'll see that every product passes through several life-cycle stages, and each stage poses new challenges requiring different marketing strategies and tactics. Finally, we wrap up our product discussion by looking at two additional considerations: social responsibility in product decisions and international product and services marketing.

To open, consider Samsung, the world's leading consumer electronics maker and one of the world's most innovative companies. Over the past two decades, Samsung has transformed itself by creating a culture of customer-focused innovation and a seemingly endless flow of inspired new products that feature stunning design, innovative technology, life-enriching features and a big dose of 'Wow!'

Learning outcomes

- **Objective 1** You will be able to explain how companies find and develop new product ideas.
  New product development strategy
  (pp. 271–278)
- **Objective 2** You will be able to list and define the steps in the new product development process and the major considerations in managing this process.
  The new product development process
  (p. 278)
- **Objective 3** You will be able to describe the stages of the product life cycle and how marketing strategies change during a product's life cycle.
  Product life-cycle strategies (pp. 282–289)
- **Objective 4** You will be able to discuss two additional product issues: socially responsible product decisions and international product and services marketing.
  Additional product and service considerations
  (pp. 289–291)

Samsung: enriching customers' lives through new product innovation

You're probably familiar with the Samsung brand. Maybe you own one of Samsung's hot new Galaxy smartphones that tracks your eye movements to help you navigate the screen, or maybe you've seen one of Samsung's dazzling new Superior 4k Ultra-High-Definition Smart TVs with a fully immersive curved screen and nano-crystal technology. Samsung, the world's largest consumer electronics manufacturer, produces 'gotta-have' electronics in just about every category, from TVs and Blu-ray players, tablets and mobile phones, and smartwatches to smart-home devices and even a full range of home appliances.

But little more than 20 years ago, Samsung was barely known, and it was anything but cutting-edge. Back then, Samsung was a Korean copycat brand that you bought off a shipping pallet at Costco if you couldn't afford a Sony, then the world's most coveted consumer electronics brand. However, in 1993 Samsung made an inspired decision. It turned its back on cheap knock-offs and set out to overtake rival Sony. To dethrone the consumer electronics giant, however, Samsung first had to change its entire culture, from copycat to cutting-edge. To out*sell* Sony, Samsung decided, it first had to out-*innovate* Sony.

Samsung's dramatic shift began with a top-down mandate for reform. Samsung set out to become a premier brand and a trailblazing product leader. It hired a crop of fresh, young designers and managers who unleashed a torrent of new products – not humdrum, me-too products, but sleek, bold and beautiful products targeted to high-end users. Samsung called them 'lifestyle works of art'. Every new product had to pass the 'Wow!' test: if it didn't get a 'Wow!' reaction during market testing, it went straight back to the design studio. Beyond cutting-edge technology and stylish designs, Samsung put the customer at the core of its innovation movement. Its primary innovation goal was to improve the customer experience and bring genuine change to people's lives in everything it did.

With its fresh customer-centred new-product focus, Samsung overtook Sony in less than 10 years. In 2018, Samsung's annual revenues of over $210 billion were nearly three times Sony's revenues, placing it at number 12 on *Fortune*'s Global 500 2018 edition – only one spot behind Apple. But more than just being the biggest, Samsung has also achieved that new-product 'Wow!' factor it sought. For example, Samsung has been dominant in recent years at the International Design Excellence Awards (IDEA) presentations – the Academy Awards of the design world – which judges new products based on appearance, functionality and inspirational thinking. For the past three years, Samsung has been the top corporate winner, claiming more than twice as many awards as the next runner-up.

In this digital, connected and mobile era, Samsung now competes less with the Sonys of the world and more with innovation pacesetters like Apple. And against Apple, Samsung is more than holding its own. In mobile devices, for example, Samsung has surged to the top of the market. Just a few years ago, Samsung's goal was to double its market share of smartphones from 5 per cent to 10 per cent. But the success of its Galaxy line catapulted Samsung's global share to 22 per cent, ahead of Apple's 18.5 per cent worldwide.

In its favour, Samsung holds a piece of the technology puzzle that Apple doesn't – big screens. In fact, Samsung has been the global leader in television sales for eight straight years. Its Smart TVs not only offer gesture control, voice control and face recognition but also provide seamless web connectivity that has TV users Facebooking, Skypeing, streaming online content and using their favorite apps with a wave of the hand. Control of so many different kinds of screens gives Samsung a leg up against more-focused competitors in this interconnected age.

But Samsung also realises that today's 'gotta have it' products can be tomorrow's has-beens. Future growth will come not just from bigger TVs and better smartphones. Rather, the electronics powerhouse is constantly on the prowl for the 'next big thing', regardless of the product category. To that end, Samsung's market intelligence and product innovation teams around

Beyond cutting-edge technology and stylish design, Samsung puts the customer at the core of its innovation movement. Its new products 'bring genuine change to people's lives'.
Source: Victor Wong/Shutterstock

the globe continually research product usage, purchase behaviour and lifestyle trends, looking for consumer insights and innovative new ways to meet consumer needs.

For instance, Samsung is now investing heavily in the 'Internet of Things' (IoT), a global environment where everything – from home electronics and appliances to cars, buildings and even clothing – will be digitally connected to everything else. Given that Samsung already makes products in almost every electronics category, IoT provides fertile territory for future innovation and growth. In recent years, Samsung has begun developing a 'web of connectivity' that links its products to the rest of the world. The goal is to develop Samsung IoT products and technologies that are 'In Sync with Life'. The company has already introduced numerous 'smart' products – including its entire Smart TV line-up, 16 kitchen appliances and mobile apps – that connect devices to each other and to those who use them.

Samsung's SleepSense device provides just one glimpse into the company's IoT future:

Samsung's SleepSense helps you to better understand and manage your sleep. It's a flat disk that slips under the mattress and provides contactless monitoring of your heart and respiratory rates as well as your movements during sleep. Then, through a smartphone app, SleepSense provides you with daily sleep scores and reports along with expert advice and recommendations based on your own metabolism and other personal characteristics. But here's the best part. SleepSense also connects to Samsung appliances and third-party IoT devices. For example, when it detects that you've fallen asleep during a late-night Netflix binge, it can automatically turn off the television and adjust the air-conditioning for a comfortable sleep environment. In the future, if your Samsung Family Hub refrigerator detects that you tend to eat dairy before a bad night's sleep, SleepSense might even advise you on better late-night snack alternatives. Wow!

Samsung's current IoT line-up is just the tip of the iceberg. According to one estimate, the number of networked devices will surge from about 1 billion today to 25 billion by 2020, representing a $3 trillion market. By that time, Samsung claims that 100 per cent of the products it makes will be internet-connected.

Twenty years ago, few people would have predicted that Samsung could have transformed itself so quickly and completely from a low-cost copycat manufacturer into a world-leading innovator of stylish, high-performing, premium products. But through a dedication to customer-focused new-product innovation, that's exactly what Samsung has done. And even recently, few would have predicted that Samsung would be a driving force behind creating a digitally interconnected world. Yet Samsung seems well on its way to accomplishing that as well. 'We have to show consumers what's in it for them and what the Internet of Things can achieve', says Samsung's CEO. 'To transform our economy, society, and how we live our lives.' Adds another Samsung executive: 'We will focus on creating amazing experiences, [on doing] what is right by customers.' In short, whatever gets that 'Wow!'[1]

As the Samsung story suggests, companies that excel at developing and managing new products reap big rewards. Every product seems to go through a life cycle: It is born, goes through several phases and eventually dies as newer products come along that create new or greater value for customers.

This product life cycle presents two major challenges: First, because all products eventually decline, a firm must be good at developing new products to replace ageing ones (the challenge of *new product development*). Second, a firm must be good at adapting its marketing strategies in the face of changing tastes, technologies and competition as products pass through stages (the challenge of *product life-cycle strategies*). We first look at the problem of finding and developing new products and then at the problem of managing them successfully over their life cycles.

New product development strategy

A firm can obtain new products in two ways. One is through *acquisition* – by buying a whole company, a patent or a licence to produce someone else's product. The other is through the firm's own **new product development** efforts. By *new products* we mean original products, product improvements, product modifications and new brands that the firm develops through its own product development. In this chapter, we concentrate on new product development.

New product development The development of original products, product improvements, product modifications and new brands through the firm's own product development efforts.

New products are important to both customers and the marketers who serve them: They bring new solutions and variety to customers' lives, and they are a key source of growth for companies. In today's fast-changing environment, many companies rely on new products for the majority of their growth. For example, new products have almost completely transformed Apple in recent years. The iPhone and iPad – both introduced only within the past decade or so – are now the company's two biggest-selling products, with the iPhone alone bringing in more than 62 per cent of Apple's total global revenues and 77 per cent of device unit sales.[2]

Author comment

New products are the lifeblood of a company. As old products mature and fade away, companies must develop new ones to take their place. For example, the iPhone and iPad have been around for only about a decade but are now Apple's two top-selling products.

Yet innovation can be very expensive and very risky. New products face tough odds. For example, by one estimate, 60 per cent of all new consumer packaged products introduced by established companies fail; two-thirds of new product concepts are never even launched.[3] Why do so many new products fail? There are several reasons. Although an idea may be good, the company may overestimate market size. The actual product may be poorly designed. Or it might be incorrectly positioned, launched at the wrong time, priced too high or poorly advertised. A high-level executive might push a favourite idea despite poor marketing research findings. Sometimes the costs of product development are higher than expected, and sometimes competitors fight back harder than expected.

So, companies face a problem: They must develop new products, but the odds weigh heavily against success. To create successful new products, a company must understand its consumers, markets and competitors, and develop products that deliver superior value to customers.

The new product development process

Author comment

Companies can't just hope that they'll stumble across good new products. Instead, they must develop a systematic new product development process.

Rather than leaving new products to chance, a company must carry out strong new product planning and set up a systematic, customer-driven *new product development process* for finding and growing new products. Figure 9.1 shows the eight major steps in this process.

Idea generation

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

Idea generation The systematic search for new product ideas.

Internal idea sources

Using *internal sources*, the company can find new ideas through formal R&D. For example, recently Dyson, a British technology company designing and manufacturing household appliances, opened a new (517 acre) campus as part of its £2.5 billion investment on research and

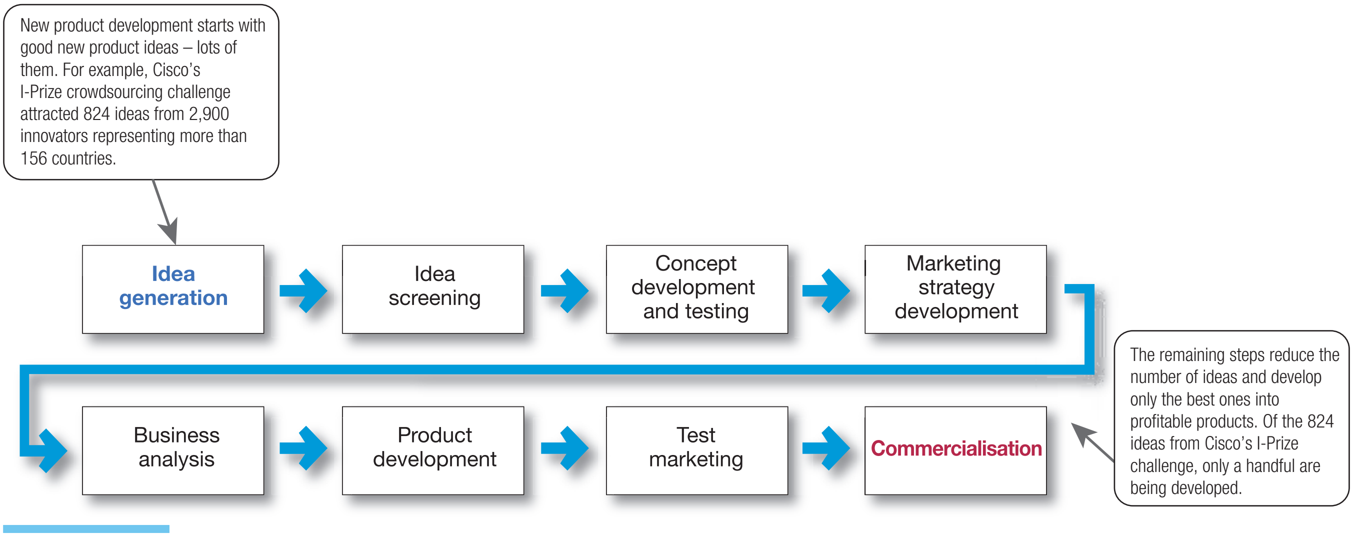


Figure 9.1 Major stages in new product development

development in the area of new battery technologies, artificial intelligence and robotics. Part of the plan was speculated to be developing a new product for the company: a driverless electric car. As commented by Dyson, 'The 517-acre Hullavington campus is an investment for our future, creating a global hub for our research and development endeavours. It will enable us to continue creating world class products and jobs right here in the Cotswolds.' This investment decision was on top of the opening of a new technology centre in Singapore.[4]

Ford operates an innovation and mobility centre in Silicon Valley staffed by engineers, app developers and scientists working on everything from driverless cars to Works with Nest apps that let consumers control home heating, lighting and appliances from their vehicles. Lloyds Group created a digital propositions team dedicated to developing internet and mobile products and services, such as digital mortgage propositions, for Halifax customers.[5]

However, according to one study, only 33 per cent of companies surveyed rated traditional R&D as a leading source of innovation ideas. In contrast, 41 per cent of companies identified customers as a key source, followed by heads of company business units (35 per cent), employees (33 per cent) and the sales force (17 per cent).[6]

Beyond its internal R&D process, a company can pick the brains of its own people – from executives to salespeople to scientists, engineers and manufacturing staff. Many companies have developed successful internal social networks and *intrapreneurial* programmes that encourage employees to develop new product ideas. For example, AT&T has set up an internal online innovation community called The Innovation Pipeline (TIP), through which AT&T employees from all areas and levels of the company submit, discuss and vote on new product and service ideas. Each quarter, the 'founders' of top vote-getting ideas pitch them to AT&T senior executives, who select the best three for further funding and development. Since its inception in 2009, AT&T employees have submitted more than 28,000 ideas to the TIP community, and the company has funded more than 75 TIP projects ranging from customer service enhancements to new product offerings.[7] And, Google's Innovation Time-Off programme has resulted in blockbuster product ideas ranging from Gmail and Ad Sense to Google News. A similar programme at 3M, called Dream Days, has long encouraged employees to spend 15 per cent of their working time on their own projects, resulting in Post-it Notes and many other successful products.[8]

Tech companies such as Facebook and Twitter sponsor periodic 'hackathons', in which employees take a day or a week away from their day-to-day work to develop new ideas. LinkedIn, the 300 million–member professional social media network, holds 'hackdays', one Friday each month when it encourages employees to work on whatever they want that will benefit the company. LinkedIn takes the process a step further with its InCubator programme, under which employees can form teams each quarter that pitch innovative new ideas to LinkedIn executives. If approved, the team gets up to 90 days away from its regular work to develop the idea into reality.[9]

External idea sources

Companies can also obtain good new product ideas from any of a number of external sources. For example, *distributors and suppliers* can contribute ideas. Distributors are close to the market and can pass along information about consumer problems and new product possibilities. Suppliers can tell the company about new concepts, techniques and materials that can be used to develop new products.

Competitors are another important source. Companies watch competitors' ads to get clues about their new products. They buy competing new products, take them apart to see how they work, analyse their sales and decide whether they should bring out a new product of their own. Other idea sources include trade magazines, shows, websites and seminars; government agencies; advertising agencies; marketing research firms; university and commercial laboratories; and inventors.

Perhaps the most important sources of new product ideas are *customers* themselves. The company can analyse customer questions and complaints to find new products that better solve consumer problems. Or it can invite customers to share suggestions and ideas. For example, The LEGO Group systematically taps users for new product ideas and input via the LEGO Ideas website:[10]

> At the LEGO Ideas website, the giant toy maker turns user ideas into new LEGO building sets. The site invites customers to submit their ideas and to evaluate and vote on the ideas of others. Ideas supported by 10,000 votes head to the LEGO Review Board for an internal review by various departments including marketing and design. Ideas passing the review are made into official LEGO products. Customers whose ideas reach production earn 1 per cent of total net sales of the product and receive credit as the LEGO Ideas set creator inside every set sold. So far, LEGO Ideas has resulted in 12 major new products, including the likes of LEGO *Doctor Who*, LEGO Birds, LEGO *Big Bang Theory*, LEGO *Ghostbusters*, LEGO *WALL-E*, LEGO *Back to the Future* DeLorean Time Machine, and the LEGO Labyrinth Marble Maze.

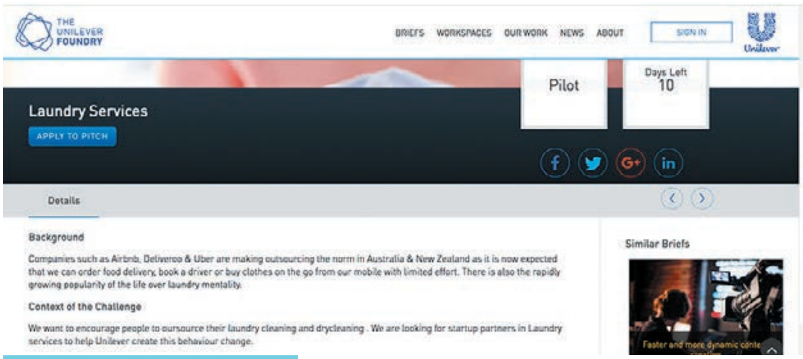
Similarly, Estée Lauder's Consumer Engagement Centre of Excellence gathers insights from consumers and applies the learnings to drive innovation. The team conducts data collection through social listening and focus groups to obtain insights into a diverse range of consumers, which in turn drives innovation across the company. According to Estée Lauder, 'It's all about driving capability and understanding the consumer. There is a huge amount that we can learn and connect with across brand teams so we centralised a team to help better understand trends, consumer behaviour and to find out the way the consumer is evolving in the UK. We then consolidate and push out those learning to brands to drive and fuel their strategy.'[11]

Estée Lauder's Consumer Engagement Centre of Excellence gathers insights from consumers and applies the learnings to drive innovation.

Source: Sorbis/Shutterstock

Crowdsourcing

More broadly, many companies are now developing crowdsourcing or open-innovation new



The Unilever Foundry acts as a crowdsourcing community that brings together consumers, key opinion formers and innovators to co-create solutions to issues regarding sanitation, hygiene and nutrition.
Source: Unilever Foundry

Crowdsourcing Inviting broad communities of people – customers, employees, independent scientists and researchers, and even the public at large – into the new product innovation process.

product idea programmes. Through **crowdsourcing**, a company invites broad communities of people – customers, employees, independent scientists and researchers, and even the public at large – into the innovation process. Tapping into a breadth of sources – both inside and outside the company – can produce unexpected and powerful new ideas.

Companies large and small, across all industries, are crowdsourcing product innovation ideas rather than relying only on their own R&D labs. For example, sports apparel maker Under Armour knows that no matter how many top-notch developers it has inside, sometimes the only way to produce good outside-the-box ideas is by going outside the company. In 2010, Unilever implemented its 'Sustainable Living Plan', aiming to reduce the company's environmental impact and improve the health, well-being and livelihoods of people around the world. One action was to launch the Unilever Foundry, a platform that acts as a crowdsourcing community that brings together consumers, key opinion formers and innovators to co-create solutions to issues regarding sanitation, hygiene and nutrition. Members on the platform are able to submit and build on other people's ideas as a process of collaboration to find solutions to these challenges.[12]

Crowdsourcing can produce a flood of innovative ideas. In fact, opening the floodgates to anyone and everyone can overwhelm the company with ideas – some good and some bad. For example, when Cisco Systems sponsored an open-innovation effort called I-Prize, soliciting ideas from external sources, it received more than 820 distinct ideas from more than 2,900 innovators from 156 countries. 'The evaluation process was far more labour-intensive than we'd anticipated', says Cisco's chief technology officer. It required 'significant investments of time, energy, patience, and imagination . . . to discern the gems hidden within rough stones'. In the end, a team of six Cisco people worked full-time for three months to carve out 32 semi-finalist ideas as well as nine teams representing 14 countries in six continents for the final phase of the competition.[13]

Thus, truly innovative companies don't rely only on one source or another for new product ideas. Instead, they develop extensive innovation networks that capture ideas and inspiration from every possible source, from employees and customers to outside innovators and multiple points beyond.

Idea screening

Idea screening Screening new product ideas to spot good ones and drop poor ones as soon as possible.

The purpose of idea generation is to create a large number of ideas. The purpose of the succeeding stages is to *reduce* that number. The first idea-reducing stage is **idea screening**, which helps spot good ideas and drop poor ones as soon as possible. Product development costs rise greatly in later stages, so the company wants to go ahead only with those product ideas that will turn into profitable products.

Many companies require their executives to write up new product ideas in a standard format that can be reviewed by a new product committee. The write-up describes the product or the service, the proposed customer value proposition, the target market and the competition. It makes some rough estimates of market size, product price, development time and costs, manufacturing costs and rate of return. The committee then evaluates the idea against a set of general criteria.

One marketing expert describes an R-W-W ('real, win, worth doing') new product screening framework that asks three questions.[14] First, *is it real?* Is there a real need and desire for the product, and will customers buy it? Is there a clear product concept, and will such a product satisfy the market? Second, *can we win?* Does the product offer a sustainable competitive advantage? Does the company have the resources to make such a product a success? Finally, *is it worth doing?* Does the product fit the company's overall growth strategy? Does it offer sufficient profit potential? The company should be able to answer yes to all three R-W-W questions before developing the new product idea further.

Concept development and testing

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

Product concept A detailed version of the new product idea stated in meaningful consumer terms.

Concept development

Suppose a car manufacturer has developed a practical battery-powered, all-electric car. Its initial models were a sleek, sporty roadster convertible selling for more than £80,000, followed by a full-size sports saloon priced at £60,000.[15] However, in the near future it plans to introduce a more-affordable, mass-market compact version that will compete with recently introduced hybrid-electric or all-electric cars such as the Nissan Leaf and KIA Soul EV. This 100 per cent plug-in electric car will accelerate from 0 to 60 miles per hour in four seconds, travel up to 300 miles on a single charge, recharge in 45 minutes from a normal 120-volt electrical outlet and cost about one penny per mile to power.

Looking ahead, the marketer's task is to develop this new product into alternative product concepts, find out how attractive each concept is to customers and choose the best one. It might create the following product concepts for this all-electric car:

- *Concept 1.* An affordably priced small family car designed as a second family car to be used around town for running errands and visiting friends.
- *Concept 2.* A mid-priced, sporty small family car appealing to young singles and couples.
- *Concept 3.* A 'green' everyday car appealing to environmentally conscious people who want practical, non-polluting transport.
- *Concept 4.* A compact crossover SUV appealing to those who love the space SUVs provide but lament the poor fuel consumption.

Concept testing

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

Concept testing Testing new product concepts with a group of target consumers to find out if the concepts have strong consumer appeal.

> An efficient, fun-to-drive, battery-powered small family car that seats four. This 100 per cent electric wonder provides practical and reliable transport with no pollution. It goes 300 miles on a single charge and costs pennies per mile to operate. It's a sensible, responsible alternative to today's pollution-producing gas-guzzlers. Its fully equipped base price is £28,800.

Many firms routinely test new product concepts with consumers before attempting to turn them into actual new products. For some concept tests, a word or picture description might be sufficient. However, a more concrete and physical presentation of the concept will increase the reliability of the concept test. After being exposed to the concept, consumers then may be asked to react to it by answering questions similar to those in Table 9.1.

The answers to such questions will help the company decide which concept has the strongest appeal. For example, the last question asks about the consumer's intention to buy. Suppose 2 per cent of consumers say they 'definitely' would buy and another 5 per cent say 'probably'. The company could project these figures to the full population in this target group to estimate sales volume. Even then, however, the estimate is uncertain because people do not always carry out their stated intentions.

Table 9.1 Questions for the all-electric car concept test

1. Do you understand the concept of a battery-powered electric car?
2. Do you believe the claims about the car's performance?
3. What are the major benefits of an all-electric car compared with a conventional car?
4. What are its advantages compared with a hybrid petrol-electric car?
5. What improvements in the car's features would you suggest?
6. For what uses would you prefer an all-electric car to a conventional car?
7. What would be a reasonable price to charge for the car?
8. Who would be involved in your decision to buy such a car? Who would drive it?
9. Would you buy such a car (definitely, probably, probably not, definitely not)?

Marketing strategy development

Marketing strategy development Designing an initial marketing strategy for a new product based on the product concept.

Suppose the car maker finds that Concept 3 for the new electric car model tests best. The next step is **marketing strategy development**, designing an initial marketing strategy for introducing this car to the market.

The *marketing strategy statement* consists of three parts. The first part describes the target market; the planned value proposition; and the sales, market-share and profit goals for the first few years. Thus:

> The target market is younger, well-educated, moderate- to high-income individuals, couples, or small families seeking practical, environmentally responsible transport. The car will be positioned as more fun to drive and less polluting than today's internal combustion engine or hybrid cars. The company will aim to sell 50,000 cars in the first year, at a loss of not more than £15 million. In the second year, the company will aim for sales of 90,000 cars and a profit of £25 million.

The second part of the marketing strategy statement outlines the product's planned price, distribution, and marketing budget for the first year:

> The battery-powered all-electric car will be offered in three colours – red, white and blue – and will have a full set of accessories as standard features. It will sell at a base retail price of £28,800, with 15 per cent off the list price to dealers. Dealers who sell more than 10 cars per month will get an additional discount of 5 per cent on each car sold that month. A marketing budget of £50 million will be split 40-30-30 among a national media campaign, online and social media marketing, and local event marketing. Advertising, the web and mobile sites, and various social media content will emphasise the car's fun spirit and low emissions. During the first year, £100,000 will be spent on marketing research to find out who is buying the car and what their satisfaction levels are.

The third part of the marketing strategy statement describes the planned long-term sales, profit goals and marketing mix strategy:

> We intend to capture a 3 per cent long-term share of the total car market and realise an after-tax return on investment of 15 per cent. To achieve this, product quality will start high and be improved over time. Price will be raised in the second and third years if competition and the economy permit. The total marketing budget will be raised each year by about 10 per cent. Marketing research will be reduced to £60,000 per year after the first year.

Business analysis

Once management has decided on its product concept and marketing strategy, it can evaluate the business attractiveness of the proposal. **Business analysis** involves a review of the sales, costs and profit projections for a new product to find out whether they satisfy the company's objectives. If they do, the product can move to the product development stage.

Business analysis A review of the sales, costs and profit projections for a new product to find out whether these factors satisfy the company's objectives.

To estimate sales, the company might look at the sales history of similar products and conduct market surveys. It can then estimate minimum and maximum sales to assess the range of risk. After preparing the sales forecast, management can estimate the expected costs and profits for the product, including marketing, R&D, operations, accounting and finance costs. The company then uses the sales and cost figures to analyse the new product's financial attractiveness.

Product development

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

Product development Developing the product concept into a physical product to ensure that the product idea can be turned into a workable market offering.

The R&D department will develop and test one or more physical versions of the product concept. R&D hopes to design a prototype that will satisfy and excite consumers and that can be produced quickly and at budgeted costs. Developing a successful prototype can take days, weeks, months or even years depending on the product and prototype methods.

Often, products undergo rigorous tests to make sure that they perform safely and effectively or that consumers will find value in them. Companies can do their own product testing or outsource testing to other firms that specialise in testing.

Marketers often involve actual customers in product development and testing. For example, Carhartt, maker of durable workwear and outerwear, has enlisted an army of Groundbreakers, 'hard working men and women to help us create our next generation of products'. These volunteers take part in live chats with Carhartt designers, review new product concepts, and field-test products that they helped to create.[16] Similarly, the North Face, on top of a tortuous battery of laboratory tests, sends its apparel and equipment on extended athlete expeditions to learn the new products' performance under the true test of the great outdoors and refines each product until it receives approval from its world-class athlete team.[17] Research has shown that customer participation is particularly more beneficial in technologically turbulent new product development projects, in emerging countries, in low-tech industries, for business customers and for small firms.[18]

A new product must have the required functional features and also convey the intended psychological characteristics. The all-electric car, for example, should strike consumers as being well built, comfortable and safe. Management must learn what makes consumers decide that a car is well built. To some consumers, this means that the car has 'solid-sounding' doors. To others, it means that the car is able to withstand a heavy impact in crash tests. Consumer tests are conducted in which consumers test-drive the car and rate its attributes.

Test marketing

If the product passes both the concept test and the product test, the next step is **test marketing**, the stage at which the product and its proposed marketing programme are tested in realistic market settings. Test marketing gives the marketer experience with marketing a product before going to the great expense of full introduction. It lets the company test the product and its entire marketing programme – targeting and positioning strategy, advertising, distribution, pricing, branding and packaging, and budget levels.

Test marketing The stage of new product development in which the product and its proposed marketing programme are tested in realistic market settings.

The amount of test marketing needed varies with each new product. When introducing a new product requires a big investment, when the risks are high, or when management is not sure of the product or its marketing programme, a company may do a lot of test marketing. For instance, Starbucks spent 20 years developing Starbucks VIA instant coffee – one of its most risky product rollouts ever – and several months testing the product in Starbucks shops in Chicago and Seattle before releasing it nationally. The testing paid off. The Starbucks VIA line is now a best-selling instant coffee for Starbucks' global business.[19]

However, test marketing costs can be high, and testing takes time that may allow market opportunities to slip by or competitors to gain advantages. A company may do little or no test marketing when the costs of developing and introducing a new product are low or when management is already confident about the new product. For example, companies often do not test-market simple line extensions or copies of competitors' successful products.

Companies may also shorten or skip testing in the face of fast-changing market developments. For example, to take advantage of digital and mobile trends, Starbucks quickly introduced a less-than-perfect mobile payments app, then worked out the flaws during the six months after launch. The Starbucks app now accounts for 8 million transactions per week. 'We don't think it is okay if things aren't perfect,' says Starbucks' chief digital officer, 'but we're willing to innovate and have speed to market trump a 100 percent guarantee that it'll be perfect.'[20]

As an alternative to extensive and costly standard test markets, companies can use controlled test markets or simulated test markets. In *controlled test markets*, new products and tactics are tested among controlled panels of shoppers and stores. By combining information on each test consumer's purchases with consumer demographic and media viewing information, the company assess the impact of in-store and in-home marketing efforts. Using *simulated test markets*, researchers measure consumer responses to new products and marketing tactics in laboratory stores or simulated online shopping environments. Both controlled test markets and simulated test markets reduce the costs of test marketing and speed up the process.

Commercialisation

Commercialisation
Introducing a new product into the market.

Test marketing gives management the information needed to make a final decision about whether to launch the new product. If the company goes ahead with **commercialisation** – introducing the new product into the market – it will face high costs. For example, the company may need to build or rent a manufacturing facility. And, in the case of a major new consumer product, it may spend hundreds of millions of dollars for advertising, sales promotion and other marketing efforts in the first year. For instance, in a single month surrounding the introduction of the Apple Watch, Apple spent $38 million on TV advertising campaigns alone for the new product. And to introduce the original Surface tablet, Microsoft spent close to $400 million on an advertising blitz that spanned TV, print, radio, outdoor, the internet, events, public relations and sampling.[21]

A company launching a new product must first decide on introduction *timing*. If the new product will eat into the sales of other company products, the introduction may be delayed. If the product can be improved further or if the economy is down, the company may wait until the following year to launch it. However, if competitors are ready to introduce their own competing products, the company may push to introduce its new product sooner.

Next, the company must decide *where* to launch the new product – in a single location, a region, the national market or the international market. Some companies may quickly introduce new models into the full national market. Companies with international distribution systems may introduce new products through swift global rollouts. For example, in 2014 Apple launched its iPhone 6 and iPhone 6 Plus phones in its fastest-ever global rollout, making them available in 115 countries within less than three months of initial introduction.[22] And in a similar way and more recently Apple launched its iPhone XR in 2018.

Author comment
Above all else, new product development must focus on creating customer value. Says a senior Samsung executive, 'We get our ideas from the market. The market is the driver.'

Managing new product development

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

Customer-centred new product development

Above all else, new product development must be customer centred. When looking for and developing new products, companies often rely too heavily on technical research in their R&D laboratories. But like everything else in marketing, successful new product development begins with a thorough understanding of what consumers need and value. **Customer-centred new product development** focuses on finding new ways to solve customer problems and create more customer-satisfying experiences.

Customer-centred new product development
New product development that focuses on finding new ways to solve customer problems and create more customer-satisfying experiences.

One study found that the most successful new products are ones that are differentiated, solve major customer problems and offer a compelling customer value proposition. Another study showed that companies that directly engage their customers in the new product innovation process had twice the return on assets and triple the growth in operating income of firms that did not. Thus, customer involvement has a positive effect on the new product development process and product success. 'Choosing what kind of value your innovation will create and then sticking to that is critical', says one expert.[23]

Intuit – maker of financial software such as TurboTax, QuickBooks and Quicken – is a strong proponent of customer-driven new product development:[24]

> Intuit, headquartered in Mountain View, California, is a company that develops and sells financial and accounting software and related services for small businesses, accountants and individuals. It follows a 'Design for Delight (D4D)' development philosophy that says products should delight customers by providing experiences that go beyond their expectations. Design for Delight starts with customer empathy – knowing customers better than they know themselves. To that end, each year, Intuit conducts 10,000 hours of what it calls 'follow-me-homes', in which design employees observe first-hand how customers use its products at home and at work. They look to understand problems and needs that even customers themselves might not recognise. Based on customer observations, the next D4D step is to 'go broad, go narrow' – developing many customer-driven product ideas, then narrowing them down to one or a few great ideas for products that will solve customer problems. The final D4D step involves turning the great ideas into actual products and services that create customer delight, collecting customer feedback steadily throughout the development process. Intuit works relentlessly to embed Design for Delight concepts deeply into its culture. 'You've got to feel it', says the company's vice president of design innovation. 'It can't be in your head. It's got to be in your heart. It's got to be in your gut. And we want to put it in our products.'

Thus, today's innovative companies get out of the research lab and connect with customers in search of fresh ways to meet customer needs. Customer-centred new product development begins and ends with understanding customers and involving them in the process.

Team-based new product development

Good new product development also requires a total-company, cross-functional effort. Some companies organise their new product development process into the orderly sequence of steps shown in Figure 9.1, starting with idea generation and ending with commercialisation. Under this *sequential product development* approach, one company department works individually to complete its stage of the process before passing the new product along to the next department and stage. This orderly, step-by-step process can help bring control to complex and risky projects. But it can also be dangerously slow. In fast-changing, highly competitive markets, such slow-but-sure product development can result in product failures, lost sales and profits, and crumbling market positions.

Team-based new product development New product development in which various company departments work closely together, overlapping the steps in the product development process to save time and increase effectiveness.

To get their new products to market more quickly, many companies use a **team-based new product development** approach. Under this approach, company departments work closely together in cross-functional teams, overlapping the steps in the product development process to save time and increase effectiveness. Instead of passing the new product from department to department, the company assembles a team of people from various departments that stays with the new product from start to finish. Such teams usually include people from the marketing, finance, design, manufacturing and legal departments, and even supplier and customer companies. In the sequential process, a bottleneck at one phase can seriously slow an entire project. In the team-based approach, however, if one area hits snags, it works to resolve them while the team moves on.

The team-based approach does have some limitations, however. For example, it sometimes creates more organisational tension and confusion than the more orderly sequential approach. However, in rapidly changing industries facing increasingly shorter product life cycles, the rewards of fast and flexible product development far exceed the risks. Companies that combine a customer-centred approach with team-based new product development gain a big competitive edge by getting the right new products to market faster.

Systematic new product development

Finally, the new product development process should be holistic and systematic rather than compartmentalised and haphazard. Otherwise, few new ideas will surface, and many good ideas will fizzle out and die. To avoid these problems, a company can install an *innovation management system* to collect, review, evaluate and manage new product ideas.

The company can appoint a respected senior person to be its innovation manager. It can set up web-based idea management software and encourage all company stakeholders – employees, suppliers, distributors, dealers – to become involved in finding and developing new products. It can assign a cross-functional innovation management committee to evaluate proposed new product ideas and help bring good ideas to market. It can also create recognition programmes to reward those who contribute the best ideas.

The innovation management system approach yields two favourable outcomes. First, it helps create an innovation-oriented company culture. It shows that top management supports, encourages and rewards innovation. Second, it will yield a larger number of new product ideas, among which will be found some especially good ones. The good new ideas will be more systematically developed, producing more new product successes. No longer will good ideas wither for the lack of a sounding board or a senior product advocate.

Thus, new product success requires more than simply thinking up a few good ideas, turning them into products and finding customers for them. It requires a holistic approach for finding new ways to create valued customer experiences, from generating and screening new product ideas to creating and rolling out want-satisfying products to customers. More than this, successful new product development requires a whole-company commitment. At companies known for their new product prowess, such as Samsung, Google, Apple, 3M, P&G and GE, the entire culture encourages, supports and rewards innovation. For example, at Google and its parent company Alphabet, innovation is more just than a process – it's part of the company's DNA.[25]

> Google began as an online search company with a mission 'to organize the world's information and make it universally accessible and useful'. In accomplishing that mission, Google has been spectacularly successful. Despite formidable competition from giants such as Microsoft and Yahoo!, Google's US share of online search stands at a decisive 65 per cent, more than double the market shares of its next two competitors combined. The company also dominates in paid online and mobile search-related advertising revenue. But Google has rapidly become much more than just an online search and advertising company. In Google's view, information is a kind of natural

resource – one to be mined, refined and universally distributed. That broad mission gives Google's engineers and developers a blank canvas, a broad brush and plenty of incentive to innovate. Google's passion for innovation has taken it well beyond its core online search and advertising businesses. The nimble innovator implements major new products and services in less time than it takes most competitors to refine and approve an initial idea. The company's new product planning looks ahead only four to five months. Google would rather see projects fail quickly than see a carefully planned, drawn-out project fail. Google's famously chaotic innovation process has unleashed a seemingly unending flurry of diverse products, most of which are market leaders in their categories. Although diverse, many of these innovations are tied in one way or another to Google's internet-related information mission. Google's many mega-hits include an email service (Gmail), a digital media store (Google Play), an online payment service (Google Wallet), a photo sharing service (Google Photos), a mobile operating system (Google Android), an online social network (Google+), a cloud-friendly internet browser (Chrome), affordable laptops with a browser for an operating system (Chromebooks) and even projects for mapping and exploring the world (Google Maps and Google Earth).

But Google's wild-eyed innovation process has also taken the company down paths that are pretty far afield from its main information mission – everything from smart-home systems and self-driving cars to earth-imaging satellites and even a crusade to increase human life span. In fact, Google has innovated into so many diverse new ventures that it created a broader organisation – a parent holding company called Alphabet – to contain them all. Google is the largest Alphabet company. It continues to house information and internet-related products, anything to do with search, advertising, maps, apps, Android, Chrome and even YouTube. But along with Google, Alphabet provides an independent home for the company's more far-reaching collection of projects and businesses. One such business is Nest Labs – a maker of smart thermostats and smoke alarms that Google acquired. Nest has become Google's (now Alphabet's) doorway into today's Internet of Things (IoT). Fast-growing Nest is moving quickly into the exploding 'smart homes' arena with 'Works with Nest' applications by which its devices interact with and control everything from basic appliances to state-of-the-art video monitoring devices, smart door locks and just about anything else around the house. Backed by Alphabet's substantial resources and innovation prowess, Nest may soon be helping you run your entire home, a huge potential market.

Google's innovation machine has long been renowned for 'moonshots' – futuristic, breathtakingly idealistic long shots that, if successful, will profoundly change how people live. To foster moonshots, Google created Google X – a secretive innovation lab and kind of nerd heaven charged with developing things that seemed audacious, even for Google. The innovation lab is Alphabet's incubator for earth-shaking projects that may or may not pay for themselves in the long run. X's most notable innovations so far have been in wearable smart devices, such as Glass virtual-reality eyewear, which jump-started the wearable technology trend. But behind X's secret curtain are numerous other futuristic projects, such as Project Loon (a Wi-Fi-distributing high-altitude balloons network), Project Titan (like Project Loon only with solar-powered drones), Project Wing (a drone product delivery system), Makani (kite-like wind-energy production) and Replicant (robotics and consumer robot products). X also includes Google's much-publicised self-driving car project, once thought to be pure science fiction but now surprisingly close to reality. In addition to Nest and X, Alphabet includes Fiber, the ultrafast fibre-optic internet service that is rolling out across the country. Lesser-known Alphabet companies include investment arms Ventures (funding for bold new start-ups) and Capital (funding for long-term tech projects), Verily (healthcare projects, such as glucose-monitoring contact lenses) and Calico (research into fighting age-related disease and increasing life span). According to Google co-founder Larry Page, Alphabet's goal is 'to keep tremendous focus on the extraordinary opportunities' that exist and will exist within Google and the other companies. In the end, at Google (and at parent company Alphabet), innovation is more than a process – it's part of the company's DNA. 'Where does innovation happen at Google? It happens everywhere', says a Google research scientist.

Author comment

A company's products are born, grow, mature and then decline, just as living things do. To remain vital, the firm must continually develop new products and manage them effectively throughout their life cycles.

Product life-cycle strategies

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

Product life cycle (PLC) The course of a product's sales and profits over its lifetime.

Figure 9.2 shows a typical **product life cycle (PLC)**, the course that a product's sales and profits take over its lifetime. The PLC has five distinct stages:

1. *Product development* begins when the company finds and develops a new product idea. During product development, sales are zero and the company's investment costs mount.
2. *Introduction* is a period of slow sales growth as the product is introduced in the market. Profits are non-existent in this stage because of the heavy expenses of product introduction.
3. *Growth* is a period of rapid market acceptance and increasing profits.
4. *Maturity* is a period of slowdown in sales growth because the product has achieved acceptance by most potential buyers. Profits level off or decline because of increased marketing outlays to defend the product against competition.
5. *Decline* is the period when sales fall off and profits drop.

Not all products follow all five stages of the PLC. Some products are introduced and die quickly; others stay in the mature stage for a long, long time. Some enter the decline stage and are then cycled back into the growth stage through strong promotion or repositioning. It seems that a well-managed brand could live forever. Venerable brands like Coca-Cola, Gillette, Budweiser, Guinness, American Express, HSBC, Heinz, Kikkoman and Tabasco sauce, for instance, are still going strong after more than 100 years. Guinness beer has been around for more than 250 years, Tabasco sauce brags that it's 'over 140 years old and still able to totally whup your butt!'

The PLC concept can describe a *product class* (petrol-powered cars), a *product form* (SUVs), or a *brand* (the Ford Kuga). The PLC concept applies differently in each case. Product classes have the longest life cycles; the sales of many product classes stay in the mature stage for a long time. Product forms, in contrast, tend to have the standard PLC shape. Product forms such as dial telephones, VHS tapes and film cameras passed through a regular history of introduction, rapid growth, maturity and decline.

A specific brand's life cycle can change quickly because of changing competitive attacks and responses. For example, although laundry soaps (product class) and powdered

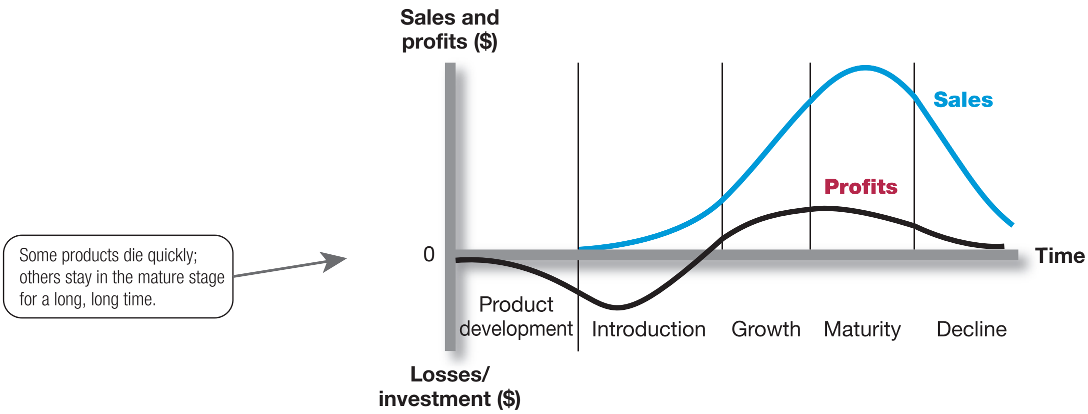


Figure 9.2 Sales and profits over the product's life from inception to decline

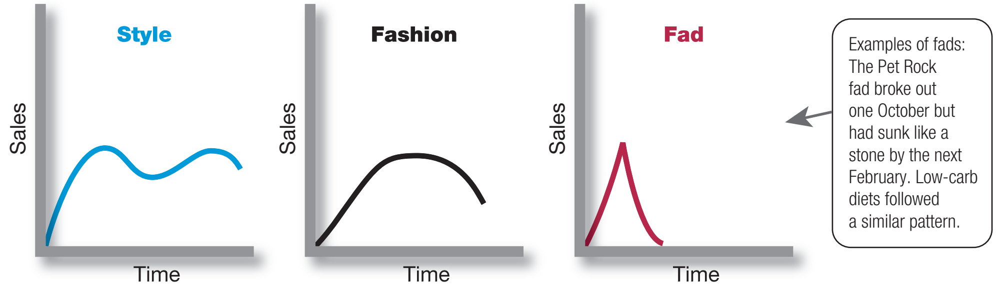


Figure 9.3 Styles, fashions and fads

Style A basic and distinctive mode of expression.

Fashion A currently accepted or popular style in a given field.

Fad A temporary period of unusually high sales driven by consumer enthusiasm and immediate product or brand popularity.

detergents (product form) have enjoyed fairly long life cycles, the life cycles of specific brands have tended to be much shorter. For example, the leading brands nowadays in mobile phone sector are Apple and Samsung, while about two decades ago, they were Nokia and Motorola.

The PLC concept also can be applied to what are known as styles, fashions and fads. Their special life cycles are shown in Figure 9.3. A **style** is a basic and distinctive mode of expression. For example, styles appear in homes (country cottage, townhouse, functional art deco), clothing (formal, casual) and art (realist, surrealist, abstract). Once a style is invented, it may last for generations, passing in and out of vogue. A style has a cycle showing several periods of renewed interest.

For example, based in London, Brompton folding bicycles have attracted a cult following among commuters in UK cities and those in Germany, Hong Kong, Singapore, Japan and the US, who buy around 45,000 bikes a year. The distinctively styled bicycle can be folded in a few easy movements. It is not aimed at cycling enthusiasts but at city commuters who are linked by their weariness with public transport and inner-city traffic – it is a solution to an urban living problem and a lifestyle choice. It has also achieved fanatical loyalty and a strong group identity among users.[26]

A **fashion** is a currently accepted or popular style in a given field. For example, the more formal 'business attire' look of corporate dress of the 1980s and 1990s gave way to the 'business casual' look of the 2000s and 2010s. Fashions tend to grow slowly, remain popular for a while, and then decline slowly.

Fads are temporary periods of unusually high sales driven by consumer enthusiasm and immediate product or brand popularity.[27] A fad may be part of an otherwise normal life cycle, as in the case of recent surges in the sales of poker chips and accessories. Or the fad may comprise a brand's or product's entire life cycle. Pet Rocks are a classic example. Upon hearing his friends complain about how expensive it was to care for their dogs, advertising copywriter Gary Dahl joked about his pet rock. He soon wrote a spoof of a dog-training manual for it, titled *The Care and Training of Your Pet Rock*. Soon Dahl was selling some 1.5 million ordinary beach pebbles at $4 each. Yet the fad, which broke one October, had sunk like a stone by the next February. Dahl's advice to those who want to succeed with a fad: 'Enjoy it while it lasts.' Other examples of fads include Silly Bandz, Furbies and selfie sticks.[28]

The Brompton folding bike provides a solution to an urban living problem and a lifestyle choice. It has also achieved fanatical loyalty and a strong group identity among users.

Source: Hugh Threlfall/Alamy Stock Photo

In Britain, chocolate and nut spread Nutella has been described as the fad that the 'health police' hate:[29]

> Nutella was invented in an Italian bakery half a century ago. In Britain the product now sells around 11 million jars a year with revenue of around £30 million, growing 22 per cent last year alone. Nutella's Facebook page has a global audience of 26 million people. Nutella is a thick brown gloop containing hazelnuts that is spread on toast, used as a pancake filling and provides the 'secret' ingredient for delicious chocolate cakes. In an age of anti-obesity campaigns it is an anachronism, but one that inspires incredible loyalty among its fans. Nutella has been embraced by the British middle class, even though it is unhealthy. For owner Ferrero SpA, Nutella has become big business. The Nutella fad shows no sign of slowing – Ferrero has opened Nutella cafés in Chicago and New York, selling Nutella pastries and treats, and the product's 50th birthday was celebrated with a special stamp issued by the Italian postal service, street parties throughout Europe and a pop concert in Naples. And this for a product where a single tablespoon has 100 calories, which is sickly sweet, and bad for the teeth and the waistline.

Marketers can apply the product life-cycle concept as a useful framework for describing how products and markets work. And when used carefully, the PLC concept can help in developing good marketing strategies for the different life-cycle stages. However, using the PLC concept for forecasting product performance or developing marketing strategies presents some practical problems. For example, in practice, it is difficult to forecast the sales level at each PLC stage, the length of each stage and the shape of the PLC curve. Using the PLC concept to develop marketing strategy also can be difficult because strategy is both a cause and a result of the PLC. The product's current PLC position suggests the best marketing strategies, and the resulting marketing strategies affect product performance in later stages.

Moreover, marketers should not blindly push products through the traditional product life-cycle stages. Instead, marketers often defy the 'rules' of the life cycle and position or reposition their products in unexpected ways. By doing this, they can rescue mature or declining products and return them to the growth phase of the life cycle. Or they can leapfrog obstacles that slow consumer acceptance and propel new products forward into the growth phase.

The moral of the product life cycle is that companies must continually innovate; otherwise, they risk extinction. No matter how successful its current product line-up, a company must skilfully manage the life cycles of existing products for future success. And to grow, the company must develop a steady stream of new products that bring new value to customers. Toy maker Mattel is learning this lesson the hard way. It has long dominated the world toy industry with classic brands such as Barbie, Hot Wheels, Fisher-Price and American Girl. In recent years, however, as its core brands have matured, Mattel's sales have stagnated at the hands of nimbler, more innovative competitors.[30]

> Mattel has ruled the toy industry for generations, with classic brands such as Barbie, Hot Wheels, Fisher-Price, American Girl and a host of others. For more than 50 years, Mattel's toys have topped the wish lists of children across America. With broader toy industry trends – declining birth rates, rising costs, unfavourable economic conditions and the boom in digital technologies that make many traditional toys now seem like relics from the past, the global toy industry has stagnated in recent years, with market leaders such as Mattel and Hasbro taking the biggest hits. Yet none of that has slowed Mattel's hottest competitor, The LEGO Group. LEGO recently surged past Mattel and Hasbro to become the world's largest toy maker. LEGO's success suggests that Mattel's problems go beyond just industry ups and downs. Rather, the company appears to have a product life-cycle problem – lots of good old products but too few good new ones. In an industry facing a barrage of hot new playthings, Mattel has lagged in product development and failed to adapt to rapidly changing toy trends and tastes.

Consider Barbie, Mattel's biggest and oldest brand. Born in 1959, Barbie quickly became a must-have for young girls everywhere. By the late 1970s, 90 per cent of US girls between the ages of 5 and 10 owned at least one Barbie. For more than five decades, Barbie has remained Mattel's number-one money-maker, accounting for as much as 30 per cent of its revenues. But during the past few years, Barbie's popularity has spiralled downward. Like many other Mattel brands, Barbie is showing her age. Designers work tirelessly on new Barbie models and features. An example is Entrepreneur Barbie, the first Barbie with her own smartphone and LinkedIn profile. And Mattel recently introduced Hello Barbie, a talking, interactive, Wi-Fi-connected doll. Still, Barbie continues to lose relevance alongside trendier toy aisle juggernauts like Disney's *Frozen* line of toys and play sets.

Over the years, as Barbie has aged, Mattel has tried to round out its product portfolio with new, younger lines of dolls. In the late 1990s, the company purchased the wildly popular, premium-priced American Girl line. And more recently, it created runaway hit Monster High – a line of dolls and accessories composed of characters such as Draculaura, Ghoulia Yelps and Abbey Bominable. However, much like Barbie, both American Girl and Monster High are now maturing and experiencing sales declines. With most of its core brands in mature or declining life-cycle stages, Mattel is fighting an uphill battle. Take Hot Wheels, long the market leader in toy cars. Mattel has had modest success in revitalising the mature brand by taking it into hot pockets of the market. For example, as the popularity of remote-control helicopters and drones has soared in recent years, Hot Wheels launched the Street Hawk, a flying remote-control car. Street Hawk became one of the biggest hits during its first holiday season. Still, the hits have been too few and too far between. Even with its avid cross-generational collector base, the Hot Wheels brand is barely holding its own against the onslaught of new-age products from competitors with more inspired innovation.

As its own core brands have aged, Mattel has injected new life into its product lines by licensing hot characters from popular movies, TV shows and comic books. Specifically, Mattel made a small fortune with licensed Disney Princesses and *Frozen* dolls and toys. It recently launched a line of Star Wars Hot Wheels cars and it has partnered with Warner Bros. Entertainment on 10 upcoming films based on DC Comics characters. Although profitable, however, such licensed products can't compensate for Mattel's inability to revitalise its own brands and develop new ones. For example, Mattel recently lost its Disney Princesses and *Frozen* character rights to rival Hasbro, leaving a huge revenue hole to fill. Thus, to regain its prowess in today's turbulent, fast-changing toy market, Mattel must develop a faster, more nimble, more customer-focused process for developing relevant new products and guiding them profitably through their product life cycles. Beyond reinvigorating its classic brands, Mattel must create a steady stream of exciting new ones that stay ahead of changing consumer trends and tastes. For Mattel, mastering the product life cycle is more than just fun and games. It's a matter of growth, prosperity and even long-term survival.

We looked at the product development stage of the PLC in the first part of this chapter. We now look at strategies for each of the other life-cycle stages.

Introduction stage

The **introduction stage** starts when a new product is first launched. Introduction takes time, and sales growth is apt to be slow. Well-known products such as frozen foods and HDTVs lingered for many years before they entered a stage of more rapid growth.

Introduction stage The PLC stage in which a new product is first distributed and made available for purchase.

In this stage, as compared to other stages, profits are negative or low because of the low sales and high distribution and promotion expenses. Much money is needed to attract distributors and build their inventories. Promotion spending is relatively high to inform consumers of the new product and get them to try it. Because the market is not generally ready for product refinements at this stage, the company and its few competitors produce basic versions of the product. These firms focus their selling on those buyers who are the most ready to buy.

A company, especially the *market pioneer*, must choose a launch strategy that is consistent with the intended product positioning. It should realise that the initial strategy is just the first step in a grander marketing plan for the product's entire life cycle. If the pioneer chooses its launch strategy to make a 'killing', it may be sacrificing long-term revenue for the sake of short-term gain. The pioneer has the best chance of building and retaining market leadership if it plays its cards correctly from the start.

Growth stage

Growth stage The PLC stage in which a product's sales start climbing quickly.

If the new product satisfies the market, it will enter a **growth stage** in which sales will start climbing quickly. The early adopters will continue to buy, and later buyers will start following their lead, especially if they hear favourable word of mouth. Attracted by the opportunities for profit, new competitors will enter the market. They will introduce new product features, and the market will expand. The increase in competitors leads to an increase in the number of distribution outlets, and sales jump just to build reseller inventories. Prices remain where they are or decrease only slightly. Companies keep their promotion spending at the same or a slightly higher level. Educating the market remains a goal, but now the company must also meet the competition.

Profits increase during the growth stage as promotion costs are spread over a large volume and as unit manufacturing costs decrease. The firm uses several strategies to sustain rapid market growth as long as possible. It improves product quality and adds new product features and models. It enters new market segments and new distribution channels. It shifts some advertising from building product awareness to building product conviction and purchase, and it lowers prices at the right time to attract more buyers.

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

Maturity stage

Maturity stage The PLC stage in which a product's sales growth slows or levels off.

At some point, a product's sales growth will slow down, and it will enter the **maturity stage**. This maturity stage normally lasts longer than the previous stages, and it poses strong challenges to marketing management. Most products are in the maturity stage of the life cycle, and therefore most of marketing management deals with the mature product.

The slowdown in sales growth results in many producers with many products to sell. In turn, this over-capacity leads to greater competition. Competitors begin marking down prices, increasing their advertising and sales promotions, and upping their product development budgets to find better versions of the product. These steps lead to a drop in profit. Some of the weaker competitors start dropping out, and the industry eventually contains only well-established competitors.

Although many products in the mature stage appear to remain unchanged for long periods, most successful ones are actually evolving to meet changing consumer needs. Product managers should do more than simply ride along with or defend their mature products – a good offence is the best defence. They should consider modifying the market, product offering and marketing mix.

In *modifying the market*, the company tries to increase consumption by finding new users and new market segments for its brands. For example, brands such as Harley-Davidson and Lynx fragrances, which have typically targeted male buyers, have created products and marketing programmes aimed at women. Conversely, Weight Watchers and Dior, which have typically targeted women, have created products and programmes aimed at men.

The company may also look for ways to increase usage among present customers. For example, 3M recently ran a marketing campaign to inspire more usage of its Post-it products.[31] The Post-it 'Go Ahead' campaign aimed to convince customers that the sticky pieces of paper are good for much more than just scribbling temporary notes and reminders. An initial ad showed people on a college campus blanketing a wall outside a building with Post-it Notes answering the question 'What inspires you?' 'Share on a real wall', the announcer explained. Other scenes showed a young man filling a wall with mosaic artwork created from multiple colours of Post-it Notes, teachers using Post-it Notes to enliven their classrooms and a man posting a 'Morning, beautiful' note on the bathroom mirror as his wife is brushing her teeth. 'Go ahead,' said the announcer, 'keep the honeymoon going.' The ad ended with a hand peeling Post-it Notes off a pad one by one to reveal new, unexpected uses: 'Go ahead, Connect', 'Go ahead, Inspire' and 'Go ahead, Explore'.

Lynx, which has typically targeted male buyers, have created products and marketing programmes aimed at women.

Source: Dorset Media Service/ Alamy Stock Photo

The company might also try *modifying the product* – changing characteristics such as quality, features, style, packaging or technology platforms to retain current users or attract new ones. Thus, to freshen up their products for today's technology-obsessed children, many classic toy and game makers are creating new digital versions or add-ons for old favourites. For example, the venerable Crayola brand has souped-up its product line to meet the technology tastes of the new generation. With the Crayola My Virtual Fashion Show drawing kit and app, for instance, children first design fashions using the coloured pencils and sketchpad provided. They then take photos of the designs with their smartphones or tablets and watch their original creations magically come to life inside the app on 3D models who walk virtual runways in Milan, New York and Paris.[32]

Finally, the company can try *modifying the marketing mix* – improving sales by changing one or more marketing mix elements. The company can offer new or improved services to buyers. It can cut prices to attract new users and competitors' customers. It can launch a better advertising campaign or use aggressive sales promotions – trade deals, money-off, premiums and contests. In addition to pricing and promotion, the company can also move into new marketing channels to help serve new users.

PepsiCo used all of these market, product and marketing mix modification approaches to reinvigorate its 137-year-old Quaker brand and keep it from sinking into decline. To reawaken the brand, Quaker launched a major new 'Quaker Up' marketing campaign, supported by an estimated $100 million budget:[33]

> The 'Quaker Up' campaign targets a new market of young mothers under 35, positioning Quaker's lines of hot and cold cereals, snack bars, cookies and other products, as healthy lifestyle choices that help give a young family the fuel and energy needed to get through the day. The campaign advises families to 'Quaker Up – with Quaker's good energy for the moments that matter.' As part of the retargeting and repositioning effort, Quaker has modernised every element of the brand, from products and packaging to in-store displays and ad platforms. To start, it slimmed

down the iconic Quaker man by 20 pounds and gave him a facelift to make him look healthier, stronger and more contemporary. The brand added new energy-packed products, such as Quaker Medleys – a hearty blend of oats and grains with real fruit and nuts; Quaker Soft Baked Bars – high in fibre, protein and B vitamins; and Quaker Protein – protein-packed instant porridge and baked energy bars. Befitting the more mobile and connected lifestyles of today's young parents, the 'Quaker Up' campaign also incorporates a healthy dose of digital media, including banner ads, YouTube videos, a Facebook app, a Quaker Up community website and a full slate of other digital content. In all, despite its age, the re-energised Quaker brand now has a much younger appeal. 'People know the brand, people love the brand, but we needed to forge a stronger connection with contemporary moms', says Quaker's chief marketing officer.

Decline stage

Decline stage The PLC stage in which a product's sales fade away.

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

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

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

For these reasons, companies must identify products in the decline stage and decide whether to maintain, harvest or drop them. Management may decide to *maintain* its brand, repositioning or reinvigorating it in hopes of moving it back into the growth stage of the product life cycle. P&G has done this with several brands, including Mr. Clean in the US and Canada and Old Spice internationally. Over the past decade, P&G has retargeted, repositioned, revitalised and extended both of these old brands, taking each from near extinction to billion-dollar-brand status.

Management may decide to *harvest* the product, which means reducing various costs (plant and equipment, maintenance, R&D, advertising, sales force), hoping that sales hold up. If successful, harvesting will increase the company's profits in the short term. Finally, management may decide to *drop* the product from its line. The company can sell the product to another firm or simply liquidate it at salvage value. If the company plans to find a buyer, it will not want to run down the product through harvesting. In recent years, P&G has sold off several declining brands and brands that no longer fit strategically, such as Folgers coffee, Crisco oil, Comet cleanser, Sure deodorant, Noxzema, Duncan Hines cake mixes, Cover Girl and Max Factor cosmetics, Duracell batteries, Iams pet foods and others.[34]

Table 9.2 summarises the key characteristics of each stage of the PLC. The table also lists the marketing objectives and strategies for each stage.[35]

Table 9.2 Summary of product life-cycle characteristics, objectives and strategies

	Introduction	Growth	Maturity	Decline
Characteristics				
Sales	Low sales	Rapidly rising sales	Peak sales	Declining sales
Costs	High cost per customer	Average cost per customer	Low cost per customer	Low cost per customer
Profits	Negative	Rising profits	High profits	Declining profits
Customers	Innovators	Early adopters	Mainstream adopters	Lagging adopters
Competitors	Few	Growing number	Stable number beginning to decline	Declining number
Marketing objectives				
	Create product engagement and trial	Maximise market share	Maximise profit while defending market share	Reduce expenditure and milk the brand
Strategies				
Product	Offer a basic product	Offer product extensions, service and warranty	Diversify brand and models	Phase out weak items
Price	Use cost-plus	Price to penetrate market	Price to match or beat competitors	Cut price
Distribution	Build selective distribution	Build intensive distribution	Build more intensive distribution	Go selective: phase out unprofitable outlets
Advertising	Build product awareness among early adopters and dealers	Build engagement and interest in the mass market	Stress brand differences and benefits	Reduce to level needed to retain hard-core loyals
Sales promotion	Use heavy sales promotion to entice trial	Reduce to take advantage of heavy consumer demand	Increase to encourage brand switching	Reduce to minimal level

Source: Based on Philip Kotler and Kevin Lane Keller, *Marketing Management*, 15th ed. (Hoboken, NJ: Pearson Education, 2016), p. 358. © 2016. Printed and electronically reproduced by permission of Pearson Education, Inc., Hoboken, New Jersey.

Additional product and service considerations

We wrap up our discussion of products and services with two additional considerations: social responsibility in product decisions and issues of international product and services marketing.

Author comment

Let's look at just a few more product topics, including regulatory and social responsibility issues and the special challenges of marketing products internationally.

Product decisions and social responsibility

Marketers should carefully consider public policy issues and regulations regarding acquiring or dropping products, patent protection, product quality and safety, and product warranties.

Regarding new products, the government may prevent companies from adding products through acquisitions if the effect threatens to lessen competition. Companies dropping products must be aware that they have legal obligations, written or implied, to their suppliers, dealers and customers who have a stake in the dropped product. Companies must also obey the patent laws of different countries when developing new products. A company cannot make its product illegally similar to another company's established product.

Manufacturers must comply with specific laws, which vary across different countries, regarding product quality and safety. If consumers have been injured by a product with a defective design, they can sue manufacturers or dealers. A recent survey of manufacturing companies found that product liability was the second-largest litigation concern, behind only labour and employment matters. Although manufacturers are found to be at fault in only a small percentage of all product liability cases, when they are found guilty, awards can run into the tens or even hundreds of millions of dollars. Class-action suits can run into the billions. For example, after it recalled 11 million vehicles for accelerator-pedal-related issues, Toyota faced more than 100 class-action and individual lawsuits and ended up paying a $1.6 billion settlement to compensate owners for financial losses associated with the defect. And GM has so far paid more than $2 billion in fines and settlements over a faulty ignition switches that caused the deaths of more than 120 drivers.[36]

This litigation phenomenon has resulted in huge increases in product liability insurance premiums, causing big problems in some industries. Some companies pass these higher rates along to consumers by raising prices. Others are forced to discontinue high-risk product lines. Some companies are now appointing *product stewards*, whose job is to protect consumers from harm and the company from liability by proactively ferreting out potential product problems.

International product and services marketing

International product and services marketers face special challenges. First, they must figure out what products and services to introduce and in which countries. Then they must decide how much to standardise or adapt their products and services for world markets. On one hand, companies would like to standardise their offerings. Standardisation helps a company develop a consistent worldwide image. It also lowers the product design, manufacturing and marketing costs of offering a large variety of products. On the other hand, markets and consumers around the world differ widely. Companies must usually respond to these differences by adapting their product offerings.

For example, McDonald's operates in more than 100 countries, with sometimes widely varying local food preferences. So although you'll find its signature burgers and fries in most locations around the world, the chain has added menu items that meet the unique taste buds of customers in local markets. McDonald's serves salmon burgers in Norway, mashed-potato burgers in China, shrimp burgers in Japan, a Samurai Pork Burger in Thailand, chicken porridge in Malaysia and Spam and eggs in Hawaii. In a German McDonald's, you'll find the Nürnburger (three large bratwurst on a soft roll with lots of mustard, of course); in Israel, there's the McFalafel (chickpea fritters, tomatoes, cucumber and cheese, topped with tahini and wrapped in laffa). And menus in Turkey feature a chocolate orange fried pie (Brazil adds banana, Egypt taro and Hawaii pineapple).

In many major global markets, McDonald's adapts more than just its menu. It also adjusts its restaurant design and operations. For example, McDonald's France has redefined itself as a French company that adapts to the needs and preferences of French consumers:[37]

> 'France – the land of haute cuisine, fine wine and cheese – would be the last place you would expect to find a thriving [McDonald's],' opines one observer. Yet the fast-food giant has turned France into its second-most profitable world market. Although a McDonald's in Paris might at first seem a lot like one in Chicago, McDonald's has carefully adapted its French operations to the preferences of local customers. At the most basic level, although a majority of revenues still come from burgers and fries, McDonald's France has changed its menu to please the French palate. For instance, it offers up burgers with French cheeses such as chevre, cantel and bleu, topped off with whole-grain French mustard sauce. And French consumers love baguettes, so McDonald's bakes them fresh in its restaurants and sells them in oh-so-French McBaguette sandwiches.
>
> But perhaps the biggest difference isn't in the food, but in the design of the restaurants themselves, which have been adapted to suit French lifestyles. For example, French mealtimes tend to be longer, with more food consumed per sitting. So McDonald's has refined its restaurant interiors to create a comfortable, welcoming environment where customers want to linger and perhaps order an additional coffee or dessert. McDonald's even provides table service. As a result, the average French McDonald's customer spends about four times what an American customer spends per visit.

Service marketers also face special challenges when going global. Some service industries have a long history of international operations. For example, the commercial banking industry was one of the first to grow internationally. Banks had to provide global services to meet the foreign exchange and credit needs of their home-country clients who wanted to sell overseas. In recent years, many banks have become truly global. Germany's Deutsche Bank, for example, serves more than 28 million customers through 2,700 branches in more than 70 countries. For its clients around the world who wish to grow globally, Deutsche Bank can raise money not only in Frankfurt but also in Zurich, London, Paris, Tokyo and Moscow.[38]

Carrefour, which originated in France, now operates more than 10,000 stores in 34 countries. It is the leading retailer in Europe, Brazil and Argentina and the largest foreign retailer in China.
Source: Joinmepic/Shutterstock

Retailers are among the latest service businesses to go global. As their home markets become saturated, European retailers such as Carrefour and Tesco are expanding into faster-growing markets abroad. For example, Carrefour now operates more than 10,000 stores in 34 countries. It is the leading retailer in Europe, Brazil and Argentina, and the largest foreign retailer in China.[39] Foreign retailers are making similar moves. Costco, an American retailer that operates a chain of membership-only warehouse clubs, now has 28 stores in the UK and over 700 worldwide. British shoppers can buy many American products in Costco stores.

The trend toward growth of global service companies will continue, especially in banking, airlines, telecommunications and professional services. Today, service firms are no longer simply following their manufacturing customers. Instead, they are taking the lead in international expansion.

Learning outcomes review

A company's current products face limited life spans and must be replaced by newer products. But new products can fail – the risks of innovation are as great as the rewards. The key to successful innovation lies in a customer-focused, holistic, total-company effort; strong planning; and a systematic new product development process.

Objective 1 Explain how companies find and develop new product ideas (pp. 271–278)

Companies find and develop new product ideas from a variety of sources. Many new product ideas stem from *internal sources*. Companies conduct formal R&D, or they pick the brains of their employees, urging them to think up and develop new product ideas. Other ideas come from *external sources*. Companies track *competitors*' offerings and obtain ideas from *distributors and suppliers* who are close to the market and can pass along information about consumer problems and new product possibilities.

Perhaps the most important sources of new product ideas are *customers* themselves. Companies observe customers, invite them to submit their ideas and suggestions, or even involve customers in the new product development process. Many companies are now developing *crowdsourcing* or *open-innovation* new product idea programmes, which invite broad communities of people – customers, employees, independent scientists and researchers, and even the general public – into the new product innovation process. Truly innovative companies do not rely only on one source for new product ideas.

Objective 2 List and define the steps in the new product development process and the major considerations in managing this process (p. 278)

The new product development process consists of eight sequential stages. The process starts with *idea generation*. Next comes *idea screening*, which reduces the number of ideas based on the company's own criteria. Ideas that pass the screening stage continue through *product concept development*, in which a detailed version of the new product idea is stated in meaningful consumer terms. This stage includes *concept testing*, in which new product concepts are tested with a group of target consumers to determine whether the concepts have strong consumer appeal. Strong concepts proceed to *marketing strategy development*, in which an initial marketing strategy for the new product is developed from the product concept. In the *business analysis* stage, a review of the sales, costs and profit projections for a new product is conducted to determine whether the new product is likely to satisfy the company's objectives. With positive results here, the ideas become more concrete through *product development* and *test marketing* and finally are launched during *commercialisation*.

New product development involves more than just going through a set of steps. Companies must take a systematic, holistic approach to managing this process. Successful new product development requires a customer-centred, team-based, systematic effort.

Objective 3 Describe the stages of the product life cycle and how marketing strategies change during a product's life cycle (pp. 282–289)

Each product has a *life cycle* marked by a changing set of problems and opportunities. The sales of the typical product follow an S-shaped curve made up of five stages. The cycle begins with the *product development* stage in which the company finds and develops a new product idea. The *introduction stage* is marked by slow growth and low profits as the product is distributed to the market. If successful, the product enters a *growth stage*, which offers rapid sales growth and increasing profits. Next comes a *maturity stage* in which the product's sales growth slows down and profits stabilise. Finally, the product enters a *decline stage* in which sales and profits dwindle. The company's task during this stage is to recognise the decline and decide whether it should maintain, harvest or drop the product. The different stages of the PLC require different marketing strategies and tactics.

Objective 4 Discuss two additional product issues: socially responsible product decisions and international product and services marketing (pp. 289–291)

Marketers must consider two additional product issues. The first is *social responsibility*. This includes public policy issues and regulations involving acquiring or dropping products, patent protection, product quality and safety, and product warranties. The second involves the special challenges facing international product and services marketers. International marketers must decide how much to standardise or adapt their offerings for world markets.

Navigating the key terms

Objective 1
New product development (p. 271)

Objective 2
Idea generation (p. 271)
Crowdsourcing (p. 274)
Idea screening (p. 274)
Product concept (p. 275)
Concept testing (p. 275)
Marketing strategy development (p. 276)
Business analysis (p. 277)
Product development (p. 277)
Test marketing (p. 277)
Commercialisation (p. 278)
Customer-centred new product development (p. 279)
Team-based new product development (p. 280)

Objective 3
Product life cycle (PLC) (p. 282)
Style (p. 283)
Fashion (p. 283)
Fad (p. 283)
Introduction stage (p. 285)
Growth stage (p. 286)
Maturity stage (p. 286)
Decline stage (p. 288)

Discussion and critical thinking

Discussing the concepts

9.1 Why do so many new products fail? (AACSB: Communication)

9.2 What is idea generation? List and explain the sources of new product ideas. (AACSB: Communication; Reflective thinking)

9.3 What actions are performed in the business analysis step of the new product development process? How does a business carry out this step? (AACSB: Communication)

9.4 How can companies adopt a holistic approach to managing new product development? (AACSB: Communication)

9.5 Describe the options available to marketers of products in the decline stage of the product life cycle. (AACSB: Communication)

Critical-thinking exercises

9.6 Companies large and small, across all industries, are crowdsourcing product innovation ideas. Research three crowdsourcing campaigns that companies have used within the past two years. Were they successful? Explain. (AACSB: Communication; Use of IT; Reflective thinking)

9.7 In small groups, research driverless cars. In what stage of the new product development process are driverless cars? What challenges are companies such as Google, Apple, Amazon and Ford facing in getting this product to the launch stage? (AACSB: Communication; Use of IT; Reflective thinking)

9.8 Find an example of a company that launched a new consumer product within the past five years. Develop a presentation showing how the company implemented the four Ps in launching the product and report on the product's success since the launch. (AACSB: Communication; Reflective thinking)

Mini cases and applications

Online, mobile and social media marketing: telemedicine

With the majority of health-care costs spent on the treatment of chronic diseases and the reason for most visits to the accident and emergency department being non-emergencies, the time is ripe for telemedicine. Patients are tapping their phones, tablets and keyboards instead of making a doctor's visit or trip to A&E. Technology makes it possible for doctors to consult with patients through Skype or FaceTime on smartphones, access medical tests via electronic medical records and send a prescription to a patient's local pharmacy – all from miles away. The telemedicine industry is still in its infancy, earning only $200 million in annual revenue, but it is predicted to increase to an almost $2 billion industry in just a few years.

9.9 Research the telemedicine industry and describe two companies offering services. What are the pros and cons of offering medical services this way, and is there governmental or industry guidance for this industry? (AACSB: Communication; Reflective thinking)

9.10 In what stage of the product life cycle is telemedicine? What role has mobile technology played in evolution of this industry? Explain. (AACSB: Communication; Reflective thinking)

Marketing ethics: put on your thinking caps!

For years, electrical current has been used to treat brain disorders, such as depression, Parkinson's disease and epilepsy. Traditional electrical treatment methods are invasive and require sending large currents or implanting devices in users' brains to achieve positive results. Recent studies have shown, however, that sending non-invasive low-dose electric current powered by a nine-volt battery through the brains of adults and children helps them to learn math and languages better. In the US, for as little as $55, you can purchase your own transcranial direct-current stimulation (tDCS) device to get better grades in school. The Brain Stimulator tDCS Basic Kit allows users to select between four different current levels and a nice blue headband or cap to hold the electrodes next to your skull. The buyer should beware, however, because these devices have been neither reviewed nor approved by the Food and Drug Administration as medical devices.

9.11 Discuss the ethical issues surrounding this type of product. Is there substantial research to support the claims and safety of these new products? (AACSB: Communication; Ethical reasoning)

9.12 What is the Food and Drug Administration's stance on these types of devices and other products marketed as cognitive enhancers, such as herbal supplements? (AACSB: Communication; Reflective thinking)

Marketing by numbers: dental house-calls

With the population of the US, Europe and China ageing, and patients who dread sitting in a sterile dental office, some dentists are finding an opportunity in dental house-calls. In the US, the Blende Dental Group has taken its service on the road in San Francisco and New York City, performing everything from routine exams and cleaning to root canal surgery. Some patients are wealthy and prefer the personal service, whereas others are elderly, home-bound people who cannot get out to the dentist's office. Recreating a dental office in a home requires additional equipment, such as a portable X-ray machine that looks like a ray gun, sterile water tanks, a dental drill, lights and a laptop. A portable X-ray machine alone costs €8,000. Refer to Appendix 2 to answer the following questions.

9.13 What types of fixed costs are associated with this service? Estimate the total fixed costs for this additional service, and, assuming a contribution margin of 40 per cent, determine the amount of sales necessary to break even on this increase in fixed costs to offer this additional service. (AACSB: Communication; Analytical thinking)

9.14 What other factors must a dentist consider before offering this service in addition to their in-office service? (AACSB: Communication; Reflective thinking)

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Company case

Dyson: reinventing continuously

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When we Google the word 'vacuum', we find that the name Dyson nearly always appears in the search results. Since their introduction into market in the early 1990s, Dyson's vacuum cleaners have become one of the world's best-known products for cleaning our carpets.

Best known for its vacuum cleaners, Dyson also sells a range of other products including award-winning hand dryers, bladeless fans, heaters and hair dryers. In 2017, Dyson was named as one of the world's most innovative companies, together with big brands such as Amazon, Google, Apple and Netflix.

Ever since its beginnings in the early 1990s when British inventor James Dyson founded the company, Dyson has established a quality name, best exemplified by the Dyson vacuum cleaners, which use centrifugal force to separate dust from heavier dirt to eliminate the need for a filtered vacuum bag. Today, the company's founder, Sir James Dyson, has an estimated net worth of £3.5 billion.

The long journey in developing the first Dyson vacuum

Dyson's journey to the top of vacuum mountain has been eventful.

Dyson's expedition into the vacuum world began in 1978, when he was determined to find a way to build a better device than the popular vacuums of the day. He started Dyson with an idea for a bagless vacuum that didn't lose suction. The idea seemed so simple – bagged vacuums begin to lose suction as soon as they fill with dust, so Dyson invented a vacuum that didn't rely on bags, and cyclone technology meant the vacuum wouldn't lose suction.

The idea of cyclone technology first came to him after seeing a local sawmill one day, which used a 30-foot-high conical centrifuge that would spin dust out of the air. He later adopted the same technology to build into a vacuum cleaner.

Easier said than done, though. Dyson spent the next 15 years developing and perfecting his design, a process that resulted in 5,127 different prototypes. Those years were tough for the fledgling inventor and his family. 'By 2,627, my wife and I were really counting our pennies', Dyson wrote in 2011. 'By 3,727, my wife was giving art lessons for some extra cash.'

Still, Dyson knew he had something potentially great on his hands and carried on. 'It didn't happen overnight, but after years of testing, tweaking, fist-banging, and after more than 5,000 prototypes, it was there', he said. 'Or nearly there. I still needed to manufacture it and go sell it.'

Challenges in getting market acceptance of the newly developed vacuum

With his patented cyclone technology and design, Dyson had thought that licensing the technology to a company would be simple. The logic is simple enough: after all, who wouldn't want to buy such an innovative product that is considerably more effective than anything else on the market?

Yet, the reality was something quite different. After three years travelling around the world trying to sell his bagless vacuum, Dyson could not find a single buyer. 'These vacuum makers had built a razor-and-blade business model reliant on the profits from bags and filters. No one would license my idea', he explained. 'Not because it was a bad one, but because it was bad for business.'

Despite his inability to sell the technology to large manufacturers, in the mid-1980s, Dyson was able to produce and sell his vacuum with the help of a small licensing company called Apex Limited. The 'G-Force', sold for $2,000, was only available in Japan. This expensive device became something of a status symbol in Japan. Sales in Japan helped Dyson head off on his own to start the Dyson company in 1993.

Dyson soon set up his own workshop in England, and developed his business, which quickly became a household name in the UK and later the world.

Dyson's product portfolios

Washing machine. In the early 1990s, Dyson launched its first washing machine: the CR01 contrarotator. Similar to the cyclone vacuum cleaner, the contrarotator was another example of radical product innovation, using two drums instead of one to mimic the motion of hand washing. However, Dyson stopped manufacturing the washing machines in 2005 as they were losing money. 'The problem was that we didn't charge enough for it. . . As a washing machine, it was a great success. As a business, it wasn't.' He added, 'But you learn a lot from all that failure. Making this washing machine was the most wonderful educative failure.'

Dyson Airblade. In 2006, the Dyson Airblade was launched. This hand dryer uses 430 mph sheets of air to dry hands quickly and hygienically in about 10–12 seconds, preventing bacteria and viruses from being blown onto your hands, a common problem with other hand dryers. The running costs of these Dyson hand dryers are up to 80 per cent less than other hand dryers and up to 98 per cent less than paper towels.

Bladeless Dyson Air Multiplier fan. The bladeless fan was launched in 2009. It works by drawing air in through the base before forcing it through a circular structure. Like the vacuum cleaner, the fan without blades seemed entirely novel and Dyson has continued to develop the technology, re-engineering it to be significantly quieter.

Supersonic hair dryer and beauty products. In 2016, Dyson unveiled its first beauty product, the Supersonic hair dryer. The hair dryer is the result of over £50 million in research, including the construction of a dedicated beauty lab, where over 1,100 miles of human hair were used to test 600 prototype hair dryers. In this new dryer, Dyson combined ultra-power, directed airflow with intelligent heat control to prevent extreme heat damage when drying hair. This dryer has also leveraged stabilising machines, originally used to assemble nuclear weapons, to create a more efficient fan. The result is a slim, lightweight device that is 300 per cent more powerful than the most powerful hair dryers on the market.

Then in 2018, Dyson unveiled its latest beauty product: a $550 curling iron that draws on the principles of aerospace physics to heat your hair, without burning it. This product took six years and $31 million for Dyson to develop.

Robots that suck and see. To develop the core computer vision algorithms for the next generation robotic cleaner, Dyson approached Professor Andrew Davison, a pioneer in visual SLAM research who has been leading the Robot Vision Group at Imperial College since 2005. After over a decade of working together and £28 million worth of research, the Dyson 360 Eye vacuum cleaner was announced, with computer vision at its heart. The robot uses a fish-eye camera lens, allowing it to analyse 30 frames per second of data, and triangulate its position in the room.

Innovating the Dyson way: frustration and failure fuel Dyson's success

According to Dyson, product is king: whatever your product is, please make sure everyone in your company understands the product. In fact, Dyson has famously been known to ask every employee on their first day to make a vacuum cleaner, even if they're working in customer service.

Dyson does not like memos. The logic behind this is that people just rely on memos and emails and don't speak to one another. 'The real value occurs when we meet each other at work, spark off each other, argue with each other. That's when creative things happen'. Dyson added. 'Having a philosophy of disliking emails is healthy'.

Perhaps the most prominent factor contributing to the success of Dyson could be best explained by his story of having 5,126 failures in his vacuum development. He famously took 15 years and failed 5,126 prototypes before he created a vacuum cleaner that worked perfectly. Today, Dyson says he still embraces risk and the potential for failure as part of the process, particularly when it comes to his employees. 'Nothing beats the thrill of invention. Letting people go out and try their ideas, getting them totally involved, and unleashing new thinking', he says. 'They're not bound to any methodology – in fact, the stranger and riskier, the better.'

At Dyson, failure is seen as positive: it allows the engineers to use maths, science and creative thinking to find solutions, build great products more quickly and identify other areas for innovation.

Lengthy R&D and prototyping phases continue to be a core part of the production cycle and innovation at Dyson. Dyson's engineers start the product design process with card and foam models, which they use to map out what needs to go into the product and roughly where the components should go. Then they build prototypes, which are often failures.

Dyson's success to date can be attributed to his perseverance and commitment to continuous innovation and development. These attributes are now a core part of the Dyson business model and culture in the form of structured and incremental innovation, which has allowed Dyson to continue innovating, disrupting markets and outpacing the competition.

Looking into the future

Sir James Dyson is relying on the company's culture of innovation to take its reputation beyond domestic products and into the wider world of cutting-edge technology. In fact, Dyson is now expanding into many areas such as battery storage, robotics, artificial intelligence and even cars. 'We are a technology company and we're passionate about developing technologies that are going to be very important in the future.'

Even so, there are questions over whether the company, sometimes described as 'the UK's Apple', risks overreaching itself as it moves from the home into frontier technologies. Privately held, it remains under the control of its founder. Max Conze, chief executive, may run the business but Sir James decides which research projects get the green light for commercialisation.

'In some companies you get design by committee', says one former Dyson researcher during a BBC interview. 'Dyson is very much the opposite – you just have to convince one person . . . He makes all the calls.'

Others have now questioned the effectiveness of the company's structure, in which the industrial design and engineering teams have worked separately.

Underpinning Dyson's achievements are an obsessive perfectionism and the patience for long-term bets to deliver. Yet, Steve Carden, technology and innovation expert at PA Consulting, believes that Dyson can achieve its goals but that its culture might need to change. In particular, Steve has concerns about the company's painstaking development process where some products have taken more than a decade to come to market. 'This could be out of step with the fast pace of many high-tech industries. Though the market for a vacuum cleaner is on quite a slow life cycle. In effect, you get breathing space to optimise and improve the product', he commented.

Employees say that mistakes can be freely admitted, so researchers are not afraid to push the boundaries. 'They certainly aim at being the best or nothing in each product range they move into', a former researcher at Dyson commented. But developing core technologies requires more than just sheer determination. 'Failing many times doesn't mean you're going to learn much, which is why I have some reservations in trusting they can transition from that culture of product industrial design to broader technological company', he added.

While speaking of the company's culture, another former engineer similarly criticises the 'siloed' nature of the research. 'It doesn't allow cross-fertilisation', he said.

The former employee explained: 'They don't always collaborate successfully – they create more of a battle than a multidisciplinary collaboration, which is what it could be.'

And yet, Dyson's success is indisputable. Since launching its bagless vacuum cleaner, the group has been on a virtually uninterrupted upward trajectory. Sales exceeded £2 billion in 2016, having roughly doubled in the previous six years, according to the company. During the same period, Dyson's market share in eight of the top ten countries for vacuum cleaners increased, according to Euromonitor. Globally, it is the third biggest-selling brand in the $16.7 billion market, behind Bissell and Dirt Devil.

That success has been based on heavy investment in research and development. In 2017, R&D expenditure was equivalent to roughly 18 per cent of sales, and significantly higher than most industrial companies. The company is now looking at how to exploit 'vision robotics', the technology of interpreting pictures and visual moving images. 'We're going where our technology development takes us', Sir James says. 'We are reinventing ourselves all the time in each of the product areas'. The scale of Dyson's ambition emerged recently when a government website revealed it was developing an electric car with help from a state grant. The innovation story of Dyson continues.

Questions for discussion

1. Based on concepts discussed in this chapter, describe the factors that have contributed to Dyson's new product success.
2. It took years for Dyson to successfully launch his first invention. What caused this delay? Explain.
3. Failures in new product development are often seen. What can we learn, and how can we learn from failure?
4. With respect to product life cycle, what challenges does Dyson face in managing its product portfolio?
5. Can Dyson continue to maintain its innovative culture?

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Chapter Ten

Pricing: understanding and capturing customer value

Chapter preview

In this chapter, we look at the second major marketing mix tool – pricing. If effective product development, promotion and distribution sow the seeds of business success, effective pricing is the harvest. Firms successful at creating customer value with the other marketing mix activities must still capture some of this value in the prices they earn. In this chapter, we discuss the importance of pricing, dig into three major pricing strategies, and look at internal and external considerations that affect pricing decisions. In the next chapter, we examine some additional pricing considerations and approaches.

For openers, let's examine pricing at Ryanair. Over the past two decades, Ryanair has changed the airline-pricing world – and annoyed, frustrated and irritated in equal measures the 'old-fashioned' airlines while growing and growing its market share. For Ryanair, 'no-frills' is not just the way forward, it is an obsession.

Learning outcomes

- **Objective 1** You will be able to answer the question 'What is a price?' and discuss the importance of pricing in today's fast-changing environment
  What is a price? (p. 303)
- **Objective 2** You will be able to identify the three major pricing strategies and discuss the importance of understanding customer-value perceptions, company costs and competitor strategies when setting prices.
  Major pricing strategies (pp. 303–311)
- **Objective 3** You will be able to identify and define the other important external and internal factors affecting a firm's pricing decisions.
  Other internal and external considerations affecting price decisions (pp. 311–316)

Ryanair: really good-value pricing – flying for free!

The major airlines are struggling with difficult pricing strategy decisions in these tough air-travel times. Pricing strategies vary widely. One airline, however, appears to have found a radical new pricing solution, one that customers are sure to love: make flying *free*! That's right. Michael O'Leary, CEO of Dublin-based Ryanair, has a dream that someday all Ryanair passengers will fly for free. And with a current average price of €39 per fare, Ryanair is getting closer. While this is somewhat behind the sector leaders, for example, Pegasus (see Chapter 1), in terms of volume and brand recognition, Ryanair leads the Western European 'no-frills' flight market.

They proudly proclaim that 'We are Europe's only ultra-low cost carrier, and that means we bring you the lowest fares on flights to all of our destinations – and that's guaranteed. From the moment Ryanair embraced a no-frills, low-cost, get-you-from-A-to-B model, we've pretty much revolutionised the air travel industry. We get you from A to B, and we get you there cheaper, and more reliably, than any other airline.'

Even without completely free flights, Ryanair has become Europe's most popular carrier. Last year Ryanair flew over 120 million passengers to more than 215 European destinations in 37 countries. The budget airline is also Europe's most profitable one; in 2018 its full year profits were €1.45 billion, showing remarkable recovery from the €50 million costing, pilot rostering debacle of 2017. Over the past decade, even as the global airline industry collectively lost nearly €40 billion, Ryanair has turned healthy net profits in most years. Given the prospects of rising fuel costs, collapsing European economies and other troubled times ahead for the airline industry, Ryanair seems well positioned to weather the turbulence.

What's the secret? Ryanair's frugal cost structure makes even cost-conscious Southwest Airlines look like a reckless spender. In addition, the Irish airline makes money on everything *but* the ticket, from charging for baggage check-in to revenues from seat-back advertising space. Ryanair's low-cost strategy is modelled after Southwest's. Twenty years ago, when Ryanair was just another struggling European carrier, Ryanair's O'Leary went to Dallas to meet with Southwest executives and see what he could learn. The result was a wholesale revamping of the Irish carrier's business model. Following Southwest's lead, to economise, Ryanair began employing only a single type of aircraft – the good-old Boeing 737. Also like Southwest, it began focusing on smaller, secondary airports and offering unassigned passenger seating.

But Ryanair has since taken Southwest's low-cost pricing model even further. When it comes to keeping costs down, O'Leary – who wears jeans, sneakers and off-the-rack short-sleeved shirts – is an absolute fanatic. He wants Ryanair to be known as the Walmart of flying. Like the giant retailer, Ryanair is constantly on the lookout for new ways to cut costs – for example, hard plastic seats with no seat-back pockets reduce both weight and cleaning expense. Ryanair flight crews even buy their own uniforms, and headquarters staff supply their own pens.

O'Leary equates every cost reduction with the benefit to customers in terms of lower ticket prices. Removing all but one toilet from each plane would cut 5 per cent off the average ticket price. Replacing the last 10 rows with a standing cabin – another 20 to 25 per cent off. O'Leary's sometimes nutty proposals for cost-cutting – deliberately provocative so that they're sure to gain free publicity – have even included flying planes with only one pilot ('Let's take out the second pilot. Let the bloody computer fly it.') and having customers place their own bags in the belly of Ryanair planes ('You take your own bag with you. You bring it down. You put it on.'). It all sounds crazy, but think again about those zero-euro ticket prices.

O'Leary's dream of customers flying free rests on the eventuality that, someday, all of Ryanair's revenues will come from 'ancillary' fees. The penny-pinching airline currently takes in only 20 per cent of its revenue from such non-ticket charges. But Ryanair is the industry leader in charging passengers for virtually every optional amenity they consume. The brash airline brags about being the first to charge for checked bags and in-flight refreshments. Such tactics, once

O'Leary's vision is that one day tickets will be free.
Source: Przemyslaw Szablowski/Shutterstock

shunned by the industry, are now standard procedure and bring in billions in airline revenues. But Ryanair takes it much further. It now charges customers for printing boarding passes, paying with a debit or credit card, or using wheelchairs. It has even proposed charging for overweight customers, or charging a fee for using that one remaining toilet.

In addition to charging customers for every aspect of the flight, Ryanair also envisions big revenues from selling products for other companies. The interiors of Ryanair planes are almost as littered with advertising as Times Square. Once in the air, flight attendants hawk everything from scratch-card games to digital cameras to their captive audience. They peddle croissants and cappuccino; digital gadgets and perfumes; raffle tickets for the airline's sponsored charity; and even smokeless cigarettes for €8 a pack.

Upon arrival at a usually out-of-the-way airport, Ryanair will sell passengers bus or train tickets into town. The company also gets commissions from rental cars, hotel rooms, ski packages and travel insurance. Every chance it gets, Ryanair tries to squeeze just a little more out of its passengers.

Ryanair makes no excuses for both the additional charges and the absence of creature comforts. In fact, it sees its 'less-for-less' value-pricing approach as long overdue in the airline industry. 'In many ways, travel is pleasant and enriching', O'Leary states. But 'the physical process of getting from point A to point B shouldn't be pleasant, nor enriching. It should be quick, efficient, affordable, and safe.' As Ryanair's success suggests, customers seem to agree. Passengers are getting exactly what they want – outrageously low prices. And the additional purchases are discretionary.

Despite the lack of amenities, most passengers seem to appreciate rather than resent Ryanair's open and straightforward approach to pricing. Compared with the so-called 'sophisticated' approaches of other airlines, proclaims one passenger, 'I prefer [Ryanair's] crude ways, with its often dirt-cheap tickets and shameless [but plain-speaking] efforts to get its hand in my purse.'

And commenting on what some analysts have referred to as Ryanair's 'cattle-car' approach to passengers, another good-humoured flier observes, 'Only O'Leary will call you a cow, lick his chops, and explain how he plans to carve you up for dinner.' O'Leary's philosophy that commercial air passengers don't need to be coddled to make them loyal appears to fly in the face of modern marketing's focus on providing an exceptional customer experience. But Ryanair is proving that companies can provide customer value in more ways than one. When you look at Ryanair's falling prices and rising profits, O'Leary's dream of flying for free doesn't seem so far-fetched after all. With Ryanair's knack for good-value pricing, not even the sky's the limit.[1]

Companies today face a fierce and fast-changing pricing environment. Value-seeking customers have put increased pricing pressure on many companies. Thanks to tight economic times in recent years, the pricing power of the internet, and value-driven companies such as Ryanair, Aldi and Amazon, today's consumers are pursuing more frugal spending strategies. In response, it seems that almost every company has been looking for ways to cut prices.

Yet cutting prices is often not the best answer. Reducing prices unnecessarily can lead to lost profits and damaging price wars. It can cheapen a brand by signalling to customers that price is more important than the customer value a brand delivers. Instead, in both good economic times and bad, companies should sell value, not price. In some cases, that means selling lesser products at rock-bottom prices. But in most cases, it means persuading customers that paying a higher price for the company's brand is justified by the greater value they gain.

What is a price?

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

Price The amount of money charged for a good or service, or the sum of the values that customers exchange for the benefits of having or using the good or service.

Price is the only element in the marketing mix that produces revenue; all other elements represent costs. Price is also one of the most flexible marketing mix elements. Unlike product features and channel commitments, prices can be changed quickly. At the same time, pricing is the number-one problem facing many marketing executives, and many companies do not handle pricing well. Some managers view pricing as a big headache, preferring instead to focus on other marketing mix elements.

However, smart managers treat pricing as a key strategic tool for creating and capturing customer value. Prices have a direct impact on a firm's bottom line. A small percentage improvement in price can generate a large percentage increase in profitability. More important, as part of a company's overall value proposition, price plays a key role in creating customer value and building customer relationships. So, instead of shying away from pricing, smart marketers are embracing it as an important competitive asset.[2]

Major pricing strategies

The price the company charges will fall somewhere between one that is too low to produce a profit and one that is too high to produce any demand. Figure 10.1 summarises the major considerations in setting prices. Customer perceptions of the product's value set the ceiling for its price. If customers perceive that the product's price is greater than its value, they will not buy the product. Likewise, product costs set the floor for a product's price. If the company prices the product below its costs, the company's profits will suffer. In setting its price between these two extremes, the company must consider several external and internal factors, including competitors' strategies and prices, the overall marketing strategy and mix, and the nature of the market and demand.

Author comment

In setting prices, the company must also consider competitors' prices. No matter what price it charges – high, low or in-between – the company must be certain to give customers superior value for that price.

Figure 10.1 suggests three major pricing strategies: customer value-based pricing, cost-based pricing, and competition-based pricing.

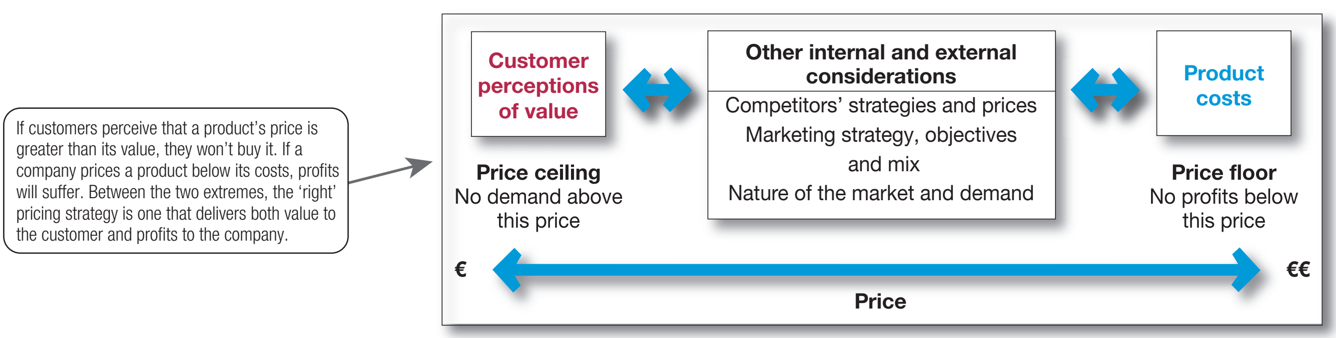

Figure 10.1 Considerations in setting price

Author comment
Like everything else in marketing, good pricing starts with *customers* and their perceptions of value.

Customer value-based pricing

In the end, the customer will decide whether a product's price is right. Pricing decisions, like other marketing mix decisions, must start with customer value. When customers buy a product, they exchange something of value (the price) to get something of value (the benefits of having or using the product). Effective customer-oriented pricing involves understanding how much value consumers place on the benefits they receive from the product and setting a price that captures that value.

Customer value-based pricing Setting price based on buyers' perceptions of value rather than on the seller's cost.

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

Figure 10.2 compares value-based pricing with cost-based pricing. Although costs are an important consideration in setting prices, cost-based pricing is often product driven. The company designs what it considers to be a good product, adds up the costs of making the product and sets a price that covers costs plus a target profit. Marketing must then convince buyers that the product's value at that price justifies its purchase. If the price turns out to be too high, the company must settle for lower mark-ups or lower sales, both resulting in disappointing profits.

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

It's important to remember that 'good value' is not the same as 'low price'. For example, some owners consider a luxurious Patek Philippe Swiss watch a real bargain, even at eye-popping prices ranging from €17,000 to €432,000:[3]

> Listen up here, because I'm about to tell you why a certain watch costing €17,000, or even €432,000, isn't actually expensive but is in fact tremendous value. Every Patek Philippe watch is handmade by Swiss watchmakers from the finest materials and can take more than a year to make. Still not convinced? Beyond keeping precise time, Patek Philippe watches are also good investments. They carry high prices but retain or even increase their value over time. Many models achieve a kind of cult status that makes them the most coveted timepieces on the planet. But more important than just a means of telling time or a good investment is the sentimental and emotional value of possessing a Patek Philippe. Says the company's president, 'This is about passion. I mean – it really is a dream. Nobody needs a Patek.' These watches are unique possessions steeped in precious memories, making them treasured family assets. According to the company, 'The purchase of a Patek Philippe is often related to a personal event – a professional success, a marriage, or the birth of a child – and offering it as a gift is the most eloquent expression of love or affection.' A Patek Philippe watch is made not to last just one lifetime but many. Says one ad, 'You never actually own a Patek Philippe, you merely look after it for the next generation.' That makes it a real bargain, even at twice the price.

Value is in the eye of the beholder.
Source: Maridav/Shutterstock

A company will often find it hard to measure the value customers attach to its product. For example, calculating the cost of ingredients in a meal at a fancy restaurant is

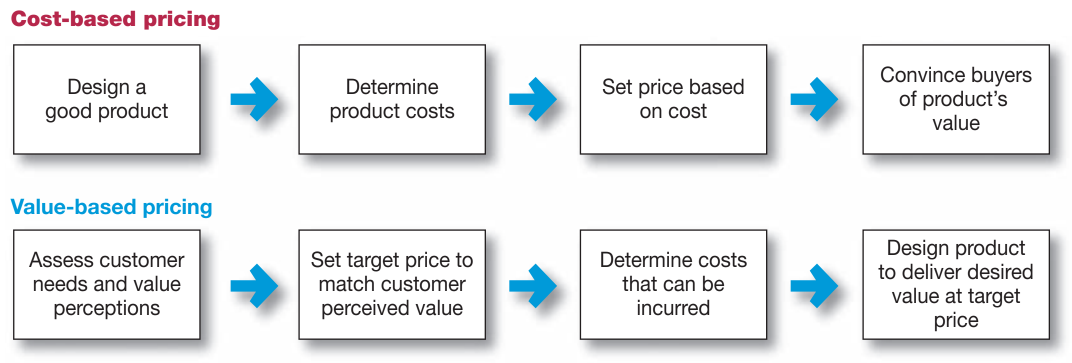

Figure 10.2 Value-based pricing versus cost-based pricing

relatively easy. But assigning value to other measures of satisfaction such as taste, environment, relaxation, conversation and status is very hard. Such value is subjective; it varies both for different consumers and different situations.

Still, consumers will use these perceived values to evaluate a product's price, so the company must work to measure them. Sometimes, companies ask consumers how much they would pay for a basic product and for each benefit added to the offer. Or a company might conduct experiments to test the perceived value of different product offers. According to an old Russian proverb, there are two fools in every market – one who asks too much and one who asks too little. If the seller charges more than the buyers' perceived value, the company's sales will suffer. If the seller charges less, its products will sell very well, but they will produce less revenue than they would if they were priced at the level of perceived value.

We now examine two types of value-based pricing: *good-value pricing* and *value-added pricing*.

Good-value pricing

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

Good-value pricing Offering just the right combination of quality and good service at a fair price.

In many cases, this has involved introducing less-expensive versions of established brand-name products or new lower-price lines. Good-value prices are a relative thing – even premium brands can launch value versions. Mercedes-Benz recently released its CLA Class, entry-level models starting at €29,000. From its wing-like dash and diamond-block grille to its 208 hp turbo inline-4 engine, the CLA Class gives customers 'The Art of Seduction. At a price reduction.'[4]

In other cases, good-value pricing involves redesigning existing brands to offer more quality for a given price or the same quality for less. Some companies even succeed by offering less value but at very low prices.

An important type of good-value pricing at the retail level is called *everyday low pricing* (*EDLP*). EDLP involves charging a constant, everyday low price with few or no temporary price discounts. The Aldi supermarket chain practises EDLP, with a good-value pricing value proposition that gives customers 'more 'mmm' for the euro' every minute of every day. Perhaps the king of EDLP is Walmart, which practically defined the concept. Except for a few sale items every month, Walmart promises everyday low prices on everything it sells. In contrast, *high–low pricing* involves charging higher prices on an everyday basis but running frequent promotions to lower prices temporarily on selected items. Department stores such as Debenhams and Marks & Spencer practice high–low pricing by having frequent sale days, early-bird savings and bonus earnings for store credit-card holders.

Value-added pricing
Attaching value-added features and services to differentiate a company's offers and charging higher prices.

Cost-based pricing Setting prices based on the costs of producing, distributing and selling the product plus a fair rate of return for effort and risk.

Author comment

Costs set the floor for price, but the goal isn't always to *minimise* costs. In fact, many firms invest in higher costs so that they can claim higher prices and margins (think back to Patek Philippe watches). The key is to manage the *spread* between costs and prices – how much the company makes for the customer value it delivers.

Fixed costs (overhead)
Costs that do not vary with production or sales level.

Value-added pricing

Value-based pricing doesn't mean simply charging what customers want to pay or setting low prices to meet competition. Instead, many companies adopt **value-added pricing** strategies. Rather than cutting prices to match competitors, they add quality, services and value-added features to differentiate their offers and thus support their higher prices.

For example, premium audio brand Bose doesn't try to beat out its competition by offering discounts or by selling lower-end, more affordable versions of its speakers, headphones and home theatre system products. Instead, for more than 50 years, Bose has poured resources into research and innovation to create high-quality products that merit the premium prices it charges. 'We're passionate engineers, developers, researchers, retailers, marketers . . . and dreamers. One goal unites us – to create products and experiences our customers simply can't get anywhere else.' As a result, Bose has hatched a long list of ground-breaking innovations and high-quality products that bring added value to its customers. Despite its premium prices, or perhaps because of them, Bose remains a consistent leader in the markets it serves.[5]

Cost-based pricing

Whereas customer value perceptions set the price ceiling, costs set the floor for the price that the company can charge. **Cost-based pricing** involves setting prices based on the costs of producing, distributing and selling the product, plus a fair rate of return for the company's effort and risk. A company's costs may be an important element in its pricing strategy.

Some companies, such as Lidl and Ryanair, work to become the *low-cost producers* in their industries. Companies with lower costs can set lower prices that result in smaller margins but greater sales and profits. However, other companies – such as Apple, BMW and Steinway – intentionally pay higher costs so that they can add value and claim higher prices and margins. For example, it costs more to make a 'handcrafted' Steinway piano than a Yamaha production model. But the higher costs result in higher quality, justifying an average €75,000 price. To those who buy a Steinway, price is nothing; the Steinway experience is everything. The key is to manage the spread between costs and prices – how much the company makes for the customer value it delivers.

Types of costs

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

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

A Steinway piano may cost a lot of money but Steinway argue that it reflects value: 'A Steinway takes you places you've never been'.
Source: Stanislaw Mikulski/Shutterstock

Costs at different levels of production

To price wisely, management needs to know how its costs vary with different levels of production For example, suppose the German company Wortmann A.G. built a plant to produce 1,000 new Terra tablet computers per day. Figure 10.3a shows the typical short-run average cost curve (SRAC). It shows that the cost per tablet is high if Wortmann's factory produces only a few per day. But as production moves up to 1,000 tablets per day, the average cost per unit decreases. This is because fixed costs are spread over more units, with each one bearing a smaller share of the fixed cost. Wortmann can try to produce more than 1,000 tablets per day, but average costs will increase because the plant becomes inefficient. Workers have to wait for machines, the machines break down more often and workers get in each other's way.

Variable costs Costs that vary directly with the level of production.

Total costs The sum of the fixed and variable costs for any given level of production.

If Wortmann believed it could sell 2,000 tablets a day, it should consider building a larger plant. The plant would use more efficient machinery and work arrangements. Also, the unit cost of producing 2,000 tablets per day would be lower than the unit cost of producing 1,000 units per day, as shown in the long-run average cost (LRAC) curve (Figure 10.3b). In fact, a 3,000-capacity plant would be even more efficient, according to Figure 10.3b. But a 4,000-daily production plant would be less efficient because of increasing diseconomies of scale – too many workers to manage, paperwork slowing things down and so on. Figure 10.3b shows that a 3,000-daily production plant is the best size to build if demand is strong enough to support this level of production.

Costs as a function of production experience

Suppose Wortmann runs a plant that produces 3,000 tablets per day. As Wortmann gains experience in producing tablets, it learns how to do it better. Workers learn shortcuts and become more familiar with their equipment. With practice, the work becomes better organised, and Wortmann finds better equipment and production processes. With higher volume, Wortmann becomes more efficient and gains economies of scale. As a result, the average cost tends to decrease with accumulated production experience. This is shown in Figure 10.4.[6] Thus, the average cost of producing the first 100,000 tablets is €10 per tablet. When the company has produced the first 200,000 tablets, the average cost has fallen to €8.50. After its accumulated production experience doubles again to 400,000, the average cost is €7. This drop in the average cost with accumulated production experience is called the **experience curve** (or the **learning curve**).

Experience curve (learning curve) The drop in the average per-unit production cost that comes with accumulated production experience.

If a downward-sloping experience curve exists, this is highly significant for the company. Not only will the company's unit production cost fall, but it will fall faster if the company makes and sells more during a given time period. But the market has to stand ready to buy the higher output. And to take advantage of the experience curve, Wortmann must get a large market share early in the product's life cycle. This suggests the following pricing strategy: Wortmann should

What's the point of all the cost curves in this and the next few figures? Costs are an important factor in setting price, and companies must understand them well!

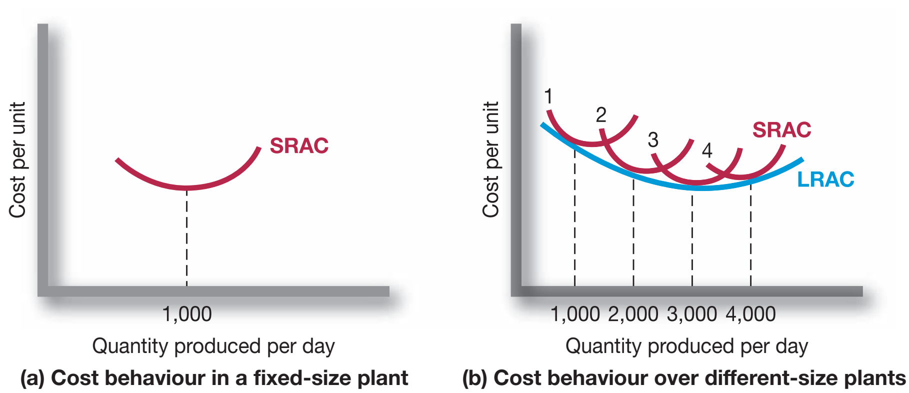

Figure 10.3 Cost per unit at different levels of production per period

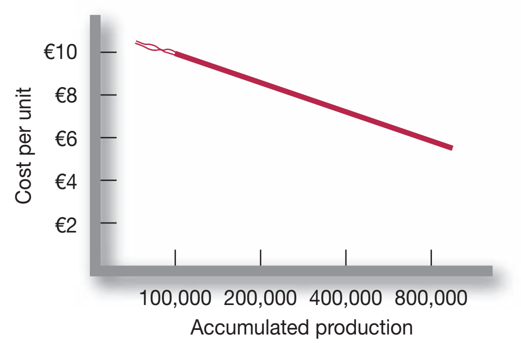

Figure 10.4 Cost per unit as a function of accumulated production: the experience curve

price its tablets lower; its sales will then increase, its costs will decrease through gaining more experience, and then it can lower its prices further.

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

Cost-plus pricing

Cost-plus pricing (mark-up pricing) Adding a standard mark-up to the cost of the product.

The simplest pricing method is **cost-plus pricing** (or **mark-up pricing**) – adding a standard mark-up to the cost of the product. Construction companies, for example, submit job bids by estimating the total project cost and adding a standard mark-up for profit. Lawyers, accountants and other professionals typically price by adding a standard mark-up to their costs. Some sellers tell their customers they will charge cost plus a specified mark-up; for example, aerospace companies often price this way to the government.

To illustrate mark-up pricing, suppose a toaster manufacturer had the following costs and expected sales:

Variable cost	€10
Fixed costs	€300,000
Expected unit sales	50,000

Then the manufacturer's cost per toaster is given by the following:

$$\text{unit cost} = \text{variable cost} + \frac{\text{fixedcost}}{\text{unit sales}} = €10 + \frac{€300{,}000}{50{,}000} = €16$$

Now suppose the manufacturer wants to earn a 20 per cent mark-up on sales. The manufacturer's mark-up price is given by the following:[7]

$$\text{mark-up price} = \frac{\text{unit cost}}{(1 - \text{desired return on sales})} = \frac{€16}{1 - 0.2} = €20$$

The manufacturer would charge dealers €20 per toaster and make a profit of €4 per unit. The dealers, in turn, will mark up the toaster. If dealers want to earn 50 per cent on the sales price, they will mark up the toaster to €40 (€20 + 50% of €40). This number is equivalent to a *mark-up on cost* of 100 per cent (€20/€20).

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

Break-even analysis and target profit pricing

Another cost-oriented pricing approach is **break-even pricing** (or a variation called **target return pricing**). The firm sets a price at which it will break even or make the target return on the costs of making and marketing a product.

Break-even pricing (target return pricing) Setting price to break even on the costs of making and marketing a product or setting price to make a target return.

Target return pricing uses the concept of a *break-even chart*, which shows the total cost and total revenue expected at different sales volume levels. Figure 10.5 shows a break-even chart for the toaster manufacturer discussed here. Fixed costs are €300,000 regardless of sales volume. Variable costs are added to fixed costs to form total costs, which rise with volume. The total revenue curve starts at zero and rises with each unit sold. The slope of the total revenue curve reflects the price of €20 per unit.

The total revenue and total cost curves cross at 30,000 units. This is the *break-even volume*. At €20, the company must sell at least 30,000 units to break even, that is, for total revenue to cover total cost. Break-even volume can be calculated using the following formula:

$$\text{break-even volume} = \frac{\text{fixed cost}}{\text{price} - \text{variable cost}} = \frac{€300{,}000}{€20 - €10} = 30{,}000$$

If the company wants to make a profit, it must sell more than 30,000 units at €20 each. Suppose the toaster manufacturer has invested €1,000,000 in the business and wants to set a price to earn a 20 per cent return, or €200,000. In that case, it must sell at least 50,000 units at €20 each. If the company charges a higher price, it will not need to sell as many toasters to achieve its target return. But the market may not buy even this lower volume at the higher price. Much depends on price elasticity and competitors' prices.

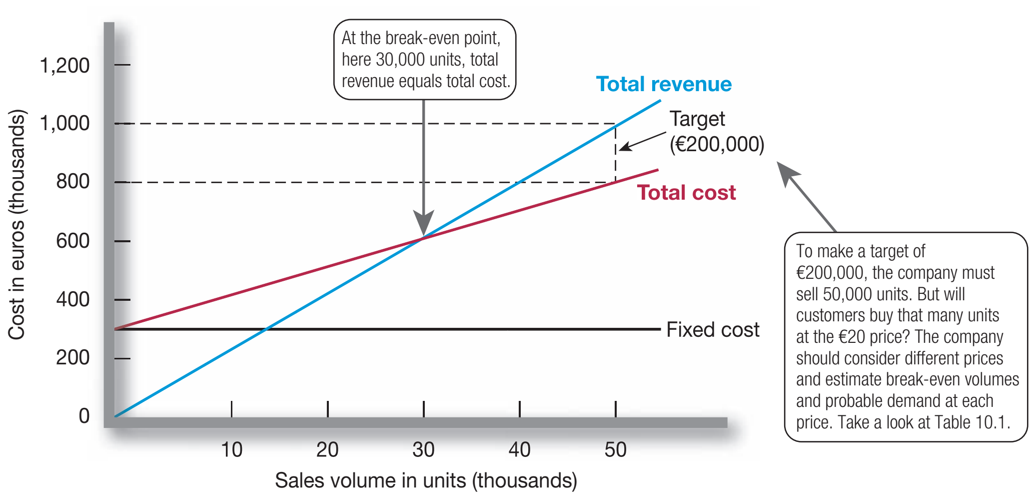

Figure 10.5 Break-even chart for determining target return price and break-even volume

Table 10.1 Break-even volume and profits at different prices pricing

Price €	Unit demand needed to break even	Expected unit demand at given price	Total revenue (1) × (3)	Total costs*	Profit (4) – (5)
14	75,000	71,000	€994,000	€1,010,000	−€16,000
16	50,000	67,000	€1,072,000	€970,000	€102,000
18	37,500	60,000	€1,080,000	€900,000	€180,000
20	30,000	42,000	€840,000	€720,000	€120,000
22	25,000	23,000	€506,000	€530,000	−€24,000

*Assumes fixed costs of €300,000 and constant unit variable costs of €10.

The manufacturer should consider different prices and estimate break-even volumes, probable demand and profits for each. This is done in Table 10.1. The table shows that as price increases, the break-even volume drops (column 2). But as price increases, the demand for toasters also decreases (column 3). At the €14 price, because the manufacturer clears only €4 per toaster (€14 less €10 in variable costs), it must sell a very high volume to break even. Even though the low price attracts many buyers, demand still falls below the high break-even point, and the manufacturer loses money. At the other extreme, with a €22 price, the manufacturer clears €12 per toaster and must sell only 25,000 units to break even. But at this high price, consumers buy too few toasters, and profits are negative. The table shows that a price of €18 yields the highest profits. Note that none of the prices produce the manufacturer's target return of €200,000. To achieve this return, the manufacturer will have to search for ways to lower the fixed or variable costs, thus lowering the break-even volume.

Competition-based pricing

Competition-based pricing
Setting prices based on competitors' strategies, prices, costs and market offerings.

Competition-based pricing involves setting prices based on competitors' strategies, costs, prices and market offerings. Consumers will base their judgements of a product's value on the prices that competitors charge for similar products.

In assessing competitors' pricing strategies, a company should ask several questions. First, how does the company's market offering compare with competitors' offerings in terms of customer value? If consumers perceive that the company's product or service provides greater value, the company can charge a higher price. If consumers perceive less value relative to competing products, the company must either charge a lower price or change customer perceptions to justify a higher price.

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

Importantly, the goal is not to match or beat competitors' prices. Rather, the goal is to set prices according to the relative value created versus competitors. If a company creates greater value for customers, higher prices are justified. For example, UK-based J.C. Bamford Excavators Limited, universally known as JCB, makes high-quality, heavy-duty construction and mining equipment. It dominates its industry despite charging higher prices than competitors such as Komatsu or Caterpillar. When a commercial customer once asked a JCB dealer why it should pay €500,000 for a big JCB bulldozer when it could get an 'equivalent' Komatsu dozer for €420,000, the JCB dealer famously provided an analysis like the following:

€420,000	The JCB's price if equivalent to the competitor's bulldozer
€50,000	The value added by JCB's superior reliability and durability
€40,000	The value added by JCB's lower lifetime operating costs
€40,000	The value added by JCB's superior service
€20,000	The value added by JCB's longer parts warranty
€570,000	The value-added price for JCB's bulldozer
€70,000	Discount
€500,000	Final price

Thus, although the customer pays an €80,000 price premium for the JCB bulldozer, it's actually getting €150,000 in added value over the product's lifetime. The customer chose the JCB bulldozer.

What principle should guide decisions about prices to charge relative to those of competitors? The answer is simple in concept but often difficult in practice: No matter what price you charge – high, low or in-between – be certain to give customers superior value for that price.

Author comment

Now that we've looked at the three general pricing strategies – value-, cost- and competitor-based pricing – let's dig into some of the many other factors that affect pricing decisions.

Other internal and external considerations affecting price decisions

Beyond customer value perceptions, costs and competitor strategies, the company must consider several additional internal and external factors. Internal factors affecting pricing include the company's overall marketing strategy, objectives and marketing mix, as well as other organisational considerations. External factors include the nature of the market and demand and other environmental factors.

Overall marketing strategy, objectives and mix

Price is only one element of the company's broader marketing strategy. So, before setting price, the company must decide on its overall marketing strategy for the product or service. Sometimes, a company's overall strategy is built around its price and value story. For example, when Honda developed its Acura brand to compete with European luxury-performance cars in the higher-income segment, this required charging a high price. In contrast, when it introduced the Honda Fit model – billed as 'a pint-sized fuel miser with feisty giddy up' – this positioning required charging a low price. Thus, pricing strategy is largely determined by decisions on market positioning.

If a company has selected its target market and positioning carefully, then its marketing mix strategy, including price, will be fairly straightforward. For example, Amazon positions its Kindle Fire tablet as offering the same (or even more) for less and prices it at 40 per cent less than Apple's iPads and Samsung's Galaxy tablets. It recently began targeting families with young children, positioning

Often the goal is not to match or beat competitors' prices but rather highlight the added value of the product.
Source: smereka/Shutterstock

the Kindle Fire as the 'perfect family tablet,' with models priced as low as €56, bundled with Kindle Fire for Kids Unlimited, an all-in-one subscription service starting at around €1.99 per month that brings together books, games, educational apps, movies and TV shows for kids aged three to eight. Thus, the Kindle pricing strategy is largely determined by decisions on market positioning.

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

Price decisions must be coordinated with product design, distribution and promotion decisions to form a consistent and effective integrated marketing mix programme. Decisions made for other marketing mix variables may affect pricing decisions. For example, a decision to position the product on high-performance quality will mean that the seller must charge a higher price to cover higher costs. And producers whose resellers are expected to support and promote their products may have to build larger reseller margins into their prices.

Target costing Pricing that starts with an ideal selling price, then targets costs that will ensure that the price is met.

Companies often position their products on price and then tailor other marketing mix decisions to the prices they want to charge. Here, price is a crucial product-positioning factor that defines the product's market, competition and design. Many firms support such price-positioning strategies with a technique called **target costing**. Target costing reverses the usual process of first designing a new product, determining its cost, and then asking, 'Can we sell it for that?' Instead, it starts with an ideal selling price based on customer value considerations and then targets costs that will ensure that the price is met. For example, when Honda initially designed the Honda Jazz (called the Fit in Asia and the US), it began with a €15,800 starting price point and highway mileage of 33 miles per gallon firmly in mind. It then designed a stylish, peppy little car with costs that allowed it to give target customers those values.

Stella Artois is positioned as a premium beer that is 'reassuringly expensive'.
Source: LunaseeStudios/Shutterstock

Other companies de-emphasise price and use other marketing mix tools to create *nonprice* positions. Often, the best strategy is not to charge the lowest price but rather to differentiate the marketing offer to make it worth a higher price. Fashion houses have traditionally emphasised their exclusivity and value, reflected in their high prices (and brand value). For example, French fashion house Louis Vuitton has found its value rise by 41 per cent to $41.1 billion in 2018, meanwhile, Gucci's 66 per cent increase in brand value sees the Italian brand rated at value of $22.4bn.[8] Some marketers even position their products on *high* prices, featuring high prices as part of their product's allure. For example, Grand Marnier offers a €160 bottle of Cuvée du Cent Cinquantenaire that's marketed with the tagline 'Hard to find, impossible to pronounce, and prohibitively expensive.' And Stella Artois' famous advertising campaign, which proudly informed consumers that the premium lager was 'Reassuringly expensive' and the height of sophisticated European modernity.

Thus, marketers must consider the total marketing strategy and mix when setting prices. But again, even when featuring price, marketers need to remember that customers rarely buy on price alone. Instead, they seek products that give them the best value in terms of benefits received for the prices paid.

Organisational considerations

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

In industries in which pricing is a key factor (airlines, aerospace, steel, railways, oil companies), companies often have pricing departments to set the best prices or help others set them. These departments report to the marketing department or top management. Others who have an influence on pricing include sales managers, production managers, finance managers and accountants.

The market and demand

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

Pricing in different types of markets

The seller's pricing freedom varies with different types of markets. Economists recognise four types of markets, each presenting a different pricing challenge.

Under *pure competition*, the market consists of many buyers and sellers trading in a uniform commodity, such as wheat, copper or financial securities. No single buyer or seller has much effect on the going market price. In a purely competitive market, marketing research, product development, pricing, advertising and sales promotion play little or no role. Thus, sellers in these markets do not spend much time on marketing strategy.

Under *monopolistic competition*, the market consists of many buyers and sellers trading over a range of prices rather than a single market price. A range of prices occurs because sellers can differentiate their offers to buyers. Because there are many competitors, each firm is less affected by competitors' pricing strategies than in oligopolistic markets. Sellers try to develop differentiated offers for different customer segments and, in addition to price, freely use branding, advertising and personal selling to set their offers apart. Thus, Toyota sets its Prius brand apart through strong branding and advertising, reducing the impact of price. It advertises that the fourth-generation Prius in full hybrid or plug-in at home mode can cost a mere 3.3 litres of fuel per 100 kilometres. Wrigley operates in a similarly structured market and sets its Skittles brand apart from the profusion of other confectionery brands not by price but by brand building – clever 'Taste the Rainbow' positioning built through quirky advertising and a heavy presence in social media such as Tumblr, Instagram, YouTube, Facebook and Twitter. The social media-savvy brand boasts more than 24 million Facebook Likes and 334,000 Twitter followers.

The Toyota Prius is positioned as a car of good quality that is environmentally friendlier – setting the offer apart from the mainstream market.

Source: Zavatskiy Aleksandr/ Shutterstock

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

In a *pure monopoly*, the market is dominated by one seller. The seller may be a government monopoly or a past government monopoly (such as the UK's Royal Mail), a private regulated monopoly (a power company) or a private unregulated monopoly (De Beers and diamonds). Pricing is handled differently in each case.

Analysing the price–demand relationship

Demand curve A curve that shows the number of units the market will buy in a given time period, at different prices that might be charged.

Each price the company might charge will lead to a different level of demand. The relationship between the price charged and the resulting demand level is shown in the **demand curve** in Figure 10.6. The demand curve shows the number of units the market will buy in a given time period at different prices that might be charged. In the normal case, demand and price are inversely related – that is, the higher the price, the lower the demand. Thus, the company would sell less if it raised its price from P_1 to P_2. In short, consumers with limited budgets probably will buy less of something if its price is too high.

The French food conglomerate Danone's overall strategy is reliant on a clear understanding of consumers' willingness to pay. To Danone, volume is more important than sales growth and careful pricing is needed to maintain volume.[9]

Franck Riboud is the executive chairman of Danone. He has shifted Danone's strategy to volume growth rather than sales growth. His view appears to be that setting a high sales target in the current economic environment would put undue pressure on managers, risking mistakes and short-cuts to achieve the growth. Much better to cut prices and increase volumes than to shut factories, he has said. The company sells its products – including Activia yoghurt and Actimel yoghurt drink, as well as Evian, Badoit and baby food, including Milupa, to 700 million people worldwide. It aims to achieve its mission to 'bring health through food to the largest number of people' by selling to 1 billion people by the end of 2011. Although its international sales are expanding, it still relies on Western Europe for 48 per cent of its sales. For Danone, the shift towards volume rather than sales growth means targeting and expanding sales in emerging markets. But because people in these countries are less wealthy than in more prosperous countries, the company cannot expect to generate the same profit margins. Its cheapest yoghurt is sold in Bangladesh at 6 euro cents in an 80g cup. In France, plain Activia yoghurt sells for 26 euro cents for 125g.

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

Price elasticity of demand

Price elasticity A measure of the sensitivity of demand to changes in price.

Marketers also need to know **price elasticity** – how responsive demand will be to a change in price. If demand hardly changes with a small change in price, we say demand is *inelastic* (Figure 10.6a). If demand changes greatly, we say the demand is *elastic* (Figure 10.6b).

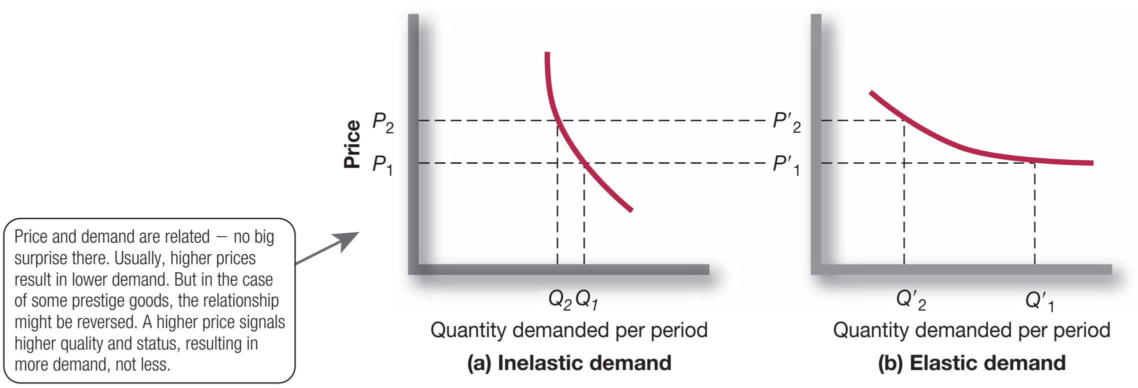

Figure 10.6 Demand curves

If demand is elastic rather than inelastic, sellers will consider lowering their prices. A lower price will produce more total revenue. This practice makes sense as long as the extra costs of producing and selling more do not exceed the extra revenue. At the same time, most firms want to avoid pricing that turns their products into commodities. In recent years, forces such as deregulation and the instant price comparisons afforded by the internet and other technologies have increased consumer price sensitivity, turning products ranging from phones and computers to new cars into commodities in some consumers' eyes.

The economy

Economic conditions can have a strong impact on the firm's pricing strategies. Economic factors such as a boom or recession, inflation and interest rates affect pricing decisions because they affect consumer spending, consumer perceptions of the product's price and value, and the company's costs of producing and selling a product.

In the aftermath of the Great Recession, many consumers rethought the price–value equation. They tightened their belts and become more value conscious. Consumers have continued their thriftier ways well beyond the economic recovery. As a result, many marketers have increased their emphasis on value-for-the-money pricing strategies.

The most obvious response to the new economic realities is to cut prices and offer discounts. Thousands of companies have done just that. Lower prices make products more affordable and help spur short-term sales. However, such price cuts can have undesirable long-term consequences. Lower prices mean lower margins. Deep discounts may cheapen a brand in consumers' eyes. And once a company cuts prices, it's difficult to raise them again when the economy recovers.

Rather than cutting prices on their main-market brands, many companies are holding their price positions but redefining the 'value' in their value propositions. Other companies have developed 'price tiers,' adding both more affordable lines and premium lines that span the varied means and preferences of different customer segments. For example, in line with tighter consumer budgets and thriftier spending habits, P&G has added lower-price versions of its premium brands to make them more affordable. It has introduced 'Basic' versions of its Bounty and Charmin brands that sell for less. It brought back its Vidal Sassoon Pro Series hair products line as an affordable alternative to the company's higher-priced Pantene brand. And P&G recently launched Iams So Good dog food, a line designed as a 'more accessible' addition to its premium Iams brand. Making Iams 'more accessible' is 'a big move for us', says a P&G marketing executive. In these thriftier times, 'we realize a lot of our brands need to 'tier down' to appeal to more consumers'. Iams So Good is positioned as a '100 per cent wholesome' product without added sugar, dyes or artificial ingredients. The brand's lower prices are conveyed mostly through store displays and packaging.[10] Other companies are holding prices but redefining the 'value' in their value propositions. For instance, Unilever has repositioned its higher-end Bertolli frozen meals as an eat-at-home brand that's more affordable than eating out. And in the US, Kraft's Velveeta cheese ads tell shoppers to 'forget the cheddar, Velveeta is better', claiming that a package of Velveeta is 'twice the size of cheddar, for the same price'.[11]

Remember, even in tough economic times, consumers do not buy based on prices alone. They balance the price they pay against the value they receive. For example, despite selling its shoes for as much as €300 a pair. (the Air Jordan 5 Retro Premium), Nike commands the highest consumer loyalty of any brand in the footwear segment.[12] Customers perceive the value of Nike's products and the Nike ownership experience to be well worth the price. Thus, no matter what price they charge – low or high –companies need to offer great *value for the money*.

Nike commands widespread brand loyalty: for Nike consumers the Nike experience is worth the price.
Source: Leonard Zhukovsky/Shutterstock

Other external factors

Beyond the market and the economy, the company must consider several other factors in its external environment when setting prices. It must know what impact its prices will have on other parties in its environment. How will *resellers* react to various prices? The company should set prices that give resellers a fair profit, encourage their support and help them to sell the product effectively. The *government* is another important external influence on pricing decisions. Finally, *social concerns* may need to be considered. In setting prices, a company's short-term sales, market share and profit goals may need to be tempered by broader societal considerations. We will examine public policy issues later in Chapter 11.

Learning outcomes review

Companies today face a fierce and fast-changing pricing environment. Firms successful at creating customer value with the other marketing mix activities must still capture some of this value in the prices they earn. This chapter examines the importance of pricing, general pricing strategies, and the internal and external considerations that affect pricing decisions.

Objective 1 Answer the question 'What is a price?' and discuss the importance of pricing in today's fast-changing environment (p. 303)

Price can be defined narrowly as the amount of money charged for a good or service. Or it can be defined more broadly as the sum of the values that consumers exchange for the benefits of having and using the product or service. The pricing challenge is to find the price that will let the company make a fair profit by getting paid for the customer value it creates.

Despite the increased role of nonprice factors in the modern marketing process, price remains an important element in the marketing mix. It is the only marketing mix element that produces revenue; all other elements represent costs. More important, as a part of a company's overall value proposition, price plays a key role in creating customer value and building customer relationships. Smart managers treat pricing as a key strategic tool for creating and capturing customer value.

Objective 2 Identify the three major pricing strategies and discuss the importance of understanding customer-value perceptions, company costs and competitor strategies when setting prices (pp. 303–311)

Companies can choose from three major pricing strategies: customer value-based pricing, cost-based pricing and competition-based pricing. *Customer value-based pricing* uses buyers' perceptions of value as the basis for setting price. Good pricing begins with a complete understanding of the value that a product or service creates for customers and setting a price that captures that value. Customer perceptions of the product's value set the ceiling for prices. If customers perceive that a product's price is greater than its value, they will not buy the product.

Companies can pursue either of two types of value-based pricing. *Good-value pricing* involves offering just the right combination of quality and good service at a fair price. EDLP is an example of this strategy. *Value-added pricing* involves attaching value-added features and services to differentiate the company's offers and support charging higher prices.

Cost-based pricing involves setting prices based on the costs for producing, distributing and selling products plus a fair rate of return for effort and risk. Company and product costs are an important consideration in setting prices. Whereas customer value perceptions set the price ceiling, costs set the floor for pricing. However, cost-based pricing is product driven rather than customer driven. The company designs what it considers to be a good product and sets a price that covers costs plus a target profit. If the price turns out to be too high, the company must settle for lower mark-ups or lower sales, both resulting in disappointing profits. If the company prices the product below its costs, its profits will also suffer. Cost-based pricing approaches include *cost-plus pricing* and *break-even pricing* (or target profit pricing).

Competition-based pricing involves setting prices based on competitors' strategies, costs, prices and market offerings. Consumers base their judgements of a product's value on the prices that competitors charge for similar products. If consumers perceive that the company's product or service provides greater value, the company can charge a higher price. If consumers perceive less value relative to competing products, the company must either charge a lower price or change customer perceptions to justify a higher price.

Objective 3 Identify and define the other important external and internal factors affecting a firm's pricing decisions (pp. 311–316)

Other *internal* factors that influence pricing decisions include the company's overall marketing strategy, objectives and marketing mix, as well as organisational considerations. Price is only one element of the company's broader marketing strategy. If the company has selected its target market and positioning carefully, then its marketing mix strategy, including price, will be fairly straightforward. Common pricing objectives might include customer retention and building profitable customer relationships, preventing competition, supporting resellers and gaining their support, or avoiding government intervention. Price decisions must be coordinated with product design, distribution and promotion decisions to form a consistent and effective marketing programme. Finally, in order to coordinate pricing goals and decisions, management must decide who within the organisation is responsible for setting price.

Other *external* pricing considerations include the nature of the market and demand, and environmental factors such as the economy, reseller needs and government actions. Ultimately, the customer decides whether the company has set the right price. The customer weighs the price against the perceived values of using the product – if the price exceeds the sum of the values, consumers will not buy. So the company must understand such concepts as demand curves (the price–demand relationship) and price elasticity (consumer sensitivity to prices).

Economic conditions can have a major impact on pricing decisions. The Great Recession caused consumers to rethink the price–value equation, and consumers have continued their thriftier ways well beyond the economic recovery. Marketers have responded by increasing their emphasis on value-for-the-money pricing strategies. No matter what the economic times, however, consumers do not buy based on prices alone. Thus, no matter what price they charge – low or high – companies need to offer superior value for the money.

Navigating the key terms

Objective 1

Price (p. 303)

Objective 2

Customer value-based pricing (p. 304)
Good-value pricing (p. 305)
Value-added pricing (p. 306)
Cost-based pricing (p. 306)
Fixed costs (overhead) (p. 306)
Variable costs (p. 307)
Total costs (p. 307)
Experience curve (learning curve) (p. 307)
Cost-plus pricing (mark-up pricing) (p. 308)
Break-even pricing (target return pricing) (p. 309)
Competition-based pricing (p. 310)

Objective 3

Target costing (p. 312)
Demand curve (p. 314)
Price elasticity (p. 314)

Discussion and critical thinking

Discussing the concepts

10.1 Why is finding and implementing the right pricing strategy critical to a company's success? (AACSB: Communication)

10.2 Name and describe the two types of value-based pricing methods. (AACSB: Communication)

10.3 What is cost-based pricing? How do companies use fixed and variable costs in cost-based pricing models? (AACSB: Communication)

10.4 Explain the price–demand relationship. What factors must sellers consider when setting prices in different types of markets? (AACSB: Communication)

10.5 Define price elasticity and discuss why it is important for marketers to understand this concept. (AACSB: Communication; Reflective thinking)

Critical-thinking exercises

10.6 If you've ever travelled to another country, such as Germany or France, you may have noticed that the price on a product is the total amount you actually pay when you check out. That is, no sales tax is added to the purchase price at the checkout as it is in the United States for example. That is because many countries impose a value added tax (VAT). In a small group, research value added taxes and debate whether or not such taxes benefit consumers. Do marketers support or dislike these types of taxes? (AACSB: Communication; Reflective thinking)

10.7 In a small group, discuss your perceptions of value and how much you are willing to pay for the following products: cars, frozen dinners, jeans and athletic shoes. Are there differences among members of your group? Explain why those differences exist. Discuss some examples of brands of these products that are positioned to deliver different value to consumers. (AACSB: Communication; Reflective thinking)

10.8 Your company has developed a new weight-loss breakfast shake that has proven to be successful in the test market phase. Users have experienced an average weight loss of two pounds per week. You hold a patent on the product. The cost to produce the shake is relatively low, with total manufacturing costs running at about €0.05 per 25 grams. Each shake is 200 grams. What pricing strategy do you recommend for this product? (AACSB: Communication; Use of IT; Reflective thinking)

Mini-cases and applications

Online, mobile and social media marketing: online price tracking

Got your eye on a new premium 32-inch Samsung television? Well, you'd better not purchase it in December – that's when the price was highest on Amazon (€500 versus €400 in November or February). Most consumers know that prices fluctuate throughout the year, but did you know they even fluctuate hourly? You probably can't keep up with that, but there's an app that can. Camelcamelcamel is a tool that tracks Amazon's prices for consumers and sends alerts when a price hits the sweet spot. This app allows users to import entire Amazon wish lists and to set desired price levels at which emails or tweets are sent to inform them of the prices. All of this is free. Camel makes its money from an unlikely partner – Amazon – which funnels price data directly to Camel. Camel is a member of Amazon's affiliate program, kicking back 8.5 per cent of sales for each customer Camel refers. It would seem that Amazon would want customers to buy when prices are higher, not lower. But the online behemoth sees this as a way to keep the bargain hunters happy while realising more profitability from less price-sensitive customers. This is an improvement over Amazon's earlier pricing tactics, which charged different customers different prices based on their buying behaviour.

10.9 Go to www.camelcamelcamel.com and set up a free account. Track 10 products that interest you. Did any of the products reach your desired price? Write a report on the usefulness of this type of app for consumers. (AACSB: Communication; Use of IT)

10.10 Camel is not the only Amazon tracking or online price-tracking application. Find and describe an example of another online price-tracking tool for consumers. (AACSB: Communication; Use of IT)

Marketing ethics: the cost of a life

When loved ones are critically ill, what are families willing to pay to keep them on a path to improved health? In 2015, Turing Pharmaceuticals found itself in the middle of a controversial issue when it purchased an existing drug – Daraprim – from another pharmaceutical company. Daraprim has been around for 62 years and is used to treat life-threatening parasitic infections in AIDS and cancer patients. After acquiring Daraprim, Turing Pharmaceuticals CEO Martin Shkreli quickly raised its price from around the previous €11.60 per pill to a whopping €650 per pill. According to CNN Money, CEO Shkreli stated, 'We needed to turn a profit on this drug.' He added the company would use the profits to research better ways to treat diseases.

10.11 Research the Daraprim pricing issue. Is it wrong for Turing Pharmaceuticals to charge such a high price for this medication? Support your position. (AACSB: Communication; Ethical reasoning)

10.12 According to one Harvard Business Review article (see www.hbr.org/2015/09/its-time-to-rein-in-exorbitant-pharmaceutical-prices), over the past five years returns for the S&P Pharmaceuticals Select Industry Index have been virtually double those of the broader S&P 500 (roughly 24 per cent versus 12 per cent annually). What factors affect profitability in the pharmaceutical industry? Are these high profit levels a good or bad thing? Explain.

Marketing by numbers: reseller margins

One external factor that manufacturers must consider when setting prices is reseller margins. Manufacturers do not have the final say concerning the price to consumers; retailers do. So manufacturers must start with their suggested retail prices and work back, subtracting the mark-ups required by resellers that sell the product to consumers. Once that is considered, manufacturers know at what price to sell their products to resellers, and they can determine what volume they must sell to break even at that price and cost combination. To answer the following questions, refer to Appendix 2.

10.13 A consumer purchases a computer for €800 from a retailer. If the retailer's mark-up is 30 per cent and the wholesaler's mark-up is 10 per cent, both based on their respective selling prices, at what price does the manufacturer sell the product to the wholesaler? (AACSB: Communication; Analytical reasoning)

10.14 If the unit variable cost for each computer is €350 and the manufacturer has fixed costs totalling €2 million, how many computers must this manufacturer sell to break even? How many must it sell to realise a profit of €50 million? (AACSB: Communication; Analytical reasoning)

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[6] Accumulated production is drawn on a semilog scale so that equal distances represent the same percentage increase in output.

[7] The arithmetic of mark-ups and margins is discussed in Appendix 2, Marketing by numbers.

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Company case

Cath Kidston: nostalgic fantasy that creates value for consumers

This case study examines the pricing strategy of Cath Kidston, a UK-based company that sells furnishings, home and personal accessories as well as clothes, operating mainly in the UK, Europe and Asia regions.

How much are you willing to pay for a key ring? The market price charges just a bit more than €1. But would you pay €3 for a comparable product? How about €12? A low-price strategy is often used by companies if their products are not well differentiated. Although a low-price strategy might seem attractive, especially in an economic downturn, some companies are focusing on creating value for customers and adopting customer-value-added pricing strategy. Cath Kidston Ltd is one UK-based company that understands that sometimes it pays to charge more. Cath Kidston's key rings sell for roughly €6 to €12, whereas the market price charges less than a third of that. To understand how Cath Kidston has succeeded with this pricing strategy, let's look at what makes the brand so special.

The cheery colours and fun patterns Cath Kidston create allows it not to focus on price-sensitive market segments but instead lure customers with a value-added pricing strategy. It is important for a brand to create something that people respond to with their hearts, which is a sure-fire way to breed success for a brand. Cath Kidston is one of the brands that is confident in its design style and fun in its character.

From humble beginnings

Cath Kidston Ltd was founded in 1993 when designer Cath Kidston opened a tiny shop in London's Holland Park with a €19,000 (£15,000) investment in her business, selling towels, vintage fabrics and wallpaper, and brightly painted 'junk' furniture she remembered fondly from her childhood. While her first print design 'Rose Bouquet' was inspired by a Welsh wallpaper, Cath Kidston's designs epitomised 1950s English heritage. Cath Kidston's clever reworking of traditional English country style made her tiny shop soon become a cult success. Today, the brand carries a wide product range, everything from furnishings, crockery, cutlery, cloths, toys, china, bed linen and bags to women's and children's wear and accessories, charging price premiums that fans are gladly paying.

Today Cath Kidston has around 66 shops and concessions in the UK (not counting a dozen or so 'pop-up' outlets), 1 in Jersey, 2 in Ireland, 6 in Spain, 4 in France, 33 in Japan, 14 in South Korea, 9 in the UAE, 35 in Thailand, 1 in Kuwait, 2 in India, 7 in the Philippines, 1 in Bahrain, 5 in Qatar, 2 in China, 8 in Hong Kong, 8 in Mexico, 4 in Saudi Arabia, 5 in Indonesia and 10 in Taiwan. The business is also driven by successful web, mail-order and wholesale divisions, with UK, Euro and US transactional websites. Cath Kidston has become a powerhouse of British design and retail, up there with the likes of Burberry and Pringle.

Design is a core part of Cath Kidston's brand. However, it is more than the vintage-inspired patterns and the stunning shop interiors. Walk into any Cath Kidston shop and you are able to 'experience' the brand that other retail shops do not offer. And this 'experience' permeates Cath Kidston's websites and all of its printed communications. If you are a fan, you can feel the essence of the brand in every aspect. In colour psychology terms, Cath Kidston is pure spring – fun, creative, warm, inspiring and young, adding a splash of colour and vintage charm to a routine day.

Cath Kidston not only offers a wide product range but is actually a lifestyle store. You can buy almost everything for your home, your children or yourself. The broad product range maximises the brand's appeal and means that it works for both gift and personal purchases. Cath Kidston allows its brand personality (fun and brightness) to shine through its brand identity (colours and typography), hence becoming a brand that consumers can fall in love with.

Value versus price

In certain respects, cross-comparing personal products such as key rings can be problematic, because there is so much variation in both features and price. But consider some popular Cath Kidston products. Its scarves sell for roughly €58, whereas comparable products from apparel retailers such as Marks & Spencer or Monsoon range from roughly €20 to €30. Cath Kidston's plastic-coated fabric bags sell from roughly €35 to €150. whereas other apparel retailers only charge similar prices for their leather bags. The fantasy of the English country childhood that Cath Kidston creates for customers enables the brand to charge price premiums as compared to competitors, such as John Lewis, Marks & Spencer and Monsoon. For the fans of Cath Kidston, her products excite them in a way that IKEA and other competitors cannot hope to grasp.

In terms of competition, in the product category of home accessories, Cath Kidston competes directly with UK retailers like John Lewis and Marks & Spencer. In the clothing category, apparel retailers such as Monsoon and Marks & Spencer are key competitors of Cath Kidston, while it competes with retailers like IKEA in the furniture category. Compared to the its main competitors, the weakness of Cath Kidston is that its product offerings are still relatively limited and narrow. However, Cath Kidston's unique strength is the product design offers its customers strong personal statement and identity that other competitors found hard to achieve. The biggest challenge of the Cath Kidston brand is to continue its success with the traditional English country style and fun brand character, while satisfying its loyal customers with innovative product design and product line extension.

Retro brands in hard times

Given the harsh economic climate, you might expect to see the cheerful floral prints that made Cath Kidston a household name withering a little. However, Cath Kidston has survived the recession very well, selling the retro styling and a rose-tinted antidote to an uncertain world in the uncertain economic climate. The brand is now a seemingly recession-proof 'global lifestyle brand.' In 2009, while other brands were chalking up serious losses due to the economic downturn, Cath Kidston saw profits leap by 60 per cent while post-recession, last year sales grew by a year-on-year increases of 10 per cent with non-UK sales up by 37 per cent. The reason for this phenomenon is that in these uncertain times, consumers, although cash-conscious, have an appetite for nostalgia. The products of Cath Kidston fulfil consumer needs for value and meaning, because they are inspired by a comforting and familiar 1950s aesthetic. For Cath Kidston, its premium pricing strategy coincided with a trend of consumer preference toward nostalgia, which seemed to provide comfort in a time of recession. Thus, the value derived from Cath Kidston products was enough to justify the high prices for many of its products. In an economic downturn, consumers want a bit of security and comfort, and this trend shows in the recession of the 1990s and today. UK retailers such as Asda reported a surge in sales of nostalgic brands, as people seem to look back to their childhood in an attempt to cheer themselves up. Consumers want the comfort and security that retro brands can give them, reminding them of their childhoods and even their parents' childhoods.

In times of economic downturn, people are worried about the credit crunch and losing jobs, and thus brands that act as an antidote to anxiety will do well. A lot of people didn't see the most recent economic crisis coming, and that makes them nervous about looking forward. The reflex is to seek comfort in things that reference the past. Also, as people stay at home more during in a recession to reduce consumption, stylish home comforts become more important, which also helps explain why Cath Kidston has done well in hard times.

Cath Kidston is conquering the world with her floral and polka dot designs, and it is not surprising to see how such a powerful brand can divide people. Consumers either love it or hate it. For those who hate it, the products of Cath Kidston look like the junk from a late granny's attic. However, as the key target audiences of Cath Kidston are 30- to 40-year-old middle-class working women, their strong purchasing power sustains the growth of the brand. Today the company claims that around 50 per cent of 18–65-year-old women are aware of the brand, while the numerous men that are viewed slouching outside stores suggest that an equal number of men are aware of the brand (albeit arguably less fondly)! Among teenage girls, brand awareness is huge (quite possibly 'frenzied') – most likely, in part, driven by approving parental gifts and nostalgic grandparents.

Pressing on with price premiums

The core idea of the Cath Kidston brand is a product-centric strategy. The control and expansion of the brand to a wider product range is still the focus after the shifting of company ownership. The product-centric concept of a brand is a business model that embodies perhaps the most essential brand ingredient for business success: simplicity. Cath Kidston Ltd is far from resting and is looking for further business expansion, with plans to open more shops in Europe, Japan and the Far East, including China, Hong Kong and South Korea. The brand is pressing on with its nostalgic designs that create value for its customers, justifying the premium price of its products.

Questions for discussion

1. Does Cath Kidston's pricing strategy truly differentiate it from the competition?
2. Has Cath Kidston executed value-based pricing, cost-based pricing or competition-based pricing? Explain.
3. Could Cath Kidston have been successful as a design-focused product marketer had it employed a low-price strategy? Explain.
4. Is Cath Kidston's pricing strategy sustainable? Explain.

Sources: This case study relies on extensive and drearily long periods of 'market research' by Amelia C. Harris and Tabitha C. Harris for which we are 'grateful' – albeit considerably poorer. Additional sources include: Beth Hale, 'Cath Kidston to pocket £50m from sale of brand 20 years after shop assistant created famous nostalgic designs', *Daily Mail*, 23 February 2010, www.dailymail.co.uk/femail/article-1252954/Cath-Kidston-pocket-30m-sale-brand-20-years-shop-assistant-created-famous-nostalgic-designs.html; Kathryn Hopkins, 'Designer Cath Kidston in deal to sell off her retail empire', *Guardian*, 7 March 2010, www.guardian.co.uk/business/2010/mar/07/cath-kidston-private-equity-buyout; Rachel Porter, 'The REAL domestic goddess: how Cath Kidston is conquering the world with her floral and polka dot designs', *Daily Mail*, 11 August 2009, www.dailymail.co.uk/femail/article-1205665/The-REAL-domestic-goddess-How-Cath-Kidston-conquering-world-floral-polka-dot-designs.html; and other information from http://www.cathkidston.com/, accessed May 2019.

Chapter Eleven

Pricing strategies: additional considerations

Chapter preview

In the previous chapter, you learned that price is an important marketing mix tool for both creating and capturing customer value. You explored the three main pricing strategies – customer value-based, cost-based and competition-based pricing – and the many internal and external factors that affect a firm's pricing decisions. In this chapter, we'll look at some additional pricing considerations: new product pricing, product mix pricing, price adjustments, and initiating and reacting to price changes. We close the chapter with a discussion of public policy and pricing.

For openers, let's examine Apple's premium pricing strategy. Apple sets its prices substantially above those of even its highest-priced competitors. But Apple's appeal to customers has never been about prices. Instead, Apple's vision has always been to provide innovative designs and superior user experiences that make its prices secondary in the minds of customers who covet Apple products.

Learning outcomes

- **Objective 1** You will be able to describe the major strategies for pricing new products.
  New product pricing strategies (pp. 325–326)
- **Objective 2** You will be able to explain how companies find a set of prices that maximises the profits from the total product mix.
  Product mix pricing strategies (pp. 326–328)
- **Objective 3** You will be able to discuss how companies adjust their prices to take into account different types of customers and situations.
  Price adjustment strategies (pp. 328–335)
- **Objective 4** You will be able to discuss the key issues related to initiating and responding to price changes.
  Price changes (pp. 335–338)
- **Objective 5** You will be able to overview the social and legal issues that affect pricing decisions.
  Public policy and pricing (pp. 338–341)

Apple: premium priced and worth it

Apple is the prototypical premium pricer. Whether it's an iPhone, iPad, Mac laptop or Apple Watch, customers pay more for an Apple than for competing devices – a lot more. Apple's iPhone last year sold globally for an average price of €538, compared with €159 for the average Android smartphone. Even compared to Samsung, its closest high-end competitor, the latest iPhone commands a premium of €86 to €175 more than similar Samsung Galaxy models. Similarly, a standard MacBook Pro costs €259 more than a comparable Dell or HP computer.

Yet despite such sky-high prices, Apple's products continue to fly off shelves, as eager customers get in line to snap up the latest models. For example, Apple sold more than 231 million iPhones last year alone. That leaves Apple in an envious position: It charges the highest prices and still captures market-leading shares in most of its product categories. How does Apple pull that off?

For Apple, success has never been about prices. Instead, it's been about the Apple user experience. Many tech companies make products that just occupy space and complete the tasks at hand. By contrast, Apple creates 'life-feels-good' experiences. Ask Apple users and they'll tell you that their Apple devices simply work better and are easier to use. And they love Apple's clean, simple designs that ooze style.

Apple's obsession with deepening the user experience shows up in everything the company does. From the beginning, Apple has been an innovative leader, churning out one cutting-edge product after another. Making products customers want – usually before consumers themselves even know what they want – has resulted in one Apple-led revolution after another. Apple has always had a genius for wrapping technology beautifully around human needs in a way that puts its customers at the front of the crowd.

In turn, Apple has built a huge corps of avid Apple enthusiasts. For nearly four decades, customers have anointed Apple as the undisputed keeper of all things cool. When you buy an Apple product, you join a whole community of fervent fellow believers. Say the word *Apple* in front of hard-core fans, and they'll go into raptures about the superiority of the brand. Such enthusiasm and support create demand for Apple products beyond the limits of price. Not only are Apple fans willing to pay more, they believe deep down that the value they receive is well worth the higher price.

One of the best illustrations of Apple's premium pricing power is the Apple Watch. Apple was hardly a pioneer in introducing its smartwatch. Dozens of companies were already selling wearables across a broad range of price points. In the year prior to the launch of the Apple Watch, competitors sold 6.8 million smartwatches at an average price of €162. Apple unveiled its own smartwatch in three versions. The least expensive version, the basic Apple Watch Sport, sold for €300, nearly twice the average industry price. At the other extreme was the ultra-premium Apple Watch Edition, made of solid 18-carat gold with sapphire crystal glass. Fully loaded, it sold for as much as €14,654. Such high prices did anything but scare away buyers. By one estimate, Apple will sell an estimated 21 million Apple Watches a year and now holds a 74 per cent share of the greatly expanded smartwatch market.

More broadly, Apple's ability to command higher prices and margins has produced stunning sales and profit results. In smartphones, for example, Apple captures an impressive 20 per cent share of total global sales. However, it commands an even more impressive 50 per cent share of the premium smartphone segment. Most remarkably, thanks to its premium prices, Apple routinely pulls in a lion's share of industry profits. For instance, in one recent quarter, it grabbed a dazzling 92 per cent of the total smartphone profits made by the world's top eight smartphone makers. Similarly, Apple captures nearly 50 per cent of the profits in the competitively crowded personal computer market.

Overall, in just the past four years, Apple's sales have more than doubled to a record €202 billion, placing the company at number five on the list of Fortune 500 companies, ahead of traditional industrial giants such as GM and GE. Brand tracker Interbrand recently rated Apple as the world's most valuable brand. And the company's soaring stock prices have made Apple one

Apple earns the premium prices it charges. Avid Apple fans have long appointed the brand as the keeper of all things cool.

Source: Peter Horree/Alamy Stock Photo

of the world's two most valuable companies, neck and neck with Google parent Alphabet.

Even with all this success, however, Apple's premium pricing strategy does present some risks. For example, in some markets – especially the world's rapidly growing emerging markets – Apple's high prices make it vulnerable to low-price competitors. Consider China, which accounts for a full one-third of all smartphone sales worldwide. In China, Apple now places third in market share behind fast-growing, low-priced local competitors such Xiaomi and Huawei.

Chinese market leader Xiaomi has come from nowhere in just the past three years to become the world's third-largest smartphone producer behind only Apple and Samsung. It produces low-cost smartphones, laptops and other devices that are modelled closely after Apple devices. It even has a thriving iTunes clone that supplies apps, games and other content. Xiaomi packs potent technology and stunning design into dirt-cheap phones that sell at a fraction of Apple's prices. For instance, an entry-level iPhone sells in China for €718 – that's more than a month's wages for the average Chinese buyer. By contrast, the average Xiaomi smartphone goes for only €128.

With its smart design and low, low prices, Xiaomi is targeting the 'technically inclined, geeky, typically younger sort of customer who can't afford a top-of-the-line Apple or Samsung phone', says one tech blogger. Such consumers make up the fastest-rising tech segment not just in China but also in other emerging markets such as India and Brazil. And so far, Apple neither has – nor intends to have – an affordable answer for that type of consumer. Low-end products simply don't fit Apple's operating style or premium positioning.

However, Apple is still thriving in China and other emerging economies by catering to the also-burgeoning numbers of more affluent consumers in those markets, who want and can afford the luxury and status associated with Apple. Just like anywhere else, if you can afford it, an Apple device is well worth the premium price. In China, according to one analyst, 'It's a price people have been willing to pay, specifically because it is expensive.' For instance, remember that exorbitantly priced Apple Watch Edition? It sold out in China in less than an hour.

Thus, whether here or abroad, Apple's premium pricing strategy will likely remain a winner. 'The dominance of Apple is something that is very hard to overcome', says an industry executive. 'Apple has to stumble somehow or another, and I don't think that's going to happen.' The lesson is simple: truly premium products earn premium prices.[1]

As the Apple story suggests, and as we learned in the previous chapter, pricing decisions are subject to a complex array of company, environmental and competitive forces. To make things even more complex, a company does not set a single price but rather a *pricing structure* that covers different items in its line. This pricing structure changes over time as products move through their life cycles. The company adjusts its prices to reflect changes in costs and demand and to account for variations in buyers and situations. As the competitive environment changes, the company considers when to initiate price changes and when to respond to them.

This chapter examines additional pricing approaches used in special pricing situations or to adjust prices to meet changing situations. We look in turn at *new product pricing* for products in the introductory stage of the product life cycle, *product mix pricing* for related products in the product mix, *price adjustment tactics* that account for customer differences and changing situations, and strategies for initiating and responding to *price changes*.

Cheaper but full-function mobile smartphones facilitated a market penetration strategy by Samsung.

Source: CRS PHOTO/Shutterstock

New product pricing strategies

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

Market-skimming pricing

Many companies that invent new products set high initial prices to *skim* revenues layer by layer from the market. Apple frequently uses this strategy, called **market-skimming pricing** (or **price skimming**). With each new generation of Apple iPhone, iPad or Mac computer, new models start at a high price then work their way down as newer models are introduced. In this way, Apple skims the maximum amount of revenue from the various segments of the market. For example, through smart premium pricing, Apple vacuums up as much as 92 per cent of all smartphone profits.[2]

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

Author comment

Pricing new products can be especially challenging. Just think about all the things you'd need to consider in pricing a new smartphone, say, the first Apple iPhone. Even more, you need to start thinking about the price – along with many other marketing considerations – at the very beginning of the design process.

Market-penetration pricing

Rather than setting a high initial price to skim off small but profitable market segments, some companies use **market-penetration pricing**. Companies set a low initial price to *penetrate* the market quickly and deeply – to attract a large number of buyers quickly and win a large market share. The high sales volume results in falling costs, allowing companies to cut their prices even further. For example, AGIT Global used penetration pricing to quickly build demand for its Wavestorm surfboards:[3]

> Before Wavestorm, surfers and would-be surfers typically bought custom-made or high-end surfboards at local surf shops, where entry-level boards typically run from €358 to €862. AGIT Global had a different idea. With a mission to make surfing more accessible for both adults and children, it began 10 years ago mass-producing good-quality soft-foam surfboards and selling them through big-box stores at penetration prices. For example, it sells an entry-level, eight-foot, blue-and-white Wavestorm board for only €86. Thanks to penetration pricing, Wavestorm is now the market leader, selling an estimated five times more boards than the other largest surfboard brands. The inexpensive boards have even become favourites of advanced surfers, who buy them for their friends or children. 'Margins are slim in some outlets', says Matt Zilinskas, AGIT's vice president of sales. 'But we pump out volume and get paid on time.'

Market-skimming pricing (price skimming) Setting a high price for a new product to skim maximum revenues layer by layer from the segments willing to pay the high price; the company makes fewer but more profitable sales.

Market-penetration pricing Setting a low price for a new product in order to attract a large number of buyers and a large market share.

Several conditions must be met for this low-price strategy to work. First, the market must be highly price sensitive so that a low price produces more market growth. Second, production and distribution costs must decrease as sales volume increases. Finally, the low price must help keep out the competition, and the penetration pricer must maintain its low-price position. Otherwise, the price advantage may be only temporary.

Author comment
Most individual products are part of a broader product mix and must be priced accordingly. For example, Gillette prices its Fusion razors low. But once you buy the razor, you're a captive customer for its higher-margin replacement cartridges.

Product mix pricing strategies

The strategy for setting a product's price often has to be changed when the product is part of a product mix. In this case, the firm looks for a set of prices that maximises its profits on the total product mix. Pricing is difficult because the various products have related demand and costs and face different degrees of competition. We now take a closer look at the five product mix pricing situations summarised in Table 11.1: *product line pricing*, *optional-product pricing*, *captive-product pricing*, *by-product pricing* and *product bundle pricing*.

Product line pricing

Product line pricing Setting the price steps between various products in a product line based on cost differences between the products, customer evaluations of different features and competitors' prices.

Companies usually develop product lines rather than single products. For example, Rossignol offers seven different collections of alpine skis of all designs and sizes, at prices that range from around €150 for its junior skis, such as Fun Girl, to more than €91,100 for a pair from its Radical racing collection. It also offers lines of Nordic and backcountry skis, snowboards and ski-related apparel. In **product line pricing**, management must determine the price steps to set between the various products in a line. The price steps should take into account cost differences between products in the line. More important, they should account for differences in customer perceptions of the value of different features.

For example, Sage offers an entire line of financial management software, including Accounting Start, Accounting, Essentials, Standard and Professional versions priced between €15 and €150 per month. Although it costs Sage no more to release downloads of the software containing the Accounting Start version than the download of the professional version, many buyers happily pay more to obtain additional features. Sage's task is to establish perceived value differences that support the price differences.

Optional-product pricing

Optional-product pricing The pricing of optional or accessory products along with a main product.

Many companies use **optional-product pricing** – pricing optional or accessory products along with the main product. For example, a car buyer may choose to order a navigation system and premium entertainment system. Refrigerators come with optional ice makers. And when you order a new laptop, you can select from a bewildering array of processors, hard drives, docking systems, software options and service plans. Pricing these options is a sticky problem. Companies must decide which items to include in the base price and which to offer as options.

Table 11.1 Product mix pricing

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

Captive-product pricing

Companies that make products that must be used along with a main product are using **captive-product pricing**. Examples of captive products are razor blade cartridges, video games, printer cartridges, single-serve coffee pods and e-books. Producers of the main products (razors, video-game consoles, printers, single-cup coffee brewing systems and tablet computers) often price them low and set high mark-ups on the supplies. For example, Amazon makes little or no profit on its Kindle readers and tablets. It hopes to more than make up for thin margins through sales of digital books, music, movies, subscription services and other content for the devices. 'We want to make money when people use our devices, not when they buy our devices', declares Amazon CEO Jeff Bezos.[4]

Captive-product pricing Setting a price for products that must be used along with a main product, such as blades for a razor and games for a video-game console.

When Sony first introduced its PlayStation4 (PS4) video-game console, priced at €279 and €391for the regular and premium versions respectively, it lost as much as €175 per unit sold. Sony hoped to recoup the losses through the sales of more lucrative PS4 games. However, companies that use captive-product pricing must be careful. Finding the right balance between the main product and captive product prices can be tricky. For example, despite industry-leading PS4 videogame sales, Sony has to work hard to earn back its losses on the console. Even more, consumers trapped into buying expensive captive products may come to resent the brand that ensnared them.

Customers of single-cup coffee brewing systems such as Nescafe's Dolce Gusto or Nestle's Nespresso may cringe at what they must pay for those handy little coffee portion packs. Although they might seem like a bargain when compared on a cost-per-cup basis versus Costa Coffee, Starbucks, Tchibo or Segafredo, the pods' prices can seem like highway robbery when broken down by the pound. One investigator calculated the cost of pod coffee at a shocking €50 per pound.[5] At those prices, you'd be better off cost-wise brewing a big pot of premium coffee and pouring out the unused portion. For many buyers, the convenience and selection offered by single-cup brewing systems outweigh the extra costs. However, such captive-product costs might make others avoid buying the device in the first place or cause discomfort during use after purchase.

In the case of services, captive-product pricing is called *two-part pricing*. The price of the service is broken into a *fixed fee* plus a *variable usage rate*. Thus, at Aqualand in Corfu and other amusement parks, you pay a daily ticket or season pass charge plus additional fees for food and other in-park features.

By-product pricing

Producing products and services often generates by-products. If the by-products have no value and if getting rid of them is costly, this will affect the pricing of the main product. Using **by-product pricing**, the company seeks a market for these by-products to help offset the costs of disposing of them and help make the price of the main product more competitive.

By-product pricing Setting a price for by-products to help offset the costs of disposing of them and help make the main product's price more competitive.

The by-products themselves can even turn out to be profitable – turning trash into cash. For example, whisky can fuel you in more than one way:[6]

Biobutanol is a biofuel made from whisky by-products. It can be used in ordinary cars and is predicted to be the next generation of biofuel, which is estimated to give 30 per cent more output power than ethanol. Scientists were provided with samples of whisky distilling by-products from Diageo's Glenkinchie Distillery in East Lothian, which makes The Edinburgh Malt. It uses the two main by-products of whisky production – pot ale, the liquid from the copper stills, and draff, the spent grains, as the basis for producing the butanol that can then be used as fuel. The scientists at the university's biofuel research centre have filed for a patent and intend to create a spin-out company to take the new fuel to market. With 1.6 million litres of pot ale and 187,000 tonnes of draff produced by the malt whisky industry annually, the scientists believe there is real potential for biofuel to be available at local garage forecourts alongside traditional fuels. Unlike ethanol, the nature of the innovative biofuel means that ordinary cars could use the more powerful fuel, instead of traditional petrol, without modification. The product can also be used to make other green renewable biochemicals, such as acetone.

FT *Source*: Bolger, A. (2010) Scottish scientists develop whisky biofuel, *Financial Times*, 17 August

You can make biofuel from whisky by-products!
Source: Enricobaringuarise/Shutterstock

Product bundle pricing

Product bundle pricing Combining several products and offering the bundle at a reduced price.

Using **product bundle pricing**, sellers often combine several products and offer the bundle at a reduced price. For example, fast-food restaurants bundle a burger, fries and a soft drink at a 'combo' price. Body Shop (owned by Natura) with around 3,000 stores in 61 countries is offering 'three-for' deals on its soaps and lotions (such as buy three lotions and save €5, or buy three soaps for the price of two).[7] And Sky, France Telecom, Virgin, Deutsche Telecom and British Telecom, and other telecommunications companies bundle TV service, phone service and high-speed internet connections at a low combined price. Price bundling can promote the sales of products consumers might not otherwise buy, but the combined price must be low enough to get them to buy the bundle.

Price adjustment strategies

Author comment
Setting the base price for a product is only the start. The company must then adjust the price to account for customer and situational differences. When was the last time you paid the full suggested retail price for something?

Companies usually adjust their basic prices to account for various customer differences and changing situations. Here we examine the seven price adjustment strategies summarised in Table 11.2: *discount and allowance pricing*, *segmented pricing*, *psychological pricing*, *promotional pricing*, *geographical pricing*, *dynamic pricing* and *international pricing*.

Discount and allowance pricing

Discount A straight reduction in price on purchases during a stated period of time or of larger quantities.

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

One form of **discount** is a *cash discount*, a price reduction to buyers who pay their bills promptly. A typical example is '2/10, net 30,' which means that although payment is due within 30 days, the buyer can deduct 2 per cent if the bill is paid within 10 days. A *quantity discount* is a price reduction to buyers who buy large volumes. A seller offers a *functional discount* (also called a *trade discount*) to trade-channel members who perform certain functions, such as selling,

Table 11.2 Price adjustments

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

storing and record keeping. A *seasonal discount* is a price reduction to buyers who buy merchandise or services out of season.

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

Allowance Promotional money paid by manufacturers to retailers in return for an agreement to feature the manufacturer's products in some way.

Segmented pricing Selling a product or service at two or more prices, where the difference in prices is not based on differences in costs.

Segmented pricing

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

Segmented pricing takes several forms. Under *customer-segment pricing*, different customers pay different prices for the same product or service. For example, museums, cinemas and retail stores may charge lower prices for students and senior citizens. Under *product form pricing*, different versions of the product are priced differently but not according to differences in their costs. For instance, a one-litre bottle (about 34 ounces) of Evian mineral water may cost €1 at your local supermarket. But a five-ounce aerosol can of Evian Brumisateur Mineral Water Spray sells for a suggested retail price of €8 at beauty boutiques and spas. The water is all from the same source in the French Alps, and the aerosol packaging costs little more than the plastic bottles. Yet you pay about €0.03 an ounce for one form and €1.60 an ounce for the other.

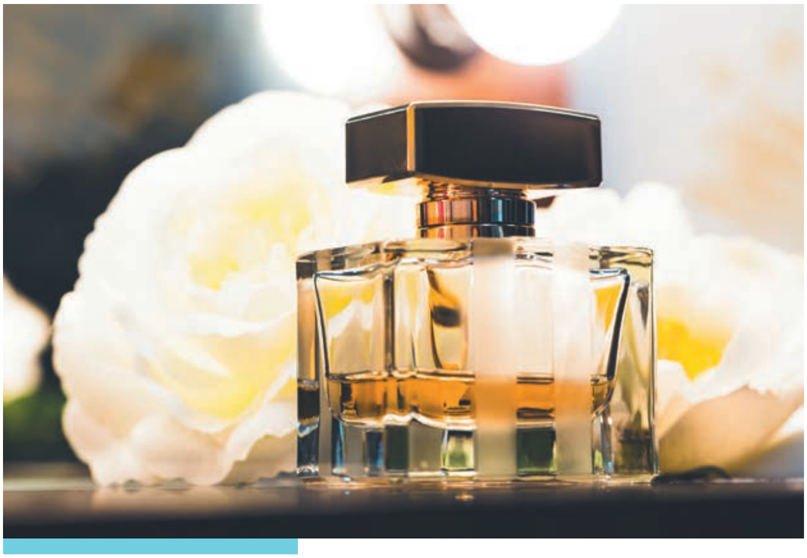
Product-form pricing: Evian in a one-litre bottle might cost €0.03 an ounce at your supermarket, whereas the same water might run to €1.60 an ounce when sold in five-ounce aerosol cans as Evian Brumisateur Mineral Water Spray moisturiser.
Source: DenisMArt/Shutterstock

Using *location-based pricing*, a company charges different prices for different locations, even though the cost of offering in each location is the same. For instance, state universities charge higher tuition for out-of-state students, and theatres vary their seat prices because of audience preferences for certain locations. Tickets for a Monday night performance of *Les Misérables* in London's West End cost €17 for a seat in the upper circle, whereas seats in the stalls go for €88. Finally, using *time-based pricing*, a firm varies its price by the season, the month, the day and even the hour. For example, cinemas charge matinee pricing during the daytime, and resorts give weekend and seasonal discounts.

For segmented pricing to be an effective strategy, certain conditions must exist. The market must be segmentable, and segments must show different degrees of demand. The costs of segmenting and reaching the market cannot exceed the extra revenue obtained from the price difference. Of course, the segmented pricing must also be legal.

Most important, segmented prices should reflect real differences in customers' perceived value. Consumers in higher price tiers must feel that they're getting their extra money's worth for the higher prices paid. Otherwise, segmented pricing practices can cause consumer resentment. For example, there has been a lot of negative publicity centred around the so called 'Pink Tax' wherein women's products are priced higher than very similar, if not identical, products for men. A recent study found that, on average, very similar disposable razors are around 6 per cent pricier, deodorant is around 9 per cent more and facial moisturiser is a staggering 34 per cent costlier for women's compared to men's products![8] Unsurprisingly, such investigations have concluded that women often pay more for female versions of products that are virtually identical to male versions except for gender-specific packaging. Although no specific laws (to date) prohibit gender-based pricing differences, such obvious and glaring disparities can damage a sector's or brand's credibility and reputation.

Companies must also be careful not to treat customers in lower price tiers as second-class citizens. Otherwise, in the long run, the practice will lead to customer resentment and ill will. For example, in recent years, the airlines have incurred the wrath of frustrated customers at both ends of the aeroplane. Passengers paying full fare for business- or first-class seats often feel that they are being gouged. At the same time, passengers in lower-priced coach seats feel that they're being ignored or treated poorly.



Psychological pricing: higher prices are often associated with higher quality.
Source: FabrikaSimf/Shutterstock

Psychological pricing

Price says something about the product. For example, many consumers use price to judge quality. A €100 bottle of perfume may contain only €3 worth of scent, but some people are willing to pay the €100 because this price indicates something special.

In using **psychological pricing**, sellers consider the psychology of prices, not simply the economics. For example, consumers usually perceive higher-priced products as having higher quality. When they can judge the quality of a product by examining it or by calling on past experience with it, they use price less to judge quality. But when they cannot judge quality because they lack the information or skill, price becomes an important quality signal. For instance, who's the better lawyer, one who charges €50 per hour or one who charges €500 per hour? You'd have to do a lot of digging into the respective lawyers' credentials to answer this question objectively; even then, you might not be able to judge accurately. Most of us would simply assume that the higher-priced lawyer is better.

Psychological pricing Pricing that considers the psychology of prices, not simply the economics; the price is used to say something about the product.

Reference prices Prices that buyers carry in their minds and refer to when they look at a given product.

Another aspect of psychological pricing is **reference prices** – prices that buyers carry in their minds and refer to when looking at a given product. The reference price might be formed by noting current prices, remembering past prices or assessing the buying situation. Sellers can influence or use these consumers' reference prices when setting price. For example, a grocery retailer might place its store brand of bran flakes and raisins cereal priced at €2.49 next to Kellogg's Raisin Bran priced at €3.79. Or a company might offer more expensive models that don't sell very well to make its less expensive but still-high-priced models look more affordable by comparison. For example, Williams-Sonoma once offered a fancy breadmaker at the steep price of €279. However, it then added a €429 model. The expensive model flopped, but sales of the cheaper model doubled.[9]

For most purchases, consumers don't have all the skill or information they need to figure out whether they are paying a good price. They don't have the time, ability or inclination to research different brands or stores, compare prices and get the best deals. Instead, they may rely on certain cues that signal whether a price is high or low. Interestingly, such pricing cues are often provided by sellers, in the form of sales signs, price-matching guarantees, loss-leader pricing and other helpful hints.

Even small differences in price can signal product differences. A 9 or 0.99 at the end of a price often signals a bargain. You see such prices everywhere. For example, browse the online sites of top discounters such as Lidl or Netto, where almost every price ends in 9. In contrast, high-end retailers might favour prices ending in a whole number (for example, €6, €25 or €200). Others use 00-cent endings on regularly priced items and 99-cent endings on discount merchandise.

Although actual price differences might be small, the impact of such psychological tactics can be big. For example, in a recent American study, people were asked how likely they were to choose among LASIK eye surgery providers based only on the prices they charged: $299 or $300 (around €211). The actual price difference was only $1 (€0.81), but the study found that the psychological difference was much greater. Preference ratings for the providers charging $300 were much higher. Subjects perceived the $299 price as significantly less, but it also raised stronger concerns about quality and risk. Some psychologists even argue that each digit has symbolic and visual qualities that should be considered in pricing. Thus, eight (8) is round and even and creates a soothing effect, whereas seven (7) is angular and creates a jarring effect.[10]

Promotional pricing

Promotional pricing Temporarily pricing products below the list price, and sometimes even below cost, to increase short-run sales.

With **promotional pricing**, companies will temporarily price their products below list price – and sometimes even below cost – to create buying excitement and urgency. Promotional pricing takes several forms. A seller may simply offer *discounts* from normal prices to increase sales and reduce inventories. Sellers also use *special-event pricing* in certain seasons to draw more customers. Thus, TVs and other consumer electronics are promotionally priced in November and December to attract holiday shoppers into the stores. *Limited-time offers*, such as online *flash sales*, can create buying urgency and make buyers feel lucky to have gotten in on the deal.

Manufacturers sometimes offer *cash rebates* to consumers who buy the product from dealers within a specified time; the manufacturer sends the rebate directly to the customer. Rebates have been popular with car makers and producers of mobile phones and small appliances, but they are also used with consumer packaged goods. Some manufacturers offer *low-interest financing*, *longer warranties* or *free maintenance* to reduce the consumer's 'price'. This practice has become another favourite of the car industry.

Promotional pricing can help move customers over humps in the buying decision process. Marketers sometimes become addicted to promotional pricing, especially in difficult economic times. They use price promotions as a quick fix instead of sweating through the difficult process of developing effective longer-term strategies for building their brands. But companies must be careful to balance short-term sales incentives against long-term brand building. One analyst advises:[11]

> When times are tough, there's a tendency to panic. One of the first and most prevalent tactics that many companies try is an aggressive price cut. Price trumps all. At least, that's how it feels these days. 20% off. 30% off. 50% off. Buy one, get one free. Whatever it is you're selling, you're offering it at a discount just to get customers in the door. But aggressive pricing strategies can be risky business. Companies should be very wary of risking their brands' perceived quality by resorting to deep and frequent price cuts. Some discounting is unavoidable in a tough economy, and consumers have come to expect it. But marketers have to find ways to shore up their brand identity and brand equity during times of discount mayhem.

Promotional pricing, however, can have adverse effects. During most holiday seasons, for example, it's an all-out bargain war. Marketers carpet-bomb consumers with deals, causing buyer wear-out and pricing confusion. Constantly reduced prices can erode a brand's value in the eyes of customers. And used too frequently, price promotions can create 'deal-prone' customers who wait until brands go on sale before buying them.

Geographical pricing

A company also must decide how to price its products for customers located in different parts of Europe or the world. Should the company risk losing the business of more distant customers by charging them higher prices to cover the higher shipping costs? Or should the company charge all customers the same prices regardless of location? We will look at five **geographical pricing** strategies for the following hypothetical situation:

Geographical pricing Setting prices for customers located in different parts of the country or world.

> **The Peerless Paper Company is located in Madrid, Spain, and sells paper products to customers all over Europe. The cost of freight is high and affects the companies from whom customers buy their paper. Peerless wants to establish a geographical pricing policy. It is trying to determine how to price a €10,000 order to three specific customers: Customer A (Lisbon, Portugal), Customer B (Florence, Italy) and Customer C (Riga, Latvia).**

One option is for Peerless to ask each customer to pay the shipping cost from the Madrid factory to the customer's location. All three customers would pay the same factory price of €10,000, with Customer A paying, say, €100 for shipping; Customer B, €150; and Customer C, €250. Called **FOB-origin pricing**, this practice means that the goods are placed *free on board* (hence, *FOB*) a carrier. At that point the title and responsibility pass to the customer, who pays the freight from the factory to the destination. Because each customer picks up its own cost, supporters of FOB pricing feel that this is the fairest way to assess freight charges. The disadvantage, however, is that Peerless will be a high-cost firm to distant customers.

FOB-origin pricing A geographical pricing strategy in which goods are placed free on board a carrier; the customer pays the freight from the factory to the destination.

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

Uniform-delivered pricing A geographical pricing strategy in which the company charges the same price plus freight to all customers, regardless of their location.

Zone pricing falls between FOB-origin pricing and uniform-delivered pricing. The company sets up two or more zones. All customers within a given zone pay a single total price; the more distant the zone, the higher the price. For example, Peerless might set up a Western-Europe Zone and charge €100 freight to all customers in this zone, a Mid-Europe Zone in which it charges €150, and an Eastern-Europe Zone in which it charges €250. In this way, the customers within a given price zone receive no price advantage from the company. For example, customers in Lisbon and Madrid pay the same total price to Peerless. The complaint, however, is that the Lisbon customer is paying part of the Madrid customer's freight cost.

Zone pricing A geographical pricing strategy in which the company sets up two or more zones. All customers within a zone pay the same total price; the more distant the zone, the higher the price.

Using **base-point pricing**, the seller selects a given city as a 'base point' and charges all customers the freight cost from that city to the customer location, regardless of the city from which the goods are actually shipped. For example, Peerless might set Paris as the base point and charge all customers €10,000 plus the freight from Paris to their respective locations. This means that a Madrid customer pays the freight cost from Paris to Madrid, even though the goods may be shipped from Madrid. If all sellers used the same base-point city, delivered prices would be the same for all customers, and price competition would be eliminated.

Base-point pricing A geographical pricing strategy in which the seller designates some city as a base point and charges all customers the freight cost from that city to the customer.

Finally, the seller who is anxious to do business with a certain customer or geographical area might use **freight-absorption pricing**. Using this strategy, the seller absorbs all or part of the actual freight charges to get the desired business. The seller might reason that if it can get more business, its average costs will decrease and more than compensate for its extra freight cost. Freight-absorption pricing is used for market penetration and to hold on to increasingly competitive markets.

Freight-absorption pricing A geographical pricing strategy in which the seller absorbs all or part of the freight charges in order to get the desired business.

Dynamic and online pricing

Throughout most of history, prices were set by negotiation between buyers and sellers. A *fixed-price* policy – setting one price for all buyers – is a relatively modern idea that arose with the development of large-scale retailing at the end of the nineteenth century. Today, most prices are set this way. However, many companies are now reversing the fixed-pricing trend. They are using **dynamic pricing** – adjusting prices continually to meet the characteristics and needs of individual customers and situations.

Dynamic pricing Adjusting prices continually to meet the characteristics and needs of individual customers and situations.

Dynamic pricing offers many advantages for marketers. For example, internet sellers such as Amazon or Dell can mine their databases to gauge a specific shopper's desires, measure his or her means, instantaneously tailor offers to fit that shopper's behaviour and price products accordingly.

Services ranging from retailers, airlines and hotels to sports teams change prices on the fly according to changes in demand, costs or competitor pricing, adjusting what they charge for specific items on a daily, hourly or even continuous basis. Done well, dynamic pricing can help sellers to optimise sales and serve customers better. However, done poorly, it can trigger margin-eroding price wars and damage customer relationships and trust. Companies must be careful not to cross the fine line between smart dynamic pricing strategies and damaging ones.

In the extreme, some companies customise their offers and prices based on the specific characteristics and behaviours of individual customers, mined from online browsing and purchasing histories. These days, online offers and prices might well be based on what specific customers search for and buy, how much they pay for other purchases, and whether they might be willing and able to spend more. For example, a consumer who recently went online to purchase a first-class ticket to Paris or customise a new Mercedes coupe might later get a higher quote on a new Bose Wave Radio. By comparison, a friend with a more modest online search and purchase history might receive an offer of 5 per cent off and free shipping on the same radio.[12]

Dynamic pricing doesn't happen only online. For example, many store retailers and other organisations now adjust prices by the day, hour or even minute. For example, American department store Kohl's uses electronic price tags in its stores to adjust prices instantly based on supply, demand and store traffic factors. It can now stage sales that last only hours instead of days, much as its online competitors do. Ride-sharing services such as Uber and Lyft adjust their fares dynamically during slow or peak times, a practice called 'surge pricing'. Similarly, supply and demand dictates minute-to-minute price adjustments these days for everything from theatre tickets to parking spots and golf course green fees.

Although such dynamic pricing practices seem legally questionable, they're not. Dynamic pricing is legal as long as companies do not discriminate based on age, gender, location or other similar characteristics. Dynamic pricing makes sense in many contexts – it adjusts prices according to market forces and consumer preferences. But marketers need to be careful not to use dynamic pricing to take advantage of customers, thereby damaging important customer relationships. Customers may resent what they see as unfair pricing practices or price gouging. For example, consumers reacted badly to reports that Coca-Cola was proposing smart vending machines that would adjust prices depending on outside temperatures. And an Amazon dynamic pricing experiment that varied prices by purchase occasion received highly unfavourable headlines.

Just as dynamic and online pricing benefit sellers, however, they also benefit consumers. For example, thanks to the internet, consumers can now get instant product and price comparisons from thousands of vendors at price comparison sites or using mobile apps such as ShopSavvy, Amazon's Price Check, or eBay's RedLaser. For example, the RedLaser mobile app lets customers scan barcodes (or search by voice or image) while shopping in stores. It then searches online and at nearby stores to provide thousands of reviews and comparison prices and even offers buying links for immediate online purchasing.

Such information puts pricing power into the hands of consumers. Alert shoppers take advantage of the constant price skirmishes among sellers, snapping up good deals or leveraging retailer price-matching policies. In fact, many retailers are finding that ready online access to comparison prices is giving consumers *too* much of an edge. Most store retailers must now devise strategies to deal with the consumer practice of *showrooming*. Consumers armed with smartphones now routinely visit stores to see an item, compare prices online while in the store, and then request price matches or simply buy the item online at a lower price. Such behaviour is called showrooming because consumers use retailers' stores as de facto 'showrooms' for online resellers such as Amazon.

Store retailers are now implementing strategies to combat such showrooming and cross-channel shopping or even turn it into an advantage. For example, Best Buy now routinely matches the prices of Amazon and other major online merchants. Once it has neutralised price as a buying factor, Best Buy reasons, it can convert showroomers into in-store buyers with its non-price advantages, such as immediacy, convenient locations, personal assistance by well-trained associates, and the ability to order goods online and pick up or return them in the store. It has also sharpened its own online and mobile marketing. 'Showrooming . . . is not the ideal experience,' says a Best Buy marketer, 'to do research at home, go to the store, do more research, then . . . order and hope it arrives on time. There's a better way.'[13] We will revisit the subject of showrooming in our discussions of retailing in Chapter 13.

International pricing

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

The price that a company should charge in a specific country depends on many factors, including economic conditions, competitive situations, laws and regulations, and the nature of the wholesaling and retailing system. Consumer perceptions and preferences also may vary from country to country, calling for different prices. Or the company may have different marketing objectives in various world markets, which require changes in pricing strategy. For example, Apple uses a premium pricing strategy to introduce sophisticated, feature-rich, premium smartphones in carefully segmented mature markets in developed countries and to affluent consumers in emerging markets. By contrast, it's now under pressure to discount older models and develop cheaper, more basic phone models for sizeable but less affluent markets in developing countries, where even discounted older Apple phones sell at prices three to five times those of competing low-price models.

Costs play an important role in setting international prices. Travellers abroad are often surprised to find that goods that are relatively inexpensive at home may carry outrageously higher price tags in other countries. A pair of Levi's selling for €30 in the United States might go for €63 in Tokyo and €88 in Paris. A McDonald's Big Mac selling for a modest €4.20 in the United States might cost €7.85 in Norway or €5.65 in Brazil, and an Oral-B toothbrush selling for €2.49 at home may cost €10 in China. Conversely, a Gucci handbag going for only €140 in Milan, Italy, might fetch €240 in the United States.

In some cases, such *price escalation* may result from differences in selling strategies or market conditions. In most instances, however, it is simply a result of the higher costs of selling in another country – the additional costs of operations, product modifications, shipping and insurance, exchange-rate fluctuations and physical distribution. Import tariffs and taxes can also add to costs. For example, China imposes duties as high as 25 per cent on imported Western luxury products such as watches, designer dresses, shoes and leather handbags. It also levies consumption taxes of 30 per cent for cosmetics and 20 per cent on high-end watches. As a result, Western luxury goods bought in mainland China carry prices as much as 50 per cent higher than in Europe.[14]

Price has become a key element in the international marketing strategies of companies attempting to enter less affluent emerging markets. Typically, entering such markets has meant targeting the exploding middle classes in developing countries such as China, India, Russia and Brazil, whose economies have been growing rapidly. More recently, however, as the weakened global economy has slowed growth in both domestic and emerging markets, many companies are shifting their sights to include a new target – the so-called 'bottom of the pyramid,' the vast untapped market consisting of the world's poorest consumers.

Sometimes focusing on the lower level of the pyramid is highly successful.
Source: CRS PHOTO/Shutterstock

Not long ago, the preferred way for many brands to market their products in developing markets – whether consumer products or cars, computers and smartphones – was to paste new labels on existing models and sell them at higher prices to the privileged few who could afford them. However, such a pricing approach put many products out of the reach of the tens of millions of poor consumers in emerging markets. As a result, many companies developed smaller, more basic and affordable product versions for these markets. For example, Unilever – the maker of such brands as Dove, Sunsilk, Lipton and Vaseline – shrunk its packaging and set low prices that even the world's poorest consumers could afford. It developed single-use packages of its shampoo, laundry detergent, face cream and other products that it could sell profitably for just pennies a pack. As a result, today, 59 per cent of Unilever's revenues come from emerging economies.[15]

Although this strategy has been successful for Unilever, most companies are learning that selling profitably to the lower levels of the pyramid requires more than just repackaging or stripping down existing products and selling them at low prices. Just like more well-to-do consumers, low-income buyers want products that are both functional *and* aspirational. Thus, companies today are innovating to create products that not only sell at very low prices but also give bottom-of-the-pyramid consumers more for their money, not less.

International pricing presents many special problems and complexities. We discuss international pricing issues in more detail in Chapter 19.

Price changes

After developing their pricing structures and strategies, companies often face situations in which they must initiate price changes or respond to price changes by competitors.

Author comment

When and how should a company change its price? What if costs rise, putting the squeeze on profits? What if the economy sags and customers become more price sensitive? Or what if a major competitor raises or drops its prices? As Figure 11.1 suggests, companies face many price-changing options.

Initiating price changes

In some cases, the company may find it desirable to initiate either a price cut or a price increase. In both cases, it must anticipate possible buyer and competitor reactions.

Initiating price cuts

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

A company may also cut prices in a drive to dominate the market through lower costs. Either the company starts with lower costs than its competitors, or it cuts prices in the hope of gaining market share that will further cut costs through larger volume. For example, computer and electronics maker Lenovo uses an aggressive low-cost, low-price strategy to increase its share of the PC market in developing countries. Similarly, Chinese low-price phone maker Xiaomi has now become China's smartphone market leader, and the low-cost producer is making rapid inroads into India and other emerging markets.[16]

Initiating price increases

A successful price increase can greatly improve profits. For example, if the company's profit margin is 3 per cent of sales, a 1 per cent price increase will boost profits by 33 per cent if sales volume is unaffected. A major factor in price increases is cost inflation. Rising costs squeeze profit margins and lead companies to pass cost increases along to customers. Another factor leading to price increases is over-demand: When a company cannot supply all that its customers need, it may raise its prices, ration products to customers, or both – consider today's worldwide oil and gas industry.

When raising prices, the company must avoid being perceived as a *price gouger*. For example, when petrol prices rise rapidly, angry customers often accuse the major oil companies of enriching themselves at the expense of consumers. Customers have long memories, and they will eventually turn away from companies or even whole industries that they perceive as charging excessive prices. In the extreme, claims of price gouging may even bring about increased government regulation.

There are some techniques for avoiding these problems. One is to maintain a sense of fairness surrounding any price increase. Price increases should be supported by company communications telling customers why prices are being raised.

Wherever possible, the company should consider ways to meet higher costs or demand without raising prices. For example, it might consider more cost-effective ways to produce or distribute its products. It can 'unbundle' its market offering, removing features, packaging or services and separately pricing elements that were formerly part of the offer. Or it can shrink the product or substitute less-expensive ingredients instead of raising the price. P&G recently did this with Tide by holding price while shrinking 100-ounce containers to 92 ounces and 50-ounce containers to 46 ounces, creating a more than 8 per cent price increase per ounce without changing package prices. Imperial Leather soap recently reduced the size of its bars from 125g to 100g while Cadbury's Dairy Milk bars shrank from 140g to 120g (that's two whole chunks!) while the price remained unchanged.[17] Similarly, Kimberly-Clark raised Kleenex prices by 'desheeting' – reducing the number of sheets of toilet paper or facial tissues in each package. And a regular Snickers bar now weighs 48 grams, down from 58 grams in the past, effectively increasing prices by 11 per cent.[18]

Buyer reactions to price changes

Customers do not always interpret price changes in a straightforward way. A price *increase*, which would normally lower sales, may have some positive meanings for buyers. For example, what would you think if Rolex *raised* the price of its latest watch model? On the one hand, you might think that the watch is even more exclusive or better made. On the other hand, you might think that Rolex is simply being greedy by charging what the traffic will bear.

Similarly, consumers may view a price *cut* in several ways. For example, what would you think if Rolex were to suddenly cut its prices? You might think that you are getting a better deal on an exclusive product. More likely, however, you'd think that quality had been reduced, and the brand's luxury image might be tarnished. A brand's price and image are often closely linked. A price change, especially a drop in price, can adversely affect how consumers view the brand. Tiffany found this out when it attempted to broaden its appeal by offering a line of more affordable jewellery:[19]

> Tiffany is all about luxury and the cachet of its blue boxes. However, in the late 1990s, the high-end jeweller responded to the 'affordable luxuries' craze with a new 'Return to Tiffany' line of less-expensive silver jewellery. The 'Return to Tiffany' silver charm bracelet quickly became a must-have item, as teens jammed Tiffany's hushed stores clamouring for the €78 silver bauble. Sales skyrocketed. But despite this early success, the bracelet fad appeared to alienate the firm's older, wealthier and more conservative clientele, damaging Tiffany's reputation for luxury. So, over ten years ago, the firm began re-emphasising its pricier jewellery collections. Although high-end jewellery has once again replaced silver as Tiffany's fastest growing business, the company has yet to fully regain its exclusivity. Says one well-heeled customer: 'You used to aspire to be able to buy something at Tiffany, but now it's not that special anymore.'

Competitor reactions to price changes

A firm considering a price change must worry about the reactions of its competitors as well as those of its customers. Competitors are most likely to react when the number of firms involved is small, when the product is uniform, and when the buyers are well informed about products and prices.

How can the firm anticipate the likely reactions of its competitors? The problem is complex because, like the customer, the competitor can interpret a company price cut in many ways. It might think the company is trying to grab a larger market share, or that it's doing poorly and trying to boost its sales. Or it might think that the company wants the whole industry to cut prices to increase total demand.

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

Responding to price changes

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

Figure 11.1 shows the ways a company might assess and respond to a competitor's price cut. Suppose a company learns that a competitor has cut its price and decides that this price cut is likely to harm its sales and profits. It might simply decide to hold its current price and profit margin. The company might believe that it will not lose too much market share or that it would lose too much profit if it reduced its own price. Or it might decide that it should wait and respond when it has more information on the effects of the competitor's price change. However, waiting too long to act might let the competitor get stronger and more confident as its sales increase.

If the company decides that effective action can and should be taken, it might make any of four responses. First, it could *reduce its price* to match the competitor's price. It may decide that the market is price sensitive and that it would lose too much market share to the lower-priced competitor. However, cutting the price will reduce the company's profits in the short run. Some

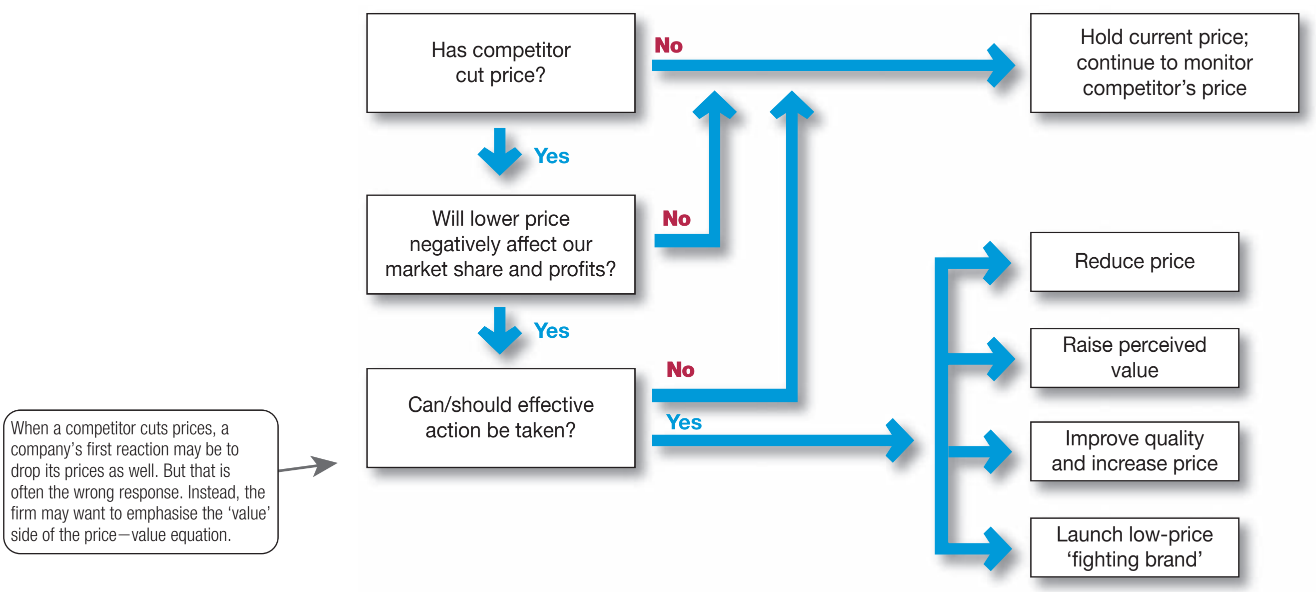


Figure 11.1 Responding to competitor price changes

companies might also reduce their product quality, services and marketing communications to retain profit margins, but this will ultimately hurt long-run market share. The company should try to maintain its quality as it cuts prices.

Alternatively, the company might maintain its price but *raise the perceived value* of its offer. It could improve its communications, stressing the relative value of its product over that of the lower-price competitor. The firm may find it cheaper to maintain price and spend money to improve its perceived value than to cut price and operate at a lower margin. Or the company might *improve quality* and *increase price*, moving its brand into a higher price–value position. The higher quality creates greater customer value, which justifies the higher price. In turn, the higher price preserves the company's higher margins.

Finally, the company might launch a *low-price 'fighter brand'* – adding a lower-price item to the line or creating a separate lower-price brand. This is necessary if the particular market segment being lost is price sensitive and will not respond to arguments of higher quality. For example, France Telecom, Vivendi's SFR and Bouygues Telecom have all reacted to the imminent entry of a new rival Iliad into France's €40 billion-a-year telecoms market. Of that €40 billion market, €7 billion comes from broadband, €2 billion from fixed lines, €6 billion from business-to-business services and €25 billion from mobile services. In order to protect its share of the mobile market and to protect its Orange brand, France Telecom launched 'Sosh' a new low-cost brand to compete with Iliad's 'Free'.[20] Another example is Bosch's fighter brand 'Viva'. While Bosch white goods competed well at the higher end of the market, their white goods were at a major disadvantage when competing in the low-price category. Consequently, Bosch launched the Viva brand to compete with white good price-discounters in the low-price market while protecting its brand reputation, image and premium position for Bosch-branded white goods in the premium market.

To counter store brands and other low-price entrants in a tighter economy, in the US, P&G turned a number of its brands into fighter brands. Luvs disposable diapers give parents 'premium leakage protection for less than pricier brands'. And P&G offers popular budget-priced basic versions of several of its major brands. For example, Charmin Basic 'holds up at a great everyday price', and Puffs Basic gives you 'Everyday softness. Everyday value.' Tide Simply Clean & Fresh is about 35 per cent cheaper than regular Tide detergent – it's 'tough on odours and easy on your wallet'. However, companies must use caution when introducing fighter brands, as such brands can tarnish the image of the main brand. In addition, although they may attract budget buyers away from lower-priced rivals, they can also take business away from the firm's higher-margin brands.

Public policy and pricing

Author Comment

Pricing decisions are often constrained by social and legal issues. For example, think about the pharmaceuticals industry. Are rapidly rising prescription drug prices justified? Or are the drug companies unfairly lining their pockets by gouging consumers who have few alternatives? Should the government step in?

Price competition is a core element of our free-market economy. In setting prices, companies usually are not free to charge whatever prices they wish. Many laws govern the rules of fair play in pricing. In addition, companies must consider broader societal pricing concerns. In setting their prices, for example, pharmaceutical firms must balance their development costs and profit objectives against the sometimes life-and-death needs of prescription drug consumers.

Across Europe there are many different statutory provisions governing pricing and competition. For example, in the European Union Article 82 (c) of the European Commission Treaty deals with abuses of dominant positions. In addition, member states of the European Union seek to protect consumers and firms through national-level laws and organisations such as the UK's Office of Fair Trading.

Figure 11.2 shows the major public policy issues in pricing. These include potentially damaging pricing practices within a given level of the channel (price-fixing and predatory pricing) and across levels of the channel (retail price maintenance, discriminatory pricing and deceptive pricing).[21]

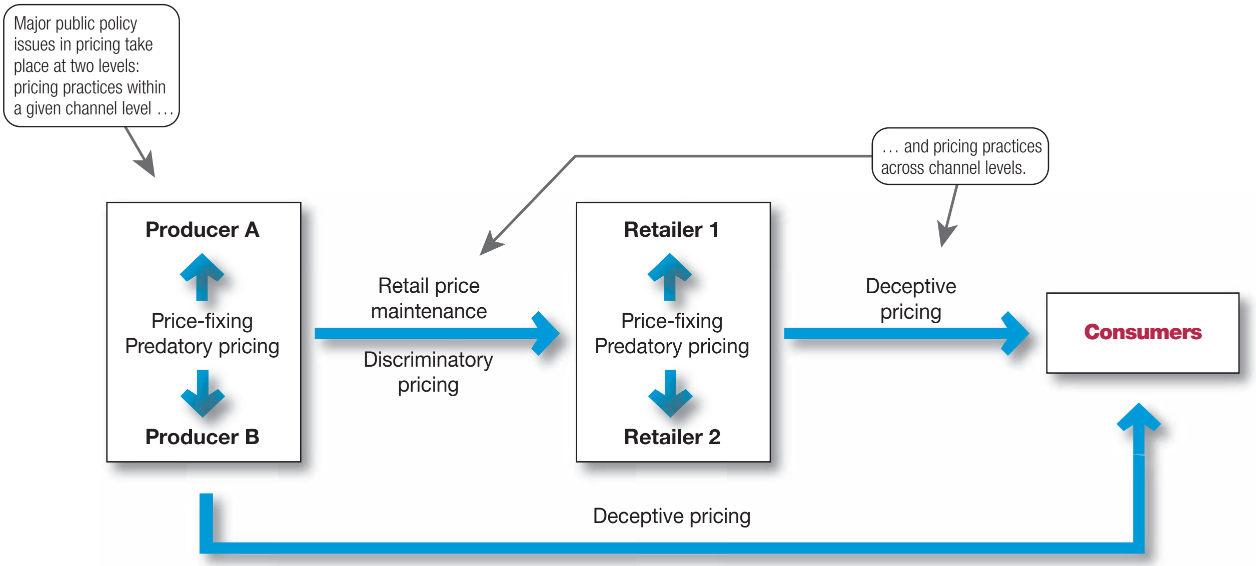


Figure 11.2 Public policy issues in pricing

Source: adapted from Dhruv Grewal and Larry D. Compeau, 'Pricing and public policy: a research agenda and overview of the special issue', *Journal of Public Policy and Marketing*, Spring 1999, pp. 3–10.

Pricing within channel levels

Legislation on *price-fixing* states that sellers must set prices without talking to competitors. Otherwise, price collusion is suspected. Price-fixing is illegal per se – that is, the government does not accept any excuses for price-fixing. Recently, governments at the state and national levels in the US have been aggressively enforcing price-fixing regulations in industries ranging from petrol, insurance and concrete to credit cards, computer chips and e-books. Companies found guilty of price-fixing practices can pay heavy penalties. For example, Apple recently paid €388 million in fines for conspiring with publishers to fix prices on e-books. And four major airlines – United, Delta, Southwest and American – now face a potentially costly class-action suit investigation for conspiring to artificially inflate air fares to 'reap huge profits'.[22]

Sellers are also prohibited from using *predatory pricing* – selling below cost with the intention of punishing a competitor or gaining higher long-run profits by putting competitors out of business. This protects small sellers from larger ones that might sell items below cost temporarily or in a specific locale to drive them out of business. The biggest problem is determining just what constitutes predatory pricing behaviour. Selling below cost to unload excess inventory is not considered predatory; selling below cost to drive out competitors is. Thus, a given action may or may not be predatory depending on intent, and intent can be very difficult to determine or prove.

In recent years, several large and powerful companies have been accused of predatory pricing. However, turning an accusation into a lawsuit can be difficult. For example, many publishers and booksellers have expressed concerns about Amazon's predatory practices, especially its book pricing:[23]

> Many booksellers and publishers complain that Amazon's book pricing policies are destroying their industry. Amazon routinely sells best-selling hardback books as loss leaders at cut-rate prices. And it peddles e-books at fire-sale prices in order to win customers for its Kindle e-reader and tablets. Such very low book prices have caused considerable damage to competing booksellers, many of whom view Amazon's pricing actions as predatory. According to some industry

groups, such practices 'harm the interests of America's readers, impoverish the book industry as a whole, and impede the free flow of ideas in our society'. Still, no predatory pricing charges have ever been filed against Amazon. It would be extremely difficult to prove that such loss-leader pricing is purposely predatory as opposed to just plain good competitive marketing. 'But wait a minute', states one analyst. 'Isn't that what business is supposed to do – compete to lower prices?' Earlier, Amazon challenged French law by refusing to eliminate its free shipping on book offer. The action, brought by the French Booksellers' Union (*Syndicat de la librairie française*) argued that Amazon offered illegal discounts. Amazon said it would pay the €1,000 per day fine rather than abide with a French High Court ruling.

Pricing across channel levels

As in the US, the European Union also seeks to prevent unfair *price discrimination* by ensuring that sellers offer the same price terms to customers at a given level of trade. For example, every retailer is entitled to the same price terms from a given manufacturer, whether the retailer is Halfords or your local bicycle shop. However, price discrimination is allowed if the seller can prove that its costs are different when selling to different retailers – for example, that it costs less per unit to sell a large volume of bicycles to Halfords than to sell a few bicycles to the local dealer.

The seller can also discriminate in its pricing if the seller manufactures different qualities of the same product for different retailers. The seller has to prove that these differences are proportional. Price differentials may also be used to 'match competition' in 'good faith', provided the price discrimination is temporary, localised and defensive rather than offensive.

Laws also prohibit *retail* (or *resale*) *price maintenance* – a manufacturer cannot require dealers to charge a specified retail price for its product. Although the seller can propose a manufacturer's *suggested* retail price to dealers, it cannot refuse to sell to a dealer that takes independent pricing action, nor can it punish the dealer by shipping late or denying advertising allowances.

Deceptive pricing occurs when a seller states prices or price savings that mislead consumers or are not actually available to consumers. This might involve bogus reference or comparison prices, as when a retailer sets artificially high 'regular' prices and then announces 'sale' prices close to its previous everyday prices. For example, luxury apparel and accessories retailer Michael Kors recently settled a class-action lawsuit alleging that it used deceptive pricing at its outlet stores. The retailer was charged with tagging products with false 'manufacturer's suggested retail prices' to make its supposed discounted prices more appealing when, in fact, the products were sold only in the outlet stores. Such artificial comparison pricing is widespread in retailing.[24]

Other deceptive pricing issues include *scanner fraud* and price confusion. The widespread use of scanner-based computer checkouts has led to increasing complaints of retailers overcharging their customers. Most of these overcharges result from poor management, such as a failure to enter current or sale prices into the system. Other cases, however, involve intentional overcharges.

Many federal and state statutes regulate against deceptive pricing practices. For example, the European Union has recently addressed the issue of extra credit card charges for online purchases:[25]

Hefty credit card charges when paying online for goods or services – such as airline tickets – could soon be a thing of the past after European Union lawmakers passed rules on consumer rights in Europe. Buried in the myriad of new rules is a provision which states: 'Member states shall prohibit traders from charging consumers, in respect of a given means of payment, fees that exceed the cost borne by the trader for the use of such means.' 'This law will put an end to growing unfair business practices – like, when buying flights, consumers will not be charged unjustified fees just to use their credit card', said Monique Goyens, director-general of Beuc, the European consumers' organisation. Consumer advocates say a common source of complaint in this area relates to budget airlines, which are apt to charge travellers significant additional sums depending merely on what type of card they use for the purchase. For example, a €32.15 Aberdeen–London ticket with easyJet could cost €47.02 if purchased with a credit card, €41.33 with a debit card and incur no premium if purchased with Visa Electron. easyJet says its fees 'stand comparison with any other airline – which is why people choose to fly with us'. The aim of the legislation is to provide consumers across the EU with harmonised minimum rights, and although that intention has been watered down to some extent during long and difficult negotiations, consumers will now have a 14-day, EU-wide 'cooling off' period when shopping online, during which they can change their minds about purchases.

However, reputable sellers go beyond what is required by law. Treating customers fairly and making certain that they fully understand prices and pricing terms is an important part of building strong and lasting customer relationships.

Learning outcomes review

In this chapter, we examined some additional pricing considerations – new product pricing, product mix pricing, price adjustments, initiating and reacting to price changes, and pricing and public policy. A company sets not a single price but rather a *pricing structure* that covers its entire mix of products. This pricing structure changes over time as products move through their life cycles. The company adjusts product prices to reflect changes in costs and demand and account for variations in buyers and situations. As the competitive environment changes, the company considers when to initiate price changes and when to respond to them.

Objective 1 Describe the major strategies for pricing new products (pp. 325–326)

Pricing is a dynamic process, and pricing strategies usually change as the product passes through its life cycle. The introductory stage – setting prices for the first time – is especially challenging. The company can decide on one of several strategies for pricing innovative new products: It can use *market-skimming pricing* by initially setting high prices to 'skim' the maximum amount of revenue from various segments of the market. Or it can use *market-penetrating pricing* by setting a low initial price to penetrate the market deeply and win a large market share. Several conditions must be set for either new product pricing strategy to work.

Objective 2 Explain how companies find a set of prices that maximises the profits from the total product mix (pp. 326–328)

When the product is part of a product mix, the firm searches for a set of prices that will maximise the profits from the total mix. In *product line pricing*, the company determines the price steps for the entire product line it offers. In addition, the company must set prices for *optional products* (optional or accessory products included with the main product), *captive products* (products that are required for using the main product), *by-products* (waste or residual products produced when making the main product) and *product bundles* (combinations of products at a reduced price).

Objective 3 Discuss how companies adjust their prices to take into account different types of customers and situations (pp. 328–335)

Companies apply a variety of *price adjustment strategies* to account for differences in consumer segments and situations. One is *discount and allowance pricing*, whereby the company establishes cash, quantity, functional or seasonal discounts, or varying types of allowances. A second strategy is *segmented pricing*, where the company sells a product at two or more prices to accommodate different customers, product forms, locations or times. Sometimes companies consider more than economics in their pricing decisions, using *psychological pricing* to better communicate a product's intended position. In *promotional pricing*, a company offers discounts or temporarily sells a product below list price as a special event, sometimes even selling below cost as a loss leader. Another approach is *geographical pricing*, whereby the company decides how to price to distant customers, choosing from such alternatives as FOB-origin pricing, uniform-delivered pricing, zone pricing, basing-point pricing and freight-absorption pricing. Using *dynamic pricing*, a company can adjust prices continually to meet the characteristics and needs of individual customers and situations. Finally, *international pricing* means that the company adjusts its price to meet different conditions and expectations in different world markets.

Objective 4 Discuss the key issues related to initiating and responding to price changes (pp. 335–338)

When a firm considers initiating a *price change*, it must consider customers' and competitors' reactions. There are different implications to *initiating price cuts* and *initiating price increases*. Buyer reactions to price changes are influenced by the meaning customers see in the price change. Competitors' reactions flow from a set reaction policy or a fresh analysis of each situation.

There are also many factors to consider in responding to a competitor's price changes. The company that faces a price change initiated by a competitor must try to understand the competitor's intent as well as the likely duration and impact of the change. If a swift reaction is desirable, the firm should pre-plan its reactions to different possible price actions by competitors. When facing a competitor's price change, the company might sit tight, reduce its own price, raise perceived quality, improve quality and raise price, or launch a fighter brand.

Objective 5 Overview the social and legal issues that affect pricing decisions (pp. 338–341)

Many federal, state and even local laws govern the rules of fair pricing. Also, companies must consider broader societal pricing concerns. The major public policy issues in pricing include potentially damaging pricing practices *within* a given level of the channel, such as price-fixing and predatory pricing. They also include pricing practices *across* channel levels, such as retail price maintenance, discriminatory pricing and deceptive pricing. Although many federal and state statutes regulate pricing practices, reputable sellers go beyond what is required by law. Treating customers fairly is an important part of building strong and lasting customer relationships.

Navigating the key terms

Objective 1
Market-skimming pricing (price skimming) (p. 325)
Market-penetration pricing (p. 325)

Objective 2
Product line pricing (p. 326)
Optional-product pricing (p. 326)
Captive-product pricing (p. 327)
By-product pricing (p. 327)
Product bundle pricing (p. 328)

Objective 3
Discount (p. 328)
Allowance (p. 329)
Segmented pricing (p. 329)
Psychological pricing (p. 330)
Reference prices (p. 330)
Promotional pricing (p. 331)
Geographical pricing (p. 331)
FOB-origin pricing (p. 332)
Uniform-delivered pricing (p. 332)
Zone pricing (p. 332)
Base-point pricing (p. 332)
Freight-absorption pricing (p. 332)
Dynamic pricing (p. 332)

Discussion and critical thinking

Discussing the concepts

11.1 Name and describe the two broad new-product pricing strategies. When would each be appropriate? (AACSB: Communication)

11.2 Define product bundle pricing. Give examples where companies have used this pricing strategy. (AACSB: Communication; Reflective thinking)

11.3 What is psychological pricing, and how is it used by sellers? Give an example. (AACSB: Communication)

11.4 Discuss the decisions companies face when initiating price increases. (AACSB: Communication)

11.5 Discuss the major public policy issues in pricing practices within a given channel level and across channel levels. (AACSB: Communication)

Critical-thinking exercises

11.6 You are an owner of a small independent chain of coffee houses competing head-to-head with Costa Coffee. The retail price your customers pay for coffee is exactly the same as at Costa Coffee. The wholesale price you pay for roasted coffee beans has increased by 25 per cent. You know that you cannot absorb this increase and that you must pass it on to your customers. However, you are concerned about the consequences of an open price increase. Discuss three alternative price-increase strategies that address these concerns. (AACSB: Communication; Reflective thinking)

11.7 Bridgestone Corporation, the world's largest tyre and rubber producer, recently agreed to plead guilty to price-fixing along with 25 other automotive suppliers. What is price-fixing? Discuss other recent examples of price-fixing. (AACSB: Communication; Reflective thinking)

11.8 Identify three online price-comparison shopping sites or apps and shop for a product you are interested in purchasing. Compare the price ranges given at the three sites. Based on your search, determine a 'fair' price for the product. (AACSB: Communication; Use of IT; Reflective thinking)

Mini-cases and applications

Online, mobile and social media marketing: extreme couponing

Price-conscious consumers are all about finding the best deal. Some even make a sport of it! Some people can't get enough of coupons! The Great Recession has driven many consumers to become price sensitive and the habits have become engrained. There are lots and lots of different websites that list available coupons and highlight special deals for consumers. These sites will feature retailers with sale-priced merchandise, coupons and promotions. Community members on such sites often post their best deals in the brag section.

11.9 Visit https://www.extremecouponing.co.uk/ and browse a deal you would consider purchasing. After identifying the deal, conduct an online price comparison at various retailers to determine the range of prices you would typically pay for the product. Present your conclusions. (AACSB: Communication; Use of IT; Reflective thinking)

11.10 Using https://www.extremecouponing.co.uk/, click on Coupons on the navigation bar and make a list of the featured products. Identify the pricing strategy used by the retailer. (AACSB: Communication; Use of IT; Reflective thinking)

Marketing ethics: airfare pricing

You'd think that the farther you fly, the more expensive your airfare would be. According to easily accessible data, however, that's not the case. For example, one study compared five US and EU city-pairs (Los Angeles–San Francisco, New York–Boston, Chicago–Detroit, Denver–Las Vegas, Miami–Orlando versus London–Edinburgh, Paris–Nice, Milan–Rome, Dusseldorf–Berlin, Barcelona–Madrid). The total distance of all five US-based flights is a total (return) distance of 3,172 miles, while for the five European flights the total distance travelled would be slightly more at 3,338 miles. Yet the European flights are about half of the cost of those in the US at around €276 versus €527! That's the average cost; fliers sitting next to each other likely paid different prices. Many factors influence the pricing of airfares; distance has minor impact, even though two major expenses – fuel and labour – increase the longer the flight. Airlines claim they are just charging what the market will bear.

11.11 Should airlines be required to charge standard prices based on distance and equal airfares for passengers seated in the same class (such as coach or business class) on the same flight? What will likely happen to prices if the government requires airlines to base fares only on distance and passenger class? (AACSB: Communication; Ethical reasoning; Reflective thinking)

11.12 What factors account for the variation in airfares? Should airlines be permitted to get as much as they can for a seat? (AACSB: Communication; Reflective thinking)

Marketing by numbers: Louis Vuitton price increase

One way to maintain exclusivity for a brand is to raise its price. That's what luxury fashion and leather goods maker Louis Vuitton did. The company did not want the brand to become overexposed and too common, so it raised prices 10 per cent and is slowing its expansion in China. The Louis Vuitton brand is the largest contributor to the company's €11.8 billion revenue from its fashion and leather division, accounting for over €7 billion of those sales. It might seem counter-intuitive to want to encourage fewer customers to purchase a company's products, but when price increases, so does the product's contribution margin, making each sale more profitable. Thus, sales can drop and the company can still maintain the same profitability as before the price hike.

11.13 If the company's original contribution margin was 40 per cent, calculate the new contribution margin if price is increased 10 per cent. Refer to Appendix 2, , paying attention to endnote 5 on the price change explanation, in which the analysis is done by setting price equal to €1.00. (AACSB: Communications; Analytic reasoning)

11.14 Determine by how much sales can drop and still let the company maintain the total contribution it had when the contribution margin was 40 per cent. (AACSB: Communication; Analytic Reasoning)

11.15 How and why does the company position the Land Rover brand across different markets such as North America, Africa and countries like China?

11.16 What is the company doing in response to the challenges of globalisation and environmental sustainability?

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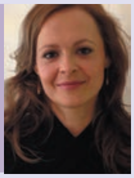
Company case

Dacia: the birth of a nifty little Carpathian warrior

Dr Cristina Sambrook, Birmingham Business School



Who would have thought, 50 years ago, that just a little to the south of the Carpathian Mountains, in a down-at-heel but proud rural community in the heart of Communist Romania, a little auto wonder was going to be born?

Grounded in a partnership with Renault, Dacia was an artefact of Romania's desire to mix Western know-how and tradition in cars with a fertile environment that ensured cheaper labour, ingenuity and a desire to grow. Out of this desire, Dacia became the little wonder of Eastern Europe that today is conquering the world, not because it's the best looking, nor the fastest, but because it has the determination to offer everyone a chance to buy new! People in over 44 countries across the globe love it.

Dacia was born in 1968 when Romania was part of the communist Eastern Bloc. In conjunction with Renault (who licensed the factory), President Ceausescu insisted that the venture be named 'Dacia' after the old part of Romania that proudly resisted Roman invasions with its brave warriors, 'Getae, the noblest as well as the most just of all the Thracian tribes'.

As such Dacia was to symbolise the old spirit – determined, fighting against the Western competition, conquering markets. The company began strongly – first, it became the most popular car in Romania; then Dacias, even at a time when some Romanians had to wait for years to buy them, were heavily exported around the world, in an attempt by the then-communist regime to build a national brand. However, with the collapse of the Eastern Bloc, Dacia faced its greatest challenge. Thus, by the end of 1990s Dacia, under-resourced in comparison to its competitors in the West, was facing markets that were not easy targets for an old-type car design based on the Renault 12. Dacia needed a radical rebirth. The white knight was an old ally in the form of the Renault Group that initially helped found the company. Renault bought Dacia for almost nothing – a little over €40 million, but only after it failed to buy the Czech Skoda six years before that. Therefore, this was the Group's second attempt to set up a base in the east and have a go at producing a car for the masses that couldn't afford its then existing lines. A cheap, reliable car that took an investment of over €2.8 billion to transform it into the star brand of Romania, contributing to almost 3 per cent of its GDP.

The fastest-growing brand in the group, and the story has just begun. . .

Today, the little Carpathian warrior is not so little any more. Accounting for 19 per cent of Renault group sales, it is making a name for itself as the reliable alternative to a second-hand car – a new one, without the fuss and eye-catching extras, that people seem to want to continue buying. Dacia has taken Western European markets by storm, to the extent that its Romanian base could no longer cope with increased demand and new factories in Morocco, Brazil, South Africa and Russia are stepping in to cover production. Indeed, 2015 saw the beginning of a so-called 'second generation of buyers' – as many as 55 per cent of the owners were willing to give it a go again, convinced that it was still the right choice for their families. Many upgraded their cars – went from Sanderos to Dusters – others, as Sylvain Coursimault, the head of sales and marketing for Dacia and Renault's Global Access range pointed out, are switching from the more expensive Renault models, persuaded by Dacia's unequalled value and its image of an 'honest, simple and refreshing' car, as James May, presenter of *Top Gear* fondly described it. Today, much to the delight of Renault executives, Dacia's cars are found more and more often on the streets of Europe, Africa, Latin America, the Middle East and Russia. Such was its success, that Dacia was the fastest growing brand in the EU in 2016, and last year was third in the market of private cars sold to individuals in France.

Pricing strategy

So what makes Dacia so popular? Technology? Promotion? Great product design? Actually, it is clever pricing that ground Dacia as a success. It is too simple to argue that Dacia is merely the cheapest on the market – there is much more to the story.

Patrick Pelata, Renault's COO said of Dacia 'it's a value brand in the sense of what IKEA is: you aren't ashamed to have it, and a lot of people have it', he told the *Financial Times* in 2010. The DIY enthusiasts with a little knowledge of Dacia's communist history would be excused for seeing the Ikea comparison as somewhat ironic: when the old Dacias roamed the rural areas of Romania, pushed to their limits on inaccessible mountain roads not meant for driving, the saying was that anyone could fix their car on the go, in the middle of nowhere – it was that simple to keep, easy to fix and basic but sturdy. Gone are the days when Dacias are entirely fixable on the go – but they are still affordable, still basic and still sturdy.

The war on value: winning the 'wallets vote'

Dacia does win on value, snapping up consumers from its competition because it has a successful formula of simplicity, no frills. 'Cheap' sells and it allows Renault increased profit margins, typical for premium car makers, as well as sales defying even the worst market conditions (during the recent economic recession, when other sales plummeted, Dacia was still selling strong).

Sean O'Grady, in the *Independent* explains why people buy it, alluding to a new owner's reaction: not quite the perfect first impression when closing the driver's door on his new Duster 'mostly a squeak, but with a bit of creak and an overtone of groan', all compensated by knowing it's only temporary (the rubber seals would eventually stop sticking) and eased even more by knowing that they've bagged one of the cheapest SUVs on the market.

Even the range has suggestive line names: 'Access' – the absolute entry level is the cheapest at £9,995 – no extras at all, manual door mirrors, manual winding-up windows, no sat-nav, limited colours; for slightly more money the next stage is 'Essential' (£11,695) – still nothing impressive, but added air conditioning and a little bit of entertainment in the form of a FM/AM/DAB tuner. Customers need to choose the third level of pricing to reach 'Comfort' (£13,395) – alloy wheels, multimedia system, rear cameras and sensors, or 'Prestige' (14,695), the top level, with climate control and a complex multimedia system.

People 'vote with their wallets' and especially when it comes to big buys like cars – and although South Korea's Kia Motors and Hyundai also target thriftier consumers, Dacia seems to be winning the battle. For example, when the basic Duster SUV was introduced in the UK, at just above €10,000, it was about €4,500 cheaper than its competitors. This was hammered home by the wily Dacia with the slogans 'you do the maths'. 'It's the best example of a car developed for emerging markets that has been introduced in developed markets and has been a real success', said Professor Jan-Benedict Steenkamp, author of *Brand Breakout*, a study of emerging market brands that compete worldwide. 'They were far ahead of any other car manufacturer'. Spotting the opportunity presented by Europe's appetite for lower priced, but affordable and reliable cars, Dacia launched the Duster in 2010 with a clear aim to expand its sales by more than 50 per cent in four years. It offered 'entry-level cars, . . . stripping costly extras out of them, then selling them at cut-rate prices'.

Dacia cleverly used only existing technologies, no incentives or non-retail sales channels, and avoided expensive marketing campaigns. Limited colour options, identical door panels used on multiple models, and design features meant to reduce production and installation costs, all helped in making Dacia 'shockingly affordable', as its former commercial director Francois Mariotte, described it. This strategy was not designed just for Europe; Renault aimed to enter Latin America too, although Dacia was relatively unknown there. For the initial price of €11,990 customers could get a small sport utility vehicle that was much cheaper than most of its competitors.

This built on Dacia pricing traditions – one of its first models sold abroad successfully was the Dacia Sandero ('the smarter supermini'), marketed in the UK (later than the rest of Europe) as the most affordable new car when it was first introduced in 2013, with prices starting at around €5,500. Even though the prices went up in 2018 by around €800 with no additional equipment or extras for the basic variant 'Access', it was still £500 cheaper than the next most affordable new car on sale, the Suzuki Celerio, and half the price of the best-selling car in the UK, the Ford Fiesta. The manufacturer admitted that the price increase was 'to simplify the walk-up to the next trim level for customers as more equipment has been added further up the range', reducing the gap between the entry level one to the mid-range 'Ambiance' from around €1,600 to €600. With a 2.9 per cent market share in Europe for the entire brand, Sandero is number one for sales to individuals in Europe.

Reinforcing the pricing message: winning the hearts and minds (and wallets. . .)

There's something to be said about being proud to belong to a community of 'Dacia owners' – known for cheap and cheerful cars. However, there is a community spirit surrounding the brand – admittedly triggered very much by events focused on free food, free entertainment or testing new cars; owners participate in 'annual picnics', large events effective in raising awareness and free publicity. Equally effective are messages such as 'saving families thousands of euros – €12 off a Deliveroo pizza for anybody, not just the owners, because Dacia wants to tell families that it saves them money, worth years of takeaway pizzas – 13 years in the case of a Sandero in the UK'. In this way Dacia are sending messages that are effective in leading to customers' loyalty and a trust in the brand's value.

Questions for discussion

1 Why was Dacia's market penetration into Western Europe so successful?

2 Based on principles from the chapter, explain Dacia's pricing strategy for its UK Duster models.

3 If you were a competitor to Dacia, what strategic pricing options should you consider?

4 Should Dacia stick with their pricing strategy in the long term or should they change their approach?

Sources: Based on research assistance by Jamie Sambrook and Otto Foxhunter and material in: John Reed, 'Thrift drives Renault's Dacia dreams', *Financial Times*, 29 October 2010, https://www.ft.com/content/afc1b202-e37e-11df-8ad3-00144feabdc0; Peter Sigal, 'How Dacia maintains strong growth despite reluctance to expand line-up', *Automotive News*, 7 September 2018, https://europe.autonews.com/article/20180907/ANE/180909858/how-dacia-maintains-strong-growth-despite-reluctance-to-expand-lineup; Rob Hull, 'Britain's cheapest car just got £1,000 more expensive despite having no new features – but Dacia's Sandero is still the lowest priced motor on sale', 6 April 2018, https://www.thisismoney.co.uk/money/cars/article-5582559/Dacia-Sandero-UKs-cheapest-car-just-got-1-000-expensive.html; Henry Foy, 'Dacia leads charge of emerging market cars in Europe', *Financial Times*, 22 August 2013, https://www.ft.com/content/5b7d14b8-feb3-11e2-97dc-00144feabdc0; also information from: https://www.dacia.ro/; https://www.gruprenault.ro/en/dacia-50-years/key-figures; https://www.gruprenault.ro/en/media/2018/all-fans-dacia; J. P. Mallory and Douglas Q. Adams (eds), *Encyclopedia of Indo-European Culture* (London and Chicago: Fitzroy-Dearborn, 1997), accessed May 2019.

Chapter Twelve

Marketing channels: delivering customer value

Chapter preview

We now look at the third marketing mix tool – distribution. Companies rarely work alone in engaging customers, creating customer value and building profitable customer relationships. Instead, most are only a single link in a larger supply chain and marketing channel. As such, a firm's success depends not only on how well *it* performs but also on how well its *entire marketing channel* competes with competitors' channels. The first part of this chapter explores the nature of marketing channels and the marketer's channel design and management decisions. We then examine physical distribution – or logistics – an area that has grown dramatically in importance and sophistication. In the next chapter, we'll look more closely at two major channel intermediaries: retailers and wholesalers.

We start by looking at Zara. Zara has rapidly built a fast fashion empire. However, it has to innovate or risk being pushed aside.

Learning outcomes

- **Objective 1** You will be able to explain why companies use marketing channels and discuss the functions these channels perform.
  Supply chains and the value delivery network (pp. 351–355)
- **Objective 2** You will be able to discuss how channel members interact and how they organise to perform the work of the channel.
  Channel behaviour and organisation (pp. 355–362)
- **Objective 3** You will be able to identify the major channel alternatives open to a company.
  Channel design decisions (pp. 362–365)
- **Objective 4** You will be able to explain how companies select, motivate and evaluate channel members.
  Channel management decisions (pp. 365–368)
- **Objective 5** You will be able to discuss the nature and importance of marketing logistics and integrated supply chain management.
  Marketing logistics and supply chain management (pp. 368–375)

Zara: the fast fashion empire

Retailing in high streets has been historically one of the main distribution channels for consumer goods companies in the UK. However, in recent years there has been an ongoing high-street crisis with an increasing number of shops closing down and many long-established household names have collapsed, disappeared or shrunk from the UK's high streets, including Maplin, Toys R Us, New Look, House of Fraser and Debenhams. According to some experts, retailers in the UK are battling a perfect storm of pressures from squeezed incomes, the shift to online shopping, changing tastes for a better shopping experience, rising overheads and over-expansion of shops. While a lot of fashion brands and retailers have been struggling in recent years, Zara has defied the trend and thrived.

Founded in 1975, Zara is a Spanish fast fashion (clothing and accessories) retailer. It is the main and most profitable brand (accounting for about two-thirds of group sales) of the Inditex group, the world's largest apparel retailer. At the end of the financial year of 2017/2018, Inditex, employing 88,000 staff, had 7,475 stores worldwide with a net increase of 183 from the previous year.

Over the last few years, Zara has helped its parent company, Inditex, to record outstanding sales and financial performance. For example, it was reported that in 2017 Zara helped Inditex to enjoy a sales rise of 9 per cent to €25.34 billion and an increase in net profits of 7 per cent to €3.37 billion, with a 41 per cent jump in online sales.

The fast fashion business model

Zara pioneered and masters the fast fashion business model. Unlike the traditional fashion business model or other fast fashion brands, Zara creates new designs at lightning speed and manufactures and distributes products based on these new designs to its stores in only three weeks. Instead of trying to create demand for new trends using the catwalks of fashion shows, Zara studies customer demand in stores. Store managers collect evidence from shoppers about their preference and tastes, and feed this information to the commercial team and the huge design team (some 300 designers in the head office), who will then work together to develop new products based on the new trends. It takes only about five weeks for an entirely new Zara garment to move from the design stage to delivery to the stores. For a new version of an existing model, it can take only two weeks for it to be designed and finally delivered the shops. This allows Zara to launch over 11,000 new items a year, significantly more than the typical range of 2,000–4,000 items for other fast fashion brands, such as Gap and H&M. Store managers send orders twice a week to the head office. The stores around the world receive deliveries twice a week as well. Before sending the order to its manufacturing hub, the commercial team compiles the orders from different store managers, and balance out demand among different stores. As a result, an order can reach the store within two days.

Zara's products are inexpensive, but trendy and of decent quality, while its stores look high-end. Zara does not commit a large percentage of production for the coming season. Instead, production is deliberately carried out in small batches so that most lines are replaced quickly. This allows Zara to deliver more new designs instead of more of the same items, which helps keep the stock fresh with more unique products. Unlike some retailers that enjoy one product range for one season, Zara is able to deliver four or five waves of new products during one season. As a result, Zara creates stronger customer demands for its products, as one industry analyst noted, 'with Zara, you know that if you don't buy it, right then and there, within 11 days the entire stock will change. You buy it now or never. And because the prices are so low, you buy it now.'

However, the fast fashion model is under increasing pressure for not being environmentally friendly. It has been accused of being a major source of the greenhouse gases that are overheating the planet. In the UK, it is reported by Environmental Audit Committee of the UK Parliament that people consume 26.7 kg of new clothing per head (highest in Europe); 235 million items of clothing were sent to landfill in 2017; and 1.2 billion tonnes of carbon emissions were produced by global fashion industry in 2015. In addition, the Environmental Audit Committee was concerned whether fast fashion led to poor working conditions due to its requirement of quick turnarounds among suppliers. What can fast fashion companies, such as Zara, do to alleviate these genuine concerns?

Investing in online shopping

Despite its success in the past, Zara needs to prepare itself to face the imminent and future challenges. One of the major shopping trends in the garment and fast fashion industry is online shopping. Some recent research shows that consumers tend to buy more (about 25 per cent more) when they purchase online. They tend to buy even more if they have visited a physical store first before buying online. According to this research, the reasons are customers often adding extra items to get free shipping, greater product ranges available online, and impulse purchases triggered by incentives. As a result, many apparel brands have been investing heavily in online shopping capabilities and technologies. And they can also encourage shoppers to experience products in-store, and then complete their orders online.

Zara's recent success has been fuelled by the growth of its online sales, which represent about 10 per cent of its total sales in 2017. However, this figure, although not far behind the 12 per cent for its Swedish rival, H&M, is a very small proportion as compared to the 40 per cent for the UK clothing chain Next. Therefore, there is still a long way to go before Zara can fully capitalise on the potential of online shopping. To grow its online business further, it has recently offered online sales in countries including Australia, New Zealand, Malaysia, Thailand, Singapore and Vietnam.

Investing in omni-channel

Unlike some traditional fashion brands, as a fast fashion retailer, Zara focuses exclusively on its own website and shops in terms of its distribution strategy. It does not use multi-brand retailers or department stores. This gives Zara total control over its production and logistic. Relying on direct-to-consumer brand stores and websites can also deliver some other benefits. For example, research shows that shoppers spend 86 per cent more on the same brands in direct-to-consumer channels (stores and websites) than in multi-brand channels. In addition, it can help the brand to build a more valuable and differentiated image. Omni-channel, integrating different channels (e.g., physical store visit, online shopping via computers and mobile devices, and telephone ordering) to provide a seamless and more efficient customer shopping experience, has been the buzzword recently particularly for the retailing sector. There is a growing trend for customers to use multiple channels during their shopping journeys. Zara does not view online shopping as the competition to in-store shopping. Instead, it tries to integrate the two to offer better customer experience. In 2017 Zara spent €1.8 billion, much of which was invested in strengthening its omni-channel strategy by integrating its stores and online businesses. However, it can be very difficult to implement an effective omni-channel strategy, due to the potential high costs of managing inventory and returns for these channels and transforming the existing logistics, inventory and store systems and operations. However the potential benefit is also high in that omni-channel customers spend 2.7 times more than in-store-only customers. This is exactly why Zara has invested heavily recently on improving its store experience by applying the latest technology in its stores.

Zara applies a technology-enabled omni-channel strategy to enhance customer shopping experience.
Source: © Inditex

As part of its omni-channel push, Zara invested heavily in its click-and-collect system and service with a kiosk called CleverFlex, which allows Zara to store extended inventory. In the London Westfield Stratford City store, Zara's robot-enabled click-and-collect kiosk can process 2,400 orders simultaneously. To collect their purchases in-store, shoppers simply need to scan the QR or PIN codes of their online orders in the kiosk's pick-up point. Behind the scene, a robotic arm collects trays, organises the packages, and then delivers orders in seconds. Zara understands that most people shop online to save time and for convenience reasons (e.g., shop anytime and anywhere), therefore providing a convenient and effective click-and-collect service can create superior customer value and competitive advantage. After all, one-third of Zara's online sales are picked up in-store. As the chairman and CEO of Zara's parent company Inditex said: 'We are in a unique position as we enjoy a global sales platform that fully integrates stores and online. In recent years we have invested in both the most advanced technology and optimised our stores for this aim. Our business model combines stores and digital seamlessly, and we are ready for the opportunities that this brings with current and new customers.'

Meanwhile, Zara understands the importance of overall shopping experience in the effective implementation of omni-channel strategy. To do so, Zara launched an augmented reality app to enhance online as well as in-store shopping experience simultaneously. All mannequins were removed from the stores. With the app, shoppers simply need to point their phones at in-store podiums, boxes they receive delivering online purchases, or dedicated images at its websites, then the mobile screen shows an augmented reality image of two models (based on two real models: Léa Julian and Fran Summers) wearing the clothes. The two models pose, move and even talk on the mobile screen, which offers an extraordinarily realistic experience. After watching it, the app allows customers to click through and order the clothes online, and even take and share photos on social media. According to Apple CEO Tim Cook, the convergence of augmented reality and fashion is inevitable, as he told *Vogue* 'I don't think there is any sector or industry that will be untouched by AR'.[1]

As the Zara story shows, good distribution strategies can contribute strongly to customer value and create competitive advantage for a firm. But firms cannot bring value to customers by themselves. Instead, they must work closely with other firms in a larger value delivery network.

Supply chains and the value delivery network

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

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

Yet even a demand chain view of a business may be too limited because it takes a step-by-step, linear view of purchase, production and consumption activities. Instead, most large companies today are engaged in building and managing a complex, continuously evolving value delivery network. As defined in Chapter 2, a **value delivery network** is made up of the company, suppliers, distributors and, ultimately, customers who 'partner' with each other to improve the performance of the entire system. For example, Adidas makes great sports shoes and clothing. But to make and market just one of its many lines – say, its new Adidas originals line of retro shoes and

Author comment

These are pretty hefty terms for a really simple concept: A company can't go it alone in creating customer value. It must work within a broader network of partners to accomplish this task. Individual companies and brands don't compete; their entire value delivery networks do.

Value delivery network A network composed of the company, suppliers, distributors and, ultimately, customers who partner with each other to improve the performance of the entire system in delivering customer value.

Author comment

In this section, we look at the downstream side of the value delivery network – the marketing channel organisations that connect the company and its customers. To understand their value, imagine life without retailers – say, without grocery stores or department stores.

vintage street wear – Adidas manages a huge network of people within the company. It also coordinates the efforts of thousands of suppliers, retailers ranging from JD Sports to online seller Amazon, and advertising agencies and other marketing service firms that must work together to create customer value and establish the line's 'unite all originals' positioning.

This chapter focuses on marketing channels – on the downstream side of the value delivery network. We examine four major questions concerning marketing channels: What is the nature of marketing channels, and why are they important? How do channel firms interact and organise to do the work of the channel? What problems do companies face in designing and managing their channels? What role do physical distribution and supply chain management play in attracting and satisfying customers? In the next chapter, we will look at marketing channel issues from the viewpoints of retailers and wholesalers.

The nature and importance of marketing channels

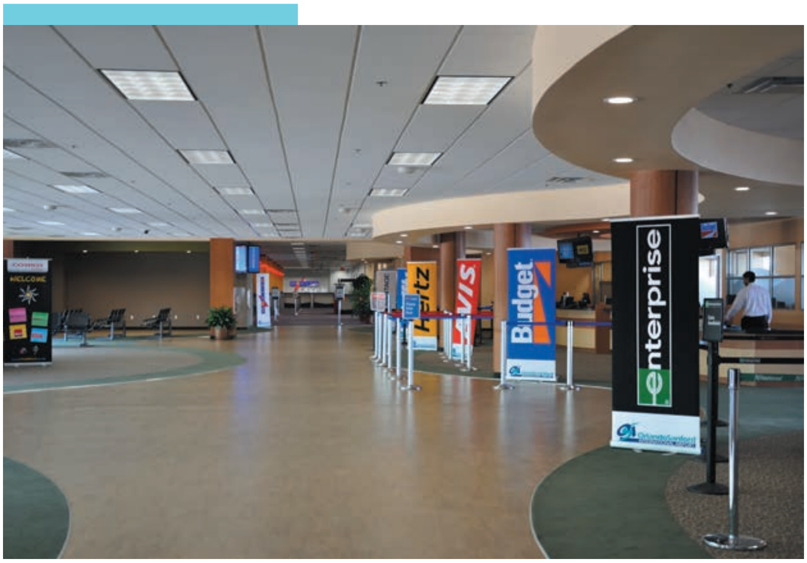
Marketing channel (distribution channel) A set of interdependent organisations that help make a product or service available for use or consumption by the consumer or business user.

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

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

Companies often pay too little attention to their distribution channels – sometimes with damaging results. In contrast, many companies have used imaginative distribution systems to gain a competitive advantage. Enterprise Rent-A-Car revolutionised the car-rental business by setting up off-airport rental offices. Apple turned the retail music business on its head by selling music for the iPod via the internet on iTunes. FedEx's creative and imposing distribution system made it a leader in express package delivery. And Amazon forever changed the face of retailing in the UK by selling anything and everything without using physical stores.

Enterprise Rent-A-Car revolutionised the car-rental business by setting up off-airport rental offices.
Source: Douglas Carr/Alamy Stock Photo



Distribution channel decisions often involve long-term commitments to other firms. For example, companies such as Jaguar Land Rover, McDonald's or Nike can easily change their advertising, pricing or promotion programmes. They can scrap old products and introduce new ones as market tastes demand. But when they set up distribution channels through contracts with franchisees, independent dealers or large retailers, they cannot readily replace these channels with company-owned stores or internet sites if the conditions change. Therefore, management must design its channels carefully, with an eye on both today's likely selling environment and tomorrow's as well.

How channel members add value

Why do producers give some of the selling job to channel partners? After all, doing so means giving up some control over how and to whom they sell

Marketing channel intermediaries make buying a lot easier for consumers. Again, think about life without grocery retailers. How would you go about buying that 12-pack of Coke or any of the hundreds of other items that you now routinely drop into your shopping trolley?

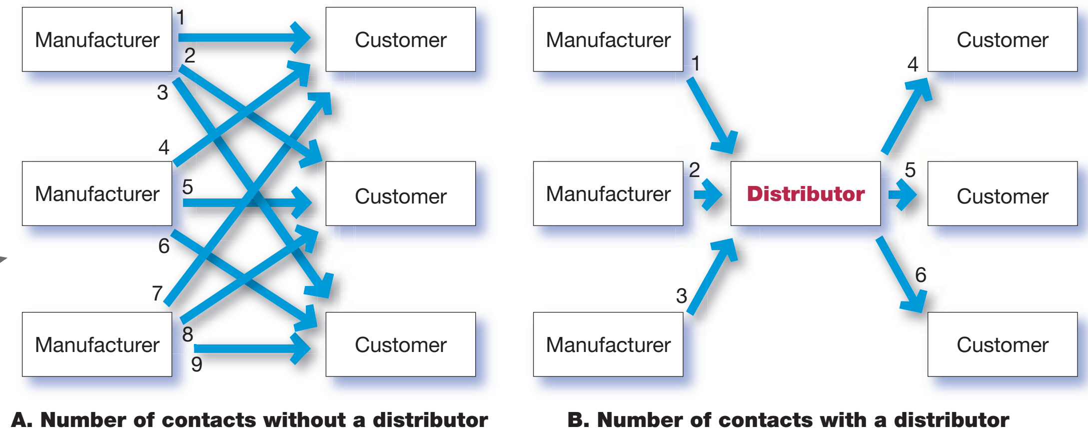


Figure 12.1 How a distributor reduces the number of channel transactions

their products. Producers use intermediaries because they create greater efficiency in making goods available to target markets. Through their contacts, experience, specialisation and scale of operation, intermediaries usually offer the firm more than it can achieve on its own.

Figure 12.1 shows how using intermediaries can provide economies. Figure 12.1A shows three manufacturers, each using direct marketing to reach three customers. This system requires nine different contacts. Figure 12.1B shows the three manufacturers working through one distributor, which contacts the three customers. This system requires only six contacts. In this way, intermediaries reduce the amount of work that must be done by both producers and consumers.

From the economic system's point of view, the role of marketing intermediaries is to transform the assortments of products made by producers into the assortments wanted by consumers. Producers make narrow assortments of products in large quantities, but consumers want broad assortments of products in small quantities. Marketing channel members buy large quantities from many producers and break them down into the smaller quantities and broader assortments desired by consumers.

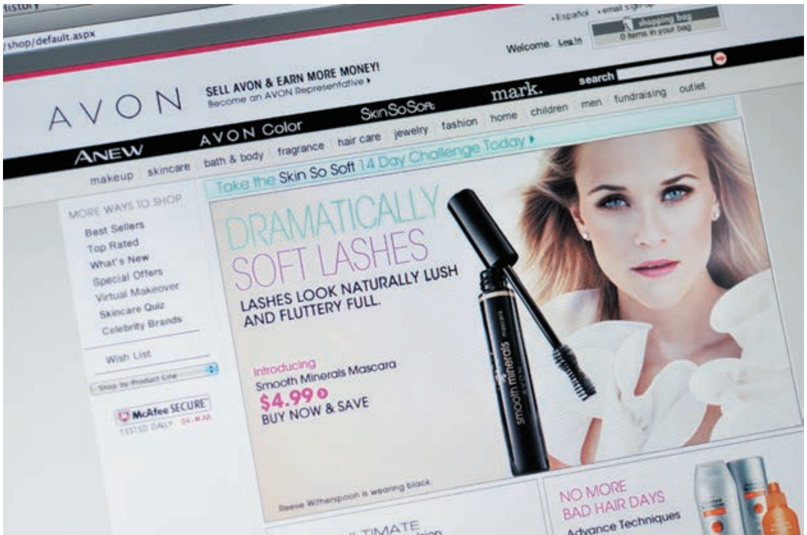
For example, Unilever makes millions of bars of Dove hand soap. However, you most likely want to buy only a few bars at a time. Therefore, big food, drug and discount retailers, such as Tesco, Boots and B&M, buy Dove by the truckload and stock it on their stores' shelves. In turn, you can buy a single bar of Dove along with a shopping cart full of small quantities of toothpaste, shampoo and other related products as you need them. Thus, intermediaries play an important role in matching supply and demand.

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

- *Information.* Gathering and distributing information about consumers, producers and other actors and forces in the marketing environment needed for planning and aiding exchange.
- *Promotion.* Developing and spreading persuasive communications about an offer.
- *Contact.* Finding and engaging customers and prospective buyers.
- *Matching.* Shaping offers to meet the buyer's needs, including activities such as manufacturing, grading, assembling and packaging.
- *Negotiation.* Reaching an agreement on price and other terms so that ownership or possession can be transferred.

Others help to fulfil the completed transactions:

- *Physical distribution.* Transporting and storing goods.
- *Financing.* Acquiring and using funds to cover the costs of the channel work.
- *Risk taking.* Assuming the risks of carrying out the channel work.



Avon sells its products directly through online websites and sales representatives.
Source: NetPhotos/Alamy Stock Photo

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

Number of channel levels

Companies can design their distribution channels to make products and services available to customers in different ways. Each layer of marketing intermediaries that performs some work in bringing the product and its ownership closer to the final buyer is a **channel level**. Because both the producer and the final consumer perform some work, they are part of every channel.

Channel level A layer of intermediaries that performs some work in bringing the product and its ownership closer to the final buyer.

The *number of intermediary levels* indicates the *length* of a channel. Figure 12.2 shows both consumer and business channels of different lengths. Figure 12.2A shows several common consumer distribution channels. Channel 1, a **direct marketing channel**, has no intermediary levels – the company sells directly to consumers. For example, Avon sells its products directly through online websites and sales representatives; companies ranging from Direct Line to Book People

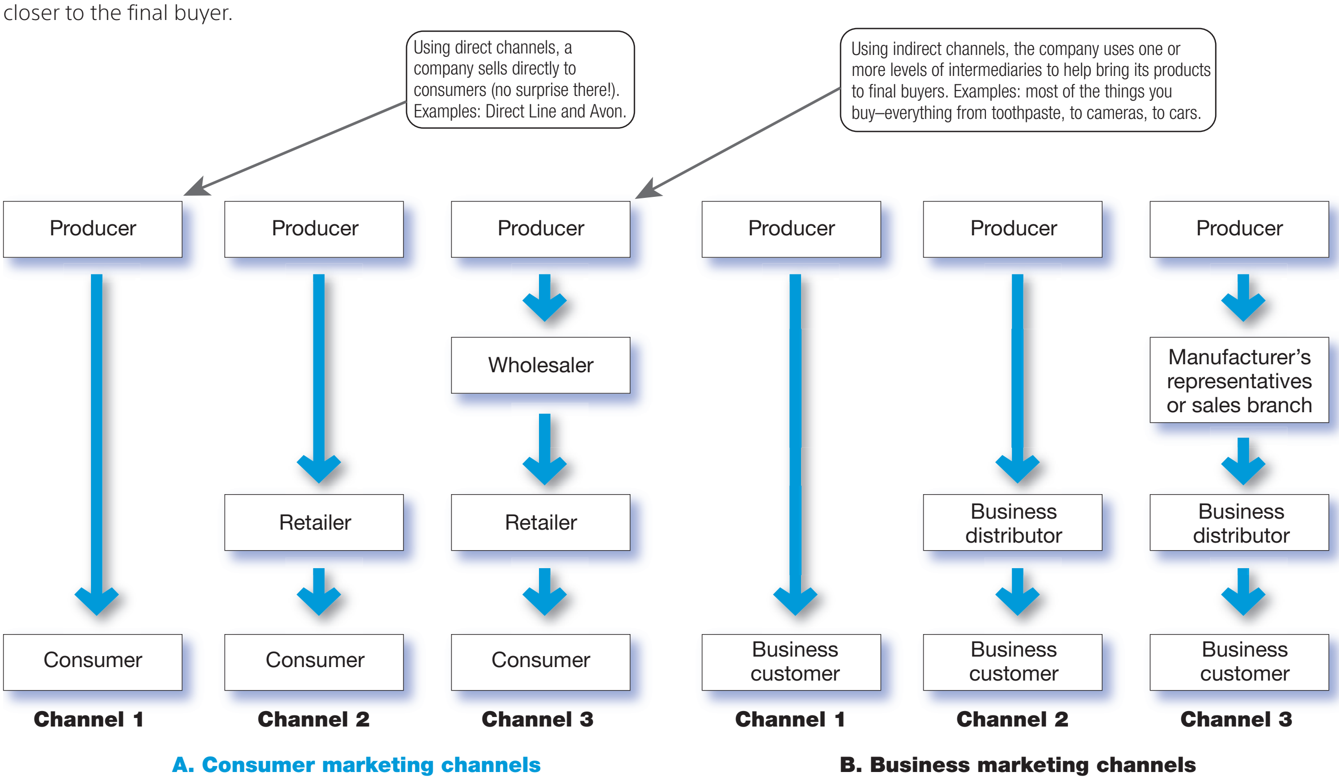


Figure 12.2 Consumer and business marketing channels

sell directly to customers via internet, mobile and telephone channels or mail order. The remaining channels in Figure 12.2A are **indirect marketing channels**, containing one or more intermediaries.

Figure 12.2B shows some common business distribution channels. The business marketer can use its own sales force to sell directly to business customers. Or it can sell to various types of intermediaries, which in turn sell to these customers. Although consumer and business marketing channels with even more levels can sometimes be found, these are less common. From the producer's point of view, a greater number of levels means less control and greater channel complexity. Moreover, all the institutions in the channel are connected by several types of *flows*. These include the *physical flow* of products, the *flow of ownership*, the *payment flow*, the *information flow* and the *promotion flow*. These flows can make even channels with only one or a few levels very complex.

Direct marketing channel A marketing channel that has no intermediary levels.

Indirect marketing channel A marketing channel containing one or more intermediary levels.

Channel behaviour and organisation

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

Channel behaviour

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

Author comment

Channels are made up of more than just boxes and arrows on paper. They are behavioural systems consisting of real companies and people who interact to accomplish their individual and collective goals. Like groups of people, sometimes they work well together and sometimes they don't.

Each channel member plays a specialised role in the channel. For example, Samsung's role is to produce electronics products that consumers will covet and create demand through national advertising. Currys PC World's role is to display these Samsung products in convenient locations, answer buyers' questions and complete sales. The channel will be most effective when each member assumes the tasks it can do best.

Ideally, because the success of individual channel members depends on the overall channel's success, all channel firms should work together smoothly. They should understand and accept their roles, coordinate their activities and cooperate to attain overall channel goals. However, individual channel members rarely take such a broad view. Cooperating to achieve overall channel goals sometimes means giving up individual company goals. Although channel members depend on one another, they often act alone in their own short-run best interests. They often disagree on who should do what and for what rewards. Such disagreements over goals, roles and rewards generate **channel conflict**.

Channel conflict Disagreements among marketing channel members on goals, roles and rewards – who should do what and for what rewards.

Horizontal conflict occurs among firms at the same level of the channel. For instance, some BMW dealers in Manchester might complain that other dealers in the city steal sales from them by pricing too low or advertising outside their assigned territories. Or Holiday Inn franchisees might complain about other Holiday Inn operators overcharging guests or giving poor service, hurting the overall Holiday Inn image.

Vertical conflict, conflict between different levels of the same channel, is even more common. For example, McDonald's has recently faced growing conflict with its corps of 3,100 independent franchisees:[2]

> Recent surveys of McDonald's franchise owners have reflected substantial franchisee discontent with the corporation. Some of the conflict has stemmed from a slowdown in system-wide sales in recent years that put both sides on edge. The most basic conflicts are financial. McDonald's makes its money from franchisee royalties based on total system sales. In contrast, franchisees make money on margins – what's left over after their costs. To reverse slumping sales, McDonald's increased its emphasis on aggressive discounting, a strategy that increases corporate sales but squeezes franchisee profits. Franchisees also grumble about adding popular but more complex menu items – such as customisable burgers, McCafé beverages and all-day breakfasts – that increase the top-line growth for McDonald's but add preparation, equipment and staffing costs for franchisees while slowing down service. McDonald's has also asked franchisees to make costly restaurant upgrades and overhauls. In all, despite recently rebounding sales, franchisees remain disgruntled. The most recent survey rates McDonald's current franchisee relations at an all-time low, 1.81 out of a possible 5, in the 'fair' to 'poor' range. That's worrisome for McDonald's, whose franchise owners operate 90 per cent of its locations. Studies show that there's a huge connection between franchisee satisfaction and customer service.

Some conflict in the channel takes the form of healthy competition. Such competition can be good for the channel; without it, the channel could become passive and non-innovative. For example, the McDonald's conflict with its franchisees might represent normal give-and-take over the respective rights of the channel partners. However, severe or prolonged conflict can disrupt channel effectiveness and cause lasting harm to channel relationships. McDonald's should manage the channel conflict carefully to keep it from getting out of hand.

Vertical marketing systems

Conventional distribution channel A channel consisting of one or more independent producers, wholesalers, and retailers, each a separate business seeking to maximise its own profits, perhaps even at the expense of profits for the system as a whole.

Vertical marketing system (VMS) A channel structure in which producers, wholesalers, and retailers act as a unified system. One channel member owns the others, has contracts with them, or has so much power that they all cooperate.

Corporate VMS A vertical marketing system that combines successive stages of production and distribution under single ownership – channel leadership is established through common ownership.

For the channel as a whole to perform well, each channel member's role must be specified, and channel conflict must be managed. The channel will perform better if it includes a firm, agency or mechanism that provides leadership and has the power to assign roles and manage conflict.

Historically, *conventional distribution channels* have lacked such leadership and power, often resulting in damaging conflict and poor performance. One of the biggest channel developments over the years has been the emergence of *vertical marketing systems* that provide channel leadership. Figure 12.3 contrasts the two types of channel arrangements.

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

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

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

Corporate VMS

A **corporate VMS** integrates successive stages of production and distribution under single ownership. Coordination and conflict management are attained through regular organisational

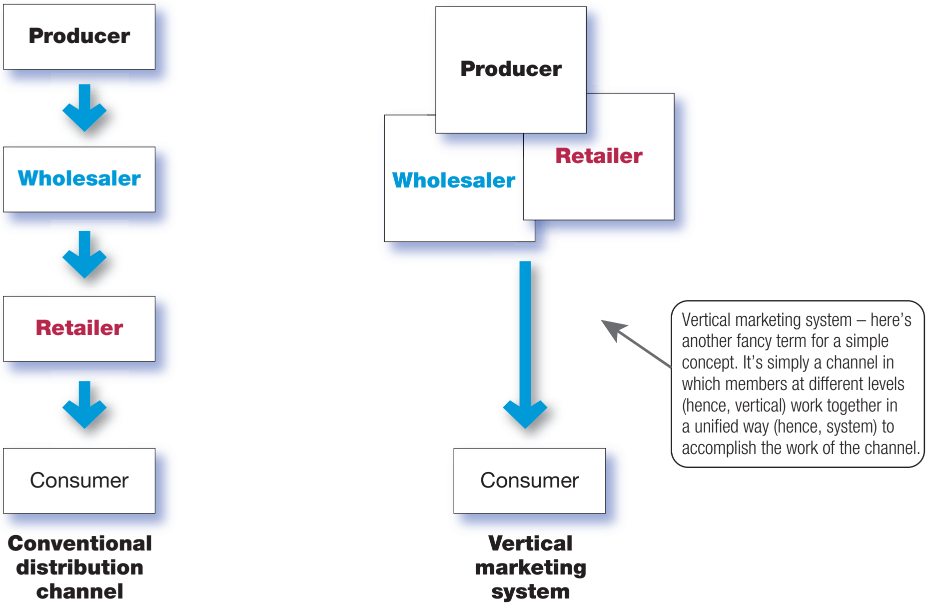


Figure 12.3 Comparison of conventional distribution channel with vertical marketing system

Contractual VMS A vertical marketing system in which independent firms at different levels of production and distribution join together through contracts.

Franchise organisation A contractual vertical marketing system in which a channel member, called a franchisor, links several stages in the production-distribution process.

channels. For example, The British Petroleum Company (BP), a British multinational oil and gas company headquartered in London, is vertically integrated to find, extract, distribute and supply oil, natural gas and petroleum, and the generation of power (including biofuels and wind power) and retail trading through petrol stations (also with a convenience store chain that is attached to their petrol stations).

Similarly, little-known Italian eyewear maker Luxottica produces many famous eyewear brands – including its own Ray-Ban, Oakley, Persol and Vogue Eyewear brands, and licensed brands such as Burberry, Chanel, Polo Ralph Lauren, Dolce & Gabbana, DKNY, Prada, Versace and Michael Kors. Luxottica then controls the distribution of these brands through some of the world's largest optical chains – LensCrafters, Pearle Vision and Sunglass Hut – which it also owns. Recently, Luxottica merged with Essilor, a French-based company that designs, manufactures and markets lenses to correct or protect eyesight. The new merged company, named EssilorLuxottica, has a combined market capitalisation of approximately €57 billion, and commands more than one-quarter of global sales of eyewear.[3]

BP is vertically integrated to find, extract, distribute and supply oil, natural gas and petroleum, the generation of power, and retail trading through petrol stations.

Source: Vytautas Kielaitis/ Shutterstock

Contractual VMS

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

The **franchise organisation** is the most common type of contractual relationship. In this system, a channel member called a *franchisor* links several stages in the production-distribution process. In Europe, even though American brands are still hugely popular, many franchises originating in European countries have also become big names across the continent and beyond. Some of the most successful European franchises include: Tecnocasa, an Italian estate agency franchise founded in 1986, that has 2,654 units in ten countries; Jean Louis David, a French hairdressing company, which has a worldwide network of more than 1,000 units; and Foto-Quelle, a German franchise that has become the world's largest dealer in photographic equipment. Almost every kind of business has been franchised – from hotels and fast-food restaurants to dental centres and dating services, from wedding consultants and cleaning services to fitness centres and funeral directors.

For example, through franchising, Costa Coffee grew quickly from being a wholesale operation supplying roasted coffee to caterers and specialist Italian coffee shops in 1971 to become the largest multinational coffee house company in the UK (and second in the world) with 1,357 high-street stores, 1,032 franchise stores and 7,100 Express machines in the UK.[4]

There are three types of franchises. The first type is the *manufacturer-sponsored retailer franchise system* – for example, BMW and its network of independent franchised dealers. The second type is the *manufacturer-sponsored wholesaler franchise system* – Coca-Cola licenses bottlers (wholesalers) in various world markets that buy Coca-Cola syrup concentrate and then bottle and sell the finished product to retailers locally. The third type is the *service-firm-sponsored retailer franchise system* – for example, Burger King and its more than 12,000 franchisee-operated restaurants around the world. Other examples can be found in everything from car rentals (e.g., Hertz, Avis), apparel retailers (e.g., The Athlete's Foot, Laura Ashley), and hotels (e.g., Holiday Inn, Ramada Inn) to estate agencies (e.g., Nicholas Humphreys Estate Agent, Century 21 UK) and personal services (e.g., PetStay, My Homecare).

The fact that most consumers cannot tell the difference between contractual and corporate VMSs shows how successfully the contractual organisations compete with corporate chains. The next chapter presents a fuller discussion of the various contractual VMSs.

Administered VMS

Administered VMS A vertical marketing system that coordinates successive stages of production and distribution through the size and power of one of the parties.

In an **administered VMS**, leadership is assumed not through common ownership or contractual ties but through the size and power of one or a few dominant channel members. Manufacturers of a top brand can obtain strong trade cooperation and support from resellers. For example, P&G and Apple can command unusual cooperation from many resellers regarding displays, shelf space, promotions and price policies. In turn, large retailers such as Carrefour, Sainsbury's and Tesco can exert strong influence on the many manufacturers that supply the products they sell.

For example, in the normal push and pull between Tesco and its consumer goods suppliers, giant Tesco – the biggest supermarket in the United Kingdom with a more than 25 per cent share of all UK grocery sales – usually gets its way, sometimes even when dealing with giant household products companies. However, in such a case, both parties need to compromise to maintain a long-lasting relationship.

Horizontal marketing systems

Horizontal marketing system A channel arrangement in which two or more companies at one level join together to follow a new marketing opportunity.

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

Companies might join forces with competitors or non-competitors. They might work with each other on a temporary or permanent basis, or they may create a separate company. For example, Walmart partners with non-competitor McDonald's to place 'express' versions of McDonald's restaurants in Walmart stores. McDonald's benefits from Walmart's heavy store traffic, and Walmart keeps hungry shoppers from needing to go elsewhere to eat. In the UK, Tesco has a similar arrangement with Krispy Kreme doughnuts.

Currently, excess capacity in UK supermarkets is driving retailers to collaborate by placing concession stores within major supermarkets. With rapid expansion now a thing of the past, supermarkets are looking to high-street retailers and leisure operators to take up their unproductive floor space. Since 2015, Argos has started opening stores in Sainsbury's. Sainsbury's has also signed agreements with Jessops, the photographic retailer, and Western Union, to bring global money transfer services to its stores. Asda has partnered with French sports retailer Decathlon. Deals between supermarkets and dentists, opticians and hairdressers are expected to follow. These horizontal collaborations have not always been successful in the past: an earlier collaboration between Sainsbury's and Boots ended in acrimony; Tesco's addition of Giraffe restaurants and Harris + Hoole coffee shops to stores did not attract consumers. Nonetheless, it looks like these horizontal collaborations will expand, driven by the excess selling space in large supermarkets, who face tough competition from discounters and convenience stores.[5]

Horizontal channel arrangements also work well globally. For example, most of the world's major airlines have joined to together in one of three global alliances: Star Alliance, Skyteam or Oneworld. Star Alliance consists of 27 airlines 'working in harmony,' including United, Air Canada, Lufthansa, Air China, Turkish Airlines and almost two dozen others. It offers more than 18,500 combined daily departures to more than 190 destinations around the world. Such alliances tie the individual carriers into massive worldwide air travel networks with joint branding and marketing, co-locations at airports, inter-line scheduling and smoother global flight connections, and shared rewards and membership privileges.[6]

Multi-channel distribution systems

In the past, many companies used a single channel to sell to a single market or market segment. Today, with the proliferation of customer segments and channel possibilities, more and more companies have adopted **multi-channel distribution systems**. Such multi-channel marketing occurs when a single firm sets up two or more marketing channels to reach one or more customer segments.

Multi-channel distribution system A distribution system in which a single firm sets up two or more marketing channels to reach one or more customer segments.

Figure 12.4 shows a multi-channel distribution system. In the figure, the producer sells directly to consumer segment 1 using catalogues, telemarketing, online and mobile channels, and reaches consumer segment 2 through retailers. It sells indirectly to business segment 1 through distributors and dealers, and to business segment 2 through its own sales force.

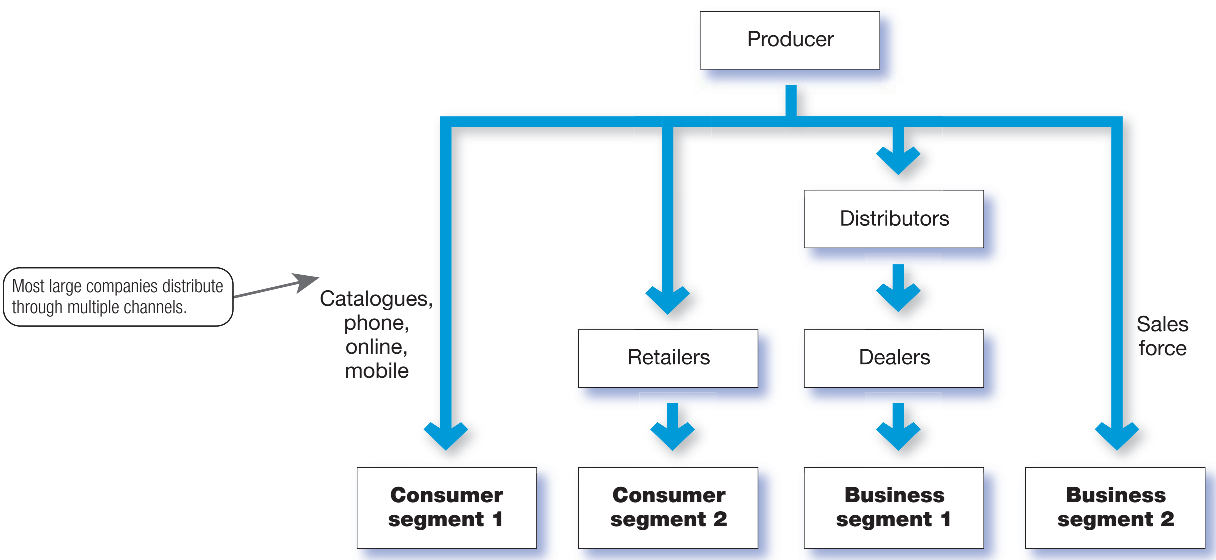


Figure 12.4 Multi-channel distribution system

These days, almost every large company and many small ones distribute through multiple channels. For example, John Deere sells its familiar green-and-yellow lawn and garden tractors, mowers and outdoor power products to consumers and commercial users through several channels, including John Deere retailers, home improvement stores and online. It sells and services its tractors, combines, planters, and other agricultural equipment through its premium John Deere dealer network. And it sells large construction and forestry equipment through selected large, full-service John Deere dealers and their sales forces. Estée Lauder also employs multiple channels but sees them playing different roles. It sees that retail helps customers with 'escapism and me time' and evolves the experience in-store by, for example, opening pop-ups, kitting out a townhouse in Soho, London with a nail bar for its La Mer brand, 'creating fun and dynamic moments in-store that are unique and make it a destination for her to visit'. It sees online as a place where people research, learn about products and replenish stocks. On top of this, it aims to offer rich online experience for customers by offering a live chat and employing integrated tech to allow people do virtual trials.[7]

Multi-channel distribution systems offer many advantages to companies facing large and complex markets. With each new channel, the company expands its sales and market coverage and gains opportunities to tailor its products and services to the specific needs of diverse customer segments. But such multi-channel systems are harder to control, and they can generate conflict as more channels compete for customers and sales. For example, when John Deere first began selling selected consumer products through home improvement stores, many of its independent dealers complained loudly. To avoid such conflicts in its online marketing channels, the company routes all of its online sales to John Deere dealers.

Changing channel organisation

Disintermediation The cutting out of marketing channel intermediaries by product or service producers or the displacement of traditional resellers by radical new types of intermediaries.

Changes in technology and the explosive growth of direct and online marketing are having a profound impact on the nature and design of marketing channels. One major trend is toward **disintermediation** – a big term with a clear message and important consequences. Disintermediation occurs when product or service producers cut out intermediaries and go directly to final buyers or when radically new types of channel intermediaries displace traditional ones.

Thus, in many industries, traditional intermediaries are dropping by the wayside, as is the case with online marketers taking business from traditional brick-and-mortar retailers. For example, online music download services such as iTunes and Amazon MP3 have pretty much put traditional music-store retailers out of business, with physical CDs sinking fast and now capturing less than a third of the music market. In turn, however, streaming music services such as Spotify, Rhapsody and Apple Music are now disintermediating digital download services – digital downloads peaked last year while music streaming increased 29 per cent.[8]

Disintermediation presents both opportunities and problems for producers and resellers. Channel innovators who find new ways to add value in the channel can displace traditional resellers and reap the rewards. In turn, traditional intermediaries must continue to innovate to avoid being swept aside. For example, when Netflix pioneered online DVD-by-mail video rentals, it sent traditional brick-and-mortar video stores such as Blockbuster into ruin. Then Netflix itself faced disintermediation threats from an even hotter channel – video streaming. But instead of simply watching developments, Netflix has led them profitably.[9]

Netflix, the world's largest video subscription service, faces dramatic changes in how video entertainment will be distributed. In the early 2000s, Netflix's revolutionary DVD-by-mail service put all but the most powerful movie-rental stores out of business. In 2007, Netflix's then-ground-breaking move into digital streaming once again revolutionised how people accessed movies and other video content. Now, with Netflix leading the pack, video distribution has become a roiling pot of emerging technologies and high-tech competitors, one that offers both mind-bending opportunities and stomach-churning risks. In 2010, as Netflix surged, once-mighty Blockbuster fell into bankruptcy. The Blockbuster riches-to-rags disintermediation story underscores the turmoil that typifies today's video distribution business. All along the way, Netflix has acted boldly to stay ahead of the competition. For example, by 2007, Netflix had mailed out its one-billionth DVD. But rather than rest on success, Netflix and its CEO, Reed Hastings, set their sights on a then-revolutionary new video distribution model: Deliver Netflix to any and every internet-connected screen – from laptops to internet-ready TVs to smartphones and other Wi-Fi-enabled devices. Netflix launched a new Watch Instantly service, which let members stream movies to their computers as part of their monthly fee, even if it came at the expense of the company's still-hot DVD-by-mail business. With its massive physical DVD library and a streaming library of more than 20,000 high-definition movies accessible via 200 different internet-ready devices, it seemed that nothing could stop Netflix.

But Netflix's stunning success drew a slew of resourceful competitors, such as Google's YouTube and Apple's iTunes. To stay ahead, even to survive, Netflix needed to keep the innovation pedal to the metal. In 2011 CEO Hastings split off Netflix's still-thriving DVD-by-mail service into a separate business. Although customers can still access Netflix's world's-biggest DVD library, the DVD operation is now called DVD.com, which operates at a separate site. Now more than ever, Netflix's heavy focus is on streaming video. And the company recently completed an enormous global expansion, taking Netflix's service into more than 190 countries. Streaming now accounts for nearly 90 per cent of the company's revenues, which have nearly doubled in just the past four years. Despite its continuing success, Netflix knows that it can't rest its innovation machine. Competition continues to move at a blurring rate. For example, Amazon's Prime Instant Video offers streaming of thousands of movies and TV shows to Amazon Prime members at no extra cost. Google has Google Play, an all-media entertainment portal for movies, music, e-books and apps. And Apple and Samsung are creating smoother integration with streaming content via smart TVs. Moving ahead, as the industry settles into streaming as the main delivery model, content – not just delivery – will be a key to distancing Netflix from the rest of the pack. Given its head start, Netflix remains well ahead in the content race. But as content-licensing deals with movie and television studios become harder to get, in yet another innovative video distribution twist, Netflix and its competitors are now developing their own original content at a torrid pace. In all, Netflix now broadcasts dozens of original series and dozens of documentaries, movies, comedy specials and other types of shows. It plans to significantly increase its investment in original content for the coming years. This massive development of original content has taken Netflix beyond just content distribution and into the realm of the largest TV networks. Thus, from DVDs by mail, to Watch Instantly, to video streaming on almost any device, to developing original content, Netflix has stayed ahead of the howling pack by doing what it does best – innovate and revolutionise distribution.

And in the UK, Direct Line changed an industry. It pioneered direct online selling of insurance, cutting out the insurance brokers and their fees. Direct Line prospered through disintermediation. But then, in turn, Direct Line was squeezed out by the next stage of disintermediation in the form of price comparison websites like Gocompare.com and Comparethemarket.com and has had to redesign its brand offer accordingly.[10]

Similarly, in the US, superstore booksellers Barnes & Noble (a *Fortune* 500 company with the largest number of retail outlets in the US) and Borders (which used to be an international book and music retailer) pioneered huge book selections and low prices, shutting down most small independent bookstores. Then along came Amazon.com, which threatened even the largest brick-and-mortar bookstores.

Amazon almost single-handedly bankrupted Borders in less than 10 years. Now, both offline and online sellers of physical books are being threatened by digital book downloads and e-readers. Rather than yielding to digital developments, however, Amazon is leading them with its highly successful Kindle e-readers and tablets. By contrast, Barnes & Noble – the giant

Direct Line changed an industry. It pioneered direct online selling of insurance, cutting out the insurance brokers and their fees. Direct Line prospered through disintermediation.

Source: ACORN 1/Alamy Stock Photo

that put so many independent bookstores out of business – was a latecomer with its struggling Nook e-reader and now finds itself locked in a battle for survival.[11]

Like resellers, to remain competitive, product and service producers must develop new channel opportunities, such as the internet and other direct channels. However, developing these new channels often brings them into direct competition with their established channels, resulting in conflict. To ease this problem, companies often look for ways to make going direct a plus for the entire channel.

For example, Volvo Car Group (now owned by Chinese car maker Geely) recently announced plans to start selling Volvo vehicles online in all of its markets. Some 80 per cent of Volvo buyers already shop online for other goods, so cars seem like a natural extension. Few car makers have tried selling directly, with the exception of Tesla, which sells its all-electric cars online, bypassing dealers altogether. Other car companies worry that selling directly would alienate their independent dealer networks. 'If you say e-commerce, initially dealers get nervous', says Volvo's head of marketing. So, to avoid channel conflicts, Volvo will pass all online sales through established dealers for delivery. In that way, boosting sales through direct marketing will benefit both Volvo and its channel partners.[12]

Author comment

Like everything else in marketing, good channel design begins with analysing customer needs. Remember, marketing channels are really *customer value delivery networks*.

Channel design decisions

We now look at several channel design decisions manufacturers face. In designing marketing channels, manufacturers struggle between what is ideal and what is practical. A new firm with limited capital usually starts by selling in a limited market area. In this case, deciding on the best channels might not be a problem – the problem might simply be how to convince one or a few good intermediaries to handle the line.

If successful, the new firm can branch out to new markets through existing intermediaries. In smaller markets, the firm might sell directly to retailers; in larger markets, it might sell through distributors. In one part of the country, it might grant exclusive franchises; in another, it might sell through all available outlets. Then it might add an online store that sells directly to hard-to-reach customers. In this way, channel systems often evolve to meet market opportunities and conditions.

For maximum effectiveness, however, channel analysis and decision making should be more purposeful. **Marketing channel design** calls for analysing consumer needs, setting channel objectives, identifying major channel alternatives and evaluating the alternatives.

Marketing channel design
Designing effective marketing channels by analysing customer needs, setting channel objectives, identifying major channel alternatives and evaluating those alternatives.

Analysing consumer needs

As noted previously, marketing channels are part of the overall *customer value delivery network*. Each channel member and level adds value for the customer. Thus, designing the marketing channel starts with finding out what target consumers want from the channel. Do consumers want to buy nearby, or are they willing to travel to more centralised locations? Would customers rather buy in person, by phone or online? Do they value breadth of assortment, or do they prefer specialisation? Do consumers want many add-on services (e.g., delivery, installation, repairs), or will they obtain these services elsewhere? The faster the delivery, the greater the assortment provided, and the more add-on services supplied, the greater the channel's service level.

Providing the fastest delivery, the greatest assortment and the most services, however, may not be possible, practical or desired. The company and its channel members may not have the resources or skills needed to provide all the desired services. Also, higher levels of service result in higher costs for the channel and higher prices for consumers. The success of modern discount retailing shows that consumers often accept lower service levels in exchange for lower prices. For example, Tesco normally ranked much lower on customer shopping experience and satisfaction compared to the likes of Waitrose. Yet it captures over 25 per cent share of the UK grocery market.

Many companies, however, position themselves on higher service levels, and customers willingly pay the higher prices. For example, whereas Tesco and Asda typically rate low in *Which?*'s customer satisfaction of their experience with grocers, upmarket supermarket chain Waitrose regularly ranks first. In addition, Waitrose was ranked top for the food retail sector according to The UK Customer Satisfaction Index (February 2018 edition).[13]

Thus, companies must balance consumer needs not only against the feasibility and costs of meeting these needs but also against customer price preferences.

Setting channel objectives

Companies should state their marketing channel objectives in terms of targeted levels of customer service. Usually, a company can identify several segments wanting different levels of service. The company should decide which segments to serve and the best channels to use in each case. In each segment, the company wants to minimise the total channel cost of meeting customer service requirements.

The company's channel objectives are also influenced by the nature of the company, its products, its marketing intermediaries, its competitors and the environment. For example, the company's size and financial situation determine which marketing functions it can handle itself and which it must give to intermediaries. Companies selling perishable products, for example, may require more direct marketing to avoid delays and too much handling.

In some cases, a company may want to compete in or near the same outlets that carry competitors' products. For example, Hotpoint and other appliance makers want their products displayed alongside competing brands to facilitate comparison shopping. In other cases, companies may avoid the channels used by competitors.

Avon Cosmetics, for example, sells directly to consumers through its corps of more than six and a half million representatives worldwide, and has generally avoided going head-to-head with other cosmetics makers for scarce positions in retail stores. Direct Line primarily markets car and homeowner's insurance directly to consumers via the telephone and the internet rather than through insurance agents or price comparison websites.

Finally, environmental factors such as economic conditions and legal constraints may affect channel objectives and design. For example, in a depressed economy, producers will want to distribute their goods in the most economical way, using shorter channels and dropping unneeded services that add to the final price of the goods.

Identifying major alternatives

When the company has defined its channel objectives, it should next identify its major channel alternatives in terms of the *types* of intermediaries, the *number* of intermediaries and the *responsibilities* of each channel member.

Types of intermediaries

A firm should identify the types of channel members available to carry out its channel work. Most companies face many channel member choices. For example, Dell initially sold directly to final consumers and business buyers only, through its sophisticated phone and online marketing channel. It also sold directly to large corporate, institutional and government buyers using its direct sales force.

However, to reach more consumers and match competitors such as Samsung and Apple, Dell now sells indirectly through retailers such as PC World, Staples and Tesco. It also sells indirectly through *value-added resellers*, independent distributors and dealers that develop computer systems and applications tailored to the special needs of small- and medium-sized business customers.

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

Number of marketing intermediaries

Intensive distribution Stocking the product in as many outlets as possible.

Companies must also determine the number of channel members to use at each level. Three strategies are available: intensive distribution, exclusive distribution and selective distribution. Producers of convenience products and common raw materials typically seek **intensive distribution** – a strategy in which they stock their products in as many outlets as possible. These products must be available where and when consumers want them. For example, toothpaste, confectionery and other similar items are sold in millions of outlets to provide maximum brand exposure and consumer convenience. Unilever, Coca-Cola, Kimberly-Clark and other consumer goods companies distribute their products in this way.

Exclusive distribution Giving a limited number of dealers the exclusive right to distribute the company's products in their territories.

By contrast, some producers purposely limit the number of intermediaries handling their products. The extreme form of this practice is **exclusive distribution**, in which the producer gives only a limited number of dealers the exclusive right to distribute its products in their territories. Exclusive distribution is often found in the distribution of luxury brands. Breitling watches – positioned as 'Instruments for Professionals' and selling at prices from about £1,600 to more than £200,000 – are sold by only a few authorised dealers in any given market area. Exclusive distribution enhances Breitling's distinctive positioning and earns greater dealer support and customer service.

Selective distribution The use of more than one but fewer than all of the intermediaries that are willing to carry the company's products.

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

Responsibilities of channel members

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

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

Evaluating the major alternatives

Suppose a company has identified several channel alternatives and wants to select the one that will best satisfy its long-term objectives. Each alternative should be evaluated against economic, control and adaptability criteria.

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

Designing international distribution channels

International marketers face many additional complexities in designing their channels. Each country has its own unique distribution system that has evolved over time and changes very slowly. These channel systems can vary widely from country to country. Thus, global marketers must usually adapt their channel strategies to the existing structures within each country.

In some markets, the distribution system is complex, competitive and hard to penetrate. For example, many Western companies find India's distribution system difficult to navigate. Large discount, department store and supermarket retailers still account for only a small portion of the huge Indian market. Instead, most shopping is done in small neighbourhood stores called *kirana* shops, run by their owners and popular because they offer personal service and credit. In addition, large Western retailers have difficulty dealing with India's complex government regulations and poor infrastructure.

Distribution systems in developing countries may be scattered, inefficient or altogether lacking. For example, China's rural markets are highly decentralised and made of many distinct submarkets, each with its own subculture. And, because of inadequate distribution systems, most companies can profitably access only a small portion of China's massive population located in affluent cities. China's distribution system is so fragmented that logistics costs to wrap, bundle, load, unload, sort, reload and transport goods amount to 16 per cent of the nation's GDP, far higher than in most other countries.[14]

Sometimes local conditions can greatly influence how a company distributes products in global markets. For example, in low-income neighbourhoods in Brazil where consumers have limited access to supermarkets, Nestlé supplements its distribution with thousands of self-employed salespeople who sell Nestlé products from refrigerated carts door to door. And in big cities in Asia and Africa, where crowded streets and high real estate costs make drive-throughs impractical, fast-food restaurants such as McDonald's and KFC offer delivery. Legions of motorbike delivery drivers in colourful uniforms dispense Big Macs and buckets of chicken to customers who call in. More than 30 per cent of McDonald's total sales in Egypt and 12 per cent of its Singapore sales come from delivery. Similarly, for KFC, delivery accounts for nearly half of all sales in Kuwait and a third of sales in Egypt.[15]

Thus, international marketers face a wide range of channel alternatives. Designing efficient and effective channel systems between and within various country markets poses a difficult challenge. We discuss international distribution decisions further in Chapter 15.

Author comment

Now it's time to implement the chosen channel design and work with selected channel members to manage and motivate them.

Channel management decisions

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

Marketing channel management Selecting, managing and motivating individual channel members and evaluating their performance over time.

Selecting channel members

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

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

Even established brands may have difficulty gaining and keeping their desired distribution, especially when dealing with powerful resellers. For example, you won't find any cigarette brand at your local pharmacy store. Boots has announced that it will never sell cigarettes in its stores to end a speculation that it might start selling cigarettes like its US partner Walgreens.[16]

When selecting intermediaries, the company should determine what characteristics distinguish the better ones. It will want to evaluate each channel member's years in business, other lines carried, location, growth and profit record, cooperativeness and reputation.

Managing and motivating channel members

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

In managing its channels, a company must convince suppliers and distributors that they can succeed better by working together as a part of a cohesive value delivery system. Companies must work in close harmony with others in the channel to find better ways to bring value to customers. Thus, Amazon and P&G work closely to accomplish their joint goal of selling consumer packaged goods profitably online. And companies ranging from car maker Toyota to cosmetics maker L'Oréal forge beneficial relationships with their large networks of suppliers to gain mutual competitive advantage.[17]

L'Oréal is the world's largest cosmetics maker, with 23 global brands ranging from Maybelline and Kiehl's to Lancôme and Redken. L'Oréal's extensive supplier network – which supplies everything from polymers and fats to spray cans and packaging to production equipment and office supplies – is crucial to its success. As a result, L'Oréal treats suppliers as respected partners. On the one hand, it expects a lot from suppliers in terms of design innovation, quality and socially responsible actions. The company carefully screens new suppliers and regularly assesses the performance of current suppliers. On the other hand, L'Oréal works closely with suppliers to help them meet its exacting standards. Whereas some companies make unreasonable demands of their suppliers and 'squeeze' them for short-term gains, L'Oréal builds long-term supplier relationships based on mutual benefit and growth. According to the company's supplier website, it treats suppliers with 'fundamental respect for their business, their culture, their growth, and the individuals who work there'. Each relationship is based on 'dialogue and joint efforts. L'Oréal seeks not only to help its suppliers meet its expectations but also to contribute to their growth through opportunities for innovation and competitiveness.' As a result, more than 75 per cent of L'Oréal's supplier partners have been working with the company for 10 years or more and the majority of them for several decades. Says the company's head of purchasing, 'The CEO wants to make L'Oréal a top performer and one of the world's most respected companies. Being respected also means being respected by our suppliers.'

And, heavy-equipment manufacturer Caterpillar works hand-in-hand with its superb dealer network – together they dominate the world's construction, mining and logging equipment business:

Heavy-equipment manufacturer Caterpillar produces innovative, high-quality industrial equipment products. But ask anyone at Caterpillar, and they'll tell you that the most important reason for Caterpillar's dominance is its outstanding distribution network of 189 independent dealers in more than 180 countries. Dealers are the ones on the front line. Once the product leaves the factory, the dealers take over. They're the ones that customers see. So rather than selling to or through its dealers, Caterpillar treats dealers as inside partners. When a big piece of Caterpillar equipment breaks down, customers know that they can count on both Caterpillar and its dealer network for support. A strong dealer network makes for a strong Caterpillar, and the other way around. On a deeper level, dealers play a vital role in almost every aspect of Caterpillar's operations, from product design and delivery to service and support. As a result of its close partnership with dealers, Caterpillar dominates the world's markets for heavy construction, mining and logging equipment. Its familiar yellow tractors, crawlers, loaders, bulldozers and trucks capture a commanding share of the worldwide heavy-equipment business, nearly twice that of number-two Komatsu.

Many companies are now installing integrated high-tech partnership relationship management (PRM) systems to coordinate their whole-channel marketing efforts. Just as they use customer relationship management (CRM) software systems to help manage relationships with important customers, companies can now use PRM and supply chain management (SCM) software to help recruit, train, organise, manage, motivate and evaluate relationships with channel partners.

Evaluating channel members

The company must regularly check channel member performance against standards such as sales quotas, average inventory levels, customer delivery time, treatment of damaged and lost goods, cooperation in company promotion and training programmes, and services to the customer. The company should recognise and reward intermediaries that are performing well and adding good value for consumers. Those that are performing poorly should be assisted or, as a last resort, replaced.

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

Heavy-equipment manufacturer Caterpillar works hand-in-hand with its superb dealer network – together they dominate the world's construction, mining and logging equipment business.
Source: Grigorii Pisotsckii/Shutterstock

Public policy and distribution decisions

For the most part, companies are legally free to develop whatever channel arrangements suit them. In fact, the laws affecting channels seek to prevent the exclusionary tactics of some companies that might keep another company from using a desired channel. Most channel law deals with the mutual rights and duties of channel members once they have formed a relationship. Marketers need to be aware that legal frameworks vary greatly across different countries, and in some cases are subject to government (or EU) policies to protect local companies.

Many producers and wholesalers like to develop exclusive channels for their products. When the seller allows only certain outlets to carry its products, this strategy is called *exclusive distribution*. When the seller requires that these dealers not handle competitors' products, its strategy is called *exclusive dealing*. Both parties can benefit from exclusive arrangements: The seller obtains more loyal and dependable outlets, and the dealers obtain a steady source of supply and stronger seller support. But exclusive arrangements also exclude other producers from selling to these dealers. In most countries, exclusive arrangements are legal as long as they do not substantially lessen competition or tend to create a monopoly, and as long as both parties enter into the agreement voluntarily.

Exclusive dealing often includes *exclusive territorial agreements*. The producer may agree not to sell to other dealers in a given area, or the buyer may agree to sell only in its own territory. The first practice is normal under franchise systems as a way to increase dealer enthusiasm and commitment. It is also perfectly legal – a seller has no legal obligation to sell through more outlets than it wishes. The second practice, whereby the producer tries to keep a dealer from selling outside its territory, has become a major legal issue.

Producers of a strong brand sometimes sell it to dealers only if the dealers will take some or all of the rest of its line. This is called *full-line forcing*. Such *tying agreements* are not necessarily illegal, but may be questionable under some countries' legal frameworks if they tend to lessen competition substantially. For example, doing so violates the Clayton Act in the US. The practice may prevent consumers from freely choosing among competing suppliers of these other brands.

Finally, producers are free to select their dealers, but their right to terminate dealers is somewhat restricted. In general, sellers can drop dealers 'for cause'. However, they cannot drop dealers if, for example, the dealers refuse to cooperate in a doubtful legal arrangement, such as exclusive dealing or tying agreements.

Author comment

Marketers used to call this plain-old 'physical distribution'. But as these titles suggest, the topic has grown in importance, complexity and sophistication.

Marketing logistics and supply chain management

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

Nature and importance of marketing logistics

Marketing logistics (physical distribution)
Planning, implementing and controlling the physical flow of materials, final goods and related information from points of origin to points of consumption to meet customer requirements at a profit.

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

In the past, physical distribution planners typically started with products at the plant and then tried to find low-cost solutions to get them to customers. However, today's *customer-centred* logistics starts with the marketplace and works backward to the factory or even to sources of supply. Marketing logistics involves not only *outbound logistics* (moving products from the

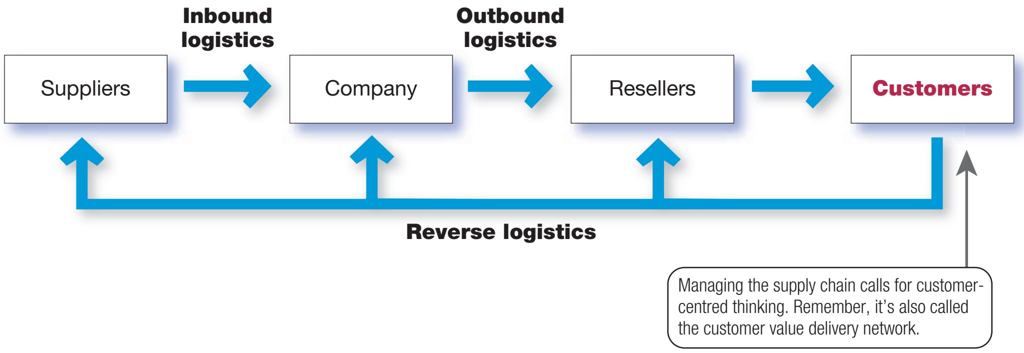


Figure 12.5 Supply chain management

factory to resellers and ultimately to customers) but also *inbound logistics* (moving products and materials from suppliers to the factory) and *reverse logistics* (reusing, recycling, refurbishing or disposing of broken, unwanted or excess products returned by consumers or resellers). That is, it involves the entirety of **supply chain management** – managing upstream and downstream value-added flows of materials, final goods and related information among suppliers, the company, resellers and final consumers, as shown in Figure 12.5.

Supply chain management Managing upstream and downstream value-added flows of materials, final goods, and related information among suppliers, the company, resellers, and final consumers.

The logistics manager's task is to coordinate the activities of suppliers, purchasing agents, marketers, channel members and customers. These activities include forecasting, information systems, purchasing, production planning, order processing, inventory, warehousing and transport planning.

Companies today are placing greater emphasis on logistics for several reasons. First, companies can gain a powerful competitive advantage by using improved logistics to give customers better service or lower prices. Second, improved logistics can yield tremendous cost savings to both a company and its customers. As much as 20 per cent of an average product's price is accounted for by shipping and transport alone. For example, car companies have hundreds of millions of tons of finished vehicles, production parts and aftermarket parts in transit at any given time. Shaving off even a small fraction of logistics costs can mean substantial savings. Third, the explosion in product variety has created a need for improved logistics management. For example, in 1911 the typical local grocery store carried only about 270 items. The store manager could keep track of this inventory on about ten pages of notebook paper stuffed in a shirt pocket. Today, the average local store carries a bewildering stock of more than 25,000 items. At the extreme, superstores run by companies like Tesco, Carrefour, Costco and Walmart can carry more than 100,000 products.[18] Ordering, shipping, stocking and controlling such a variety of products presents a sizeable logistics challenge.

Improvements in information technology have also created opportunities for major gains in distribution efficiency. Today's companies are using sophisticated supply chain management software, internet-based logistics systems, point-of-sale scanners, RFID tags, satellite tracking, and electronic transfer of order and payment data. Such technology lets them quickly and efficiently manage the flow of goods, information and finances through the supply chain. Nonetheless, UK research suggests that many companies are wide open to supply chain risks because they have little visibility of their supply chains. Businesses in many sectors seem to have little knowledge of where their suppliers are sourcing goods:[19]

> The 2013 fire in a Bangladesh clothing factory, which killed more than 600 people, heaped scrutiny on retailers like Primark and Benetton, which had clothes made at the site. The same year, the British horsemeat scandal, when supermarket food products were found to contain the meat, was another example of companies being hurt by weaknesses in their complex, cross-border supply chains. Companies are at risk if they do not even know who their suppliers' suppliers are. This is why Jaguar Land Rover and Aston Martin have teamed up with Toyota to create a joint supply chain map showing where they are all exposed to natural disasters (like the 2011 Japanese earthquake and tsunami, which left factories closed for weeks), and hence to financial and reputational risks.

FT *Source*: Jones, C. (2013) Companies seen as "wide open" to supply chain risks, *Financial Times*, 7 May

Finally, more than almost any other marketing function, logistics affects the environment and a firm's environmental sustainability efforts. Transport, warehousing, packaging and other logistics functions are typically the biggest supply chain contributors to the company's environmental footprint. Therefore, many companies are now developing *green supply chains*.

Sustainable supply chains

Companies have many reasons for reducing the environmental impact of their supply chains. For one thing, if they don't green up voluntarily, a host of sustainability regulations enacted around the world will soon require them to. For another, many large customers – from Tesco and Nike to various governments in the EU – are demanding it. Even consumers are demanding it: According to one survey, 50 per cent of Millennials are willing to pay more for sustainable products and 39 per cent do research into the sustainability practices of companies before making a purchase.[20] Thus, environmental sustainability has become an important factor in supplier selection and performance evaluation. But perhaps even more important than *having* to do it, designing sustainable supply chains is simply the *right* thing to do. It's one more way that companies can contribute to saving our world for future generations.

But that's all pretty heady stuff. As it turns out, companies have a more immediate and practical reason for turning their supply chains green. Not only are sustainable channels good for the world, they're also good for a company's bottom line. The very logistics activities that create the biggest environmental footprint – such as transport, warehousing and packaging – also account for a lion's share of logistics costs. Companies green up their supply chains through greater efficiency, and greater efficiency means lower costs and higher profits. In other words, developing a sustainable supply chain is not only environmentally responsible, it can also be profitable. Consider Nike:[21]

> Nike, the iconic sports shoe and apparel company, has developed a sweeping strategy for greening every phase of its supply chain. For example, Nike recently teamed with Levi's, REI, Target and other members of the Sustainable Apparel Coalition to develop the Higg Index – a tool that measures how a single apparel product affects the environment across the entire supply chain. Nike uses the Higg Index to work with suppliers and distributors to reduce its supply chain's environmental footprint. For instance, during just the past three years, the more than 900 contract factories that make Nike footwear worldwide have reduced their carbon emissions by 6 per cent, despite production increases of 20 per cent. That's equivalent to an emissions saving equal to more than 1 billion car-miles.
>
> Nike has found that even seemingly simple supply chain adjustments can produce big benefits. For example, the company sources its shoes in Asia, but most are sold in North America. Until about a decade ago, the shoes were shipped from factory to store by airfreight. After analysing distribution costs more carefully, Nike shifted a sizeable portion of its cargo to ocean freight. That simple shoes-to-ships shift reduced emissions per product by 4 per cent, making environmentalists smile. But it also put a smile on the faces of Nike's accountants by saving the company some $8 million a year in shipping costs.

Goals of the logistics system

Some companies state their logistics objective as providing maximum customer service at the least cost. Unfortunately, as nice as this sounds, no logistics system can *both* maximise customer service *and* minimise distribution costs. Maximum customer service implies rapid delivery, large inventories, flexible assortments, liberal returns policies and other services – all of which raise distribution costs. In contrast, minimum distribution costs imply slower delivery, smaller inventories and larger shipping lots – which represent a lower level of overall customer service.

The goal of marketing logistics should be to provide a *targeted* level of customer service at the least cost. A company must first research the importance of various distribution services to customers and then set desired service levels for each segment. The objective is to maximise *profits*, not sales. Therefore, the company must weigh the benefits of providing higher levels of service against the costs. Some companies offer less service than their competitors and charge a lower price. Other companies offer more service and charge higher prices to cover higher costs.

Major logistics functions

Given a set of logistics objectives, the company designs a logistics system that will minimise the cost of attaining these objectives. The major logistics functions are *warehousing*, *inventory management*, *transport* and *logistics information management*.

Warehousing

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

A company must decide on *how many* and *what types* of warehouses it needs and *where* they will be located. The company might use either *storage warehouses* or *distribution centres*. Storage warehouses store goods for moderate to long periods. In contrast, **distribution centres** are designed to move goods rather than just store them. They are large and highly automated warehouses designed to receive goods from various plants and suppliers, take orders, fill them efficiently and deliver goods to customers as quickly as possible.

Distribution centre A large, highly automated warehouse designed to receive goods from various plants and suppliers, take orders, fill them efficiently and deliver goods to customers as quickly as possible.

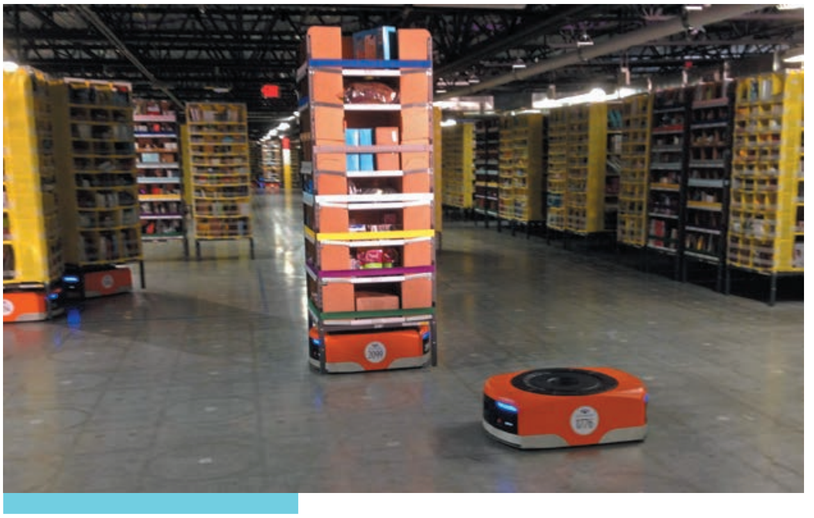
For example, Amazon's business is supported by a group of huge, highly automated fulfilment centres operating in the US, Europe and Asia, supported by a network of smaller distribution centres. For example, at Marston Gate, Milton Keynes in the UK, Amazon's fulfilment centre is half a mile long and stocks everything from cuddly toys to saucepans. At peak times like holiday seasons, thousands of casual workers pick and pack customer orders.

Like almost everything else these days, warehousing has seen dramatic changes in technology in recent years. Outdated materials-handling methods are steadily being replaced by newer, computer-controlled systems requiring fewer employees. Computers and scanners read orders and direct lift trucks, electric hoists or robots to gather goods, move them to loading docks and issue invoices. For example, to improve efficiency in its massive fulfilment centres, Amazon recently purchased robot maker Kiva Systems:[22]

> When you buy from Amazon, the chances are still good that your order will be picked and packed by human hands. However, the humans in Amazon's fulfilment centres are increasingly being assisted by an army of squat, ottoman-size, day-glo orange robots. The robots bring racks of merchandise to workers, who in turn fill boxes. Dubbed the 'magic shelf', racks of items simply materialise in front of workers, with red lasers pointing to items to be picked. The robots then drive off and new shelves appear. The super-efficient robots work tirelessly 16 hours a day, seven days a week. They never complain about the workload or ask for pay rises, and they are pretty much maintenance free. 'When they run low on power, they head to battery-charging terminals,' notes one observer, 'or, as warehouse personnel say, "they get themselves a drink of water"'.

Inventory management

Inventory management also affects customer satisfaction. Here, managers must maintain the delicate balance between carrying too little inventory and carrying too much. With too little stock, the firm risks not having products when customers want to buy. To remedy this, the firm



High-tech distribution centres: Amazon employs teams of super-retrievers – Kiva Robots – to keep its fulfilment centres running.
Source: Brandon Bailey/AP/Shutterstock

may need costly emergency shipments or production. Carrying too much inventory results in higher-than-necessary inventory-carrying costs and stock obsolescence. Thus, in managing inventory, firms must balance the costs of carrying larger inventories against resulting sales and profits.

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

Marketers are always looking for new ways to make inventory management more efficient. In the not-too-distant future, handling inventory might even become fully automated. For example, many companies now use some form of RFID or 'smart tag' technology, by which small transmitter chips are embedded in or placed on products and packaging for everything from flowers and razors to tyres. Such 'smart' products could make the entire supply chain – which accounts for up to 75 per cent of a product's cost – intelligent and automated.

Companies using RFID know, at any time, exactly where a product is located physically within the supply chain. 'Smart shelves' would not only tell them when it's time to reorder but also place the order automatically with their suppliers. Such exciting new information technology is revolutionising distribution as we know it. Many large and resourceful marketing companies, such as P&G and IBM, are investing heavily to make the full use of RFID technology a reality.

Transport

The choice of transport carriers affects the pricing of products, delivery performance and the condition of goods when they arrive – all of which will affect customer satisfaction. In shipping goods to its warehouses, dealers and customers, the company can choose among five main transport modes: truck, rail, water, pipeline and air along with an alternative mode for digital products – the internet.

Trucks have increased their share of transport steadily. Trucks are highly flexible in their routing and time schedules, and they can usually offer faster service than railways. They are efficient for short hauls of high-value merchandise. Trucking firms have evolved in recent years to become full-service providers of global transport services. For example, large trucking firms now offer everything from satellite tracking, internet-based shipment management and logistics planning software to cross-border shipping operations.[23]

Railways are one of the most cost-effective modes for shipping large amounts of bulk products – coal, sand, minerals, and farm and forest products – over long distances. In recent years, railways have increased their customer services by designing new equipment to handle special categories of goods, providing flat wagons for carrying truck trailers by rail (piggyback), and providing in-transit services such as the diversion of shipped goods to other destinations en route and the processing of goods en route.

Inland waterways can transport large amounts of goods by ships and barges. Although the cost of water transport is very low for shipping bulky, low-value, nonperishable products such as sand, coal, grain, oil and metallic ores, water transport is the slowest mode and may be affected by the weather.

Pipelines are a specialised means of shipping petroleum, natural gas and chemicals from sources to markets. Most pipelines are used by their owners to ship their own products.

Although *air* carriers transport a small proportion of all goods, they are an important transport mode. Airfreight rates are much higher than railway or road rates, but airfreight is ideal when speed is needed or distant markets have to be reached. Among the most frequently airfreighted products are perishables (such as fresh fish, cut flowers) and high-value, low-bulk items (e.g., technical instruments, jewellery). Companies find that airfreight also reduces inventory levels, packaging costs and the number of warehouses needed.

The *internet* carries digital products from producer to customer via satellite, cable, phone wire or wireless signal. Software firms, the media, music and video companies, and education all make use of the internet to deliver digital content. The internet holds the potential for lower product distribution costs. Whereas planes, trucks and trains move freight and packages, digital technology moves information bits.

Shippers also use **multimodal transport** – combining two or more modes of transport. Eight per cent of the total cargo ton-miles are moved via multiple modes. *Piggyback* describes the use of rail and trucks; *fishyback*, water and trucks; *trainship*, water and rail; and *airtruck*, air and trucks. Combining modes provides advantages that no single mode can deliver. Each combination offers advantages to the shipper. For example, not only is piggyback cheaper than trucking alone, but it also provides flexibility and convenience. Numerous logistics companies provide single-source multimodal transport solutions.

Multimodal transport Combining two or more modes of transport.

Logistics information management

Companies manage their supply chains through information. Channel partners often link up to share information and make better joint logistics decisions. From a logistics perspective, flows of information, such as customer transactions, billing, shipment and inventory levels, and even customer data, are closely linked to channel performance. Companies need simple, accessible, fast and accurate processes for capturing, processing and sharing channel information.

Information can be shared and managed in many ways, but most sharing takes place through *electronic data interchange* (*EDI*), the digital exchange of data between organisations, which primarily is transmitted via the internet. Major retailers like Tesco and Carrefour in Europe and Walmart in the US, for example, require EDI links with their suppliers. If new suppliers don't have the required EDI capability, retailers will work with them to find and implement the needed tools.[24]

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

Integrated logistics management

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

Integrated logistics management The logistics concept that emphasises teamwork – both inside the company and among all the marketing channel organisations – to maximise the performance of the entire distribution system.

Cross-functional teamwork inside the company

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

The goal of integrated supply chain management is to harmonise all of the company's logistics decisions. Close working relationships among departments can be achieved in several ways. Some companies have created permanent logistics committees composed of managers responsible for different physical distribution activities. Companies can also create supply chain manager positions that link the logistics activities of functional areas. For example, P&G has created product supply managers who manage all the supply chain activities for each product category. Many companies have a vice president of logistics or a supply chain VP with cross-functional authority.

Finally, companies can employ sophisticated, system-wide supply chain management software, now available from a wide range of software enterprises large and small, from Oracle and SAP to Infor and Logility. For example, Oracle's supply chain management software solutions help companies to 'gain sustainable advantage and drive innovation by transforming their traditional supply chains into integrated value chains'.[25] It coordinates every aspect of the supply chain, from value chain collaboration to inventory optimisation to transport and logistics management. The important thing is that the company must coordinate its logistics, inventory investments, demand forecasting and marketing activities to create high market satisfaction at a reasonable cost.

Building logistics partnerships

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

Smart companies coordinate their logistics strategies and forge strong partnerships with suppliers and customers to improve customer service and reduce channel costs. Many companies have created *cross-functional*, *cross-company teams*. For example, Nestlé's Purina pet food unit has a team of dozens of people working in Bentonville, Arkansas, the home base of Walmart. The Purina Walmart team members work jointly with their counterparts at Walmart to find ways to squeeze costs out of their distribution system. Working together benefits not only Purina and Walmart but also their shared, final consumers. This cross-company working to reduce logistics costs is becoming more usual at major retail groups across the world – Disney has recently established a team at Tesco's head office, for example.

Other companies partner through *shared projects*. For example, many large retailers conduct joint in-store programmes with suppliers. Home improvement stores can allow key suppliers to use their stores as a testing ground for new merchandising programmes. The suppliers spend time at the stores watching how their product sells and how customers relate to it. They can then create programmes specially tailored to the stores and their customers. Clearly, both the supplier and the customer benefit from such partnerships. The point is that all supply chain members must work together in the cause of bringing value to final consumers.

Third-party logistics

Although most big companies love to make and sell their products, many loathe the associated logistics 'grunt work'. They detest the bundling, loading, unloading, sorting, storing, reloading, transporting, customs clearing and tracking required to supply their factories and get products to their customers. They hate it so much that many firms outsource some or all of their logistics to **third-party logistics (3PL) providers** such as DHL Logistics, FedEx Logistics and UPS Business Solutions.

Third-party logistics (3PL) provider An independent logistics provider that performs any or all of the functions required to get a client's product to market.

For example, UPS knows that, for many companies, logistics can be a real nightmare. But logistics is exactly what UPS does best. To UPS, logistics is today's most powerful force for creating competitive advantage. 'We love logistics', proclaims UPS. 'It makes running your business easier. It can make your customers happier. It's a whole new way of thinking.' As one UPS ad concludes: 'We love logistics. Put UPS to work for you and you'll love logistics too.'

At one level, UPS can simply handle a company's package shipments. But on a deeper level, UPS can help businesses sharpen their own logistics systems to cut costs and serve customers better. At a still deeper level, companies can let UPS take over and manage part or all of their logistics operations. For example, consumer electronics maker Toshiba lets UPS handle its entire laptop PC repair process – lock, stock and barrel. And UPS not only delivers packages for online shoe and accessories marketer Zappos, it also manages Zappos's important and complex order returns process in an efficient, customer-pleasing way.[26]

3PL providers like UPS can help clients tighten up sluggish, overstuffed supply chains; slash inventories; and get products to customers more quickly and reliably. According to one report, 86 per cent of *Fortune* 500 companies use 3PL (also called *outsourced logistics* or *contract logistics*) services. General Motors, P&G and Walmart each use 50 or more 3PLs.[27]

Companies use third-party logistics providers for several reasons. First, because getting the product to market is their main focus, using these providers makes the most sense, as they can often do it more efficiently and at lower cost. Outsourcing logistics typically results in a 10 to 25 per cent cost saving.[28] Second, outsourcing logistics frees a company to focus more intensely on its core business. Finally, integrated logistics companies understand increasingly complex logistics environments.

Learning outcomes review

Some companies pay too little attention to their distribution channels; others, however, have used imaginative distribution systems to gain a competitive advantage. A company's channel decisions directly affect every other marketing decision. Management must make channel decisions carefully, incorporating today's needs with tomorrow's likely selling environment.

Objective 1 Explain why companies use marketing channels and discuss the functions these channels perform (pp. 351–355)

In creating customer engagement and value, a company can't go it alone. It must work within an entire network of partners – a value delivery network – to accomplish this task. Individual companies and brands don't compete; their entire value delivery networks do.

Most producers use intermediaries to bring their products to market. They forge a *marketing channel* (or *distribution channel*) – a set of interdependent organisations involved in the process of making a product or service available for use or consumption by the consumer or business user. Through their contacts, experience, specialisation and scale of operation, intermediaries usually offer the firm more than it can achieve on its own.

Marketing channels perform many key functions. Some help *complete transactions* by gathering and distributing *information* needed for planning and aiding exchange, developing and spreading persuasive *communications* about an offer, performing *contact* work (finding and communicating with prospective buyers), *matching* (shaping and fitting the offer to the buyer's needs), and entering into *negotiation* to reach an agreement on price and other terms of the offer so that ownership can be transferred. Other functions help to *fulfil* the completed transactions by offering *physical distribution* (transporting and storing goods), *financing* (acquiring and using funds to cover the costs of the channel work) and *risk taking* (assuming the risks of carrying out the channel work.

Objective 2 Discuss how channel members interact and how they organise to perform the work of the channel (pp. 355–362)

The channel will be most effective when each member assumes the tasks it can do best. Ideally, because the success of individual channel members depends on overall channel success, all channel firms should work together smoothly. They should understand and accept their roles, coordinate their goals and activities, and cooperate to attain overall channel goals. By cooperating, they can more effectively sense, serve and satisfy the target market.

In a large company, the formal organisation structure assigns roles and provides needed leadership. But in a distribution channel composed of independent firms, leadership and power are not formally set. Traditionally, distribution channels have lacked the leadership needed to assign roles and manage conflict. In recent years, however, new types of channel organisations have appeared that provide stronger leadership and improved performance.

Objective 3 Identify the major channel alternatives open to a company (pp. 362–365)

Channel alternatives vary from direct selling to using one, two, three or more intermediary *channel levels*. Marketing channels face continuous and sometimes dramatic change. Three of the most important trends are the growth of *vertical*, *horizontal* and *multi-channel marketing systems*. These trends affect channel cooperation, conflict and competition.

Channel design begins with assessing customer channel service needs and company channel objectives and constraints. The company then identifies the major channel alternatives in terms of the *types* of intermediaries, the *number* of intermediaries and the *channel responsibilities* of each. Each channel alternative must be evaluated according to economic, control and adaptive criteria. *Channel management* calls for selecting qualified intermediaries and motivating them. Individual channel members must be evaluated regularly.

Objective 4 Explain how companies select, motivate and evaluate channel members (pp. 365–368)

Producers vary in their ability to attract qualified marketing intermediaries. Some producers have no trouble signing up channel members, whereas others have to work hard to line up enough qualified intermediaries. When selecting intermediaries, the company should evaluate each channel member's qualifications and select those that best fit its channel objectives.

Once selected, channel members must be continuously motivated to do their best. The company must sell not only *through* the intermediaries but also *with* them. It should forge strong partnerships with channel members to create a marketing system that meets the needs of both the manufacturer *and* the partners.

Objective 5 Discuss the nature and importance of marketing logistics and integrated supply chain management (pp. 368–375)

Marketing logistics (or *physical distribution*) is an area of potentially high cost savings and improved customer satisfaction. Marketing logistics addresses not only *outbound logistics* but also *inbound logistics* and *reverse logistics*. That is, it involves the entire *supply chain management* – managing value-added flows between suppliers, the company, resellers and final users. No logistics system can both maximise customer service and minimise distribution costs. Instead, the goal of logistics management is to provide a *targeted* level of service at the least cost. The major logistics functions are *warehousing*, *inventory management*, *transport* and *logistics information management*.

The *integrated supply chain management concept* recognises that improved logistics requires teamwork in the form of close working relationships across functional areas inside the company and across various organisations in the supply chain. Companies can achieve logistics harmony among functions by creating cross-functional logistics teams, integrative supply manager positions, and senior-level logistics executive positions with cross-functional authority. Channel partnerships can take the form of cross-company teams, shared projects and information-sharing systems. Today, some companies are outsourcing their logistics functions to third-party logistics (3PL) providers to save costs, increase efficiency, and gain faster and more effective access to global markets.

Navigating the key terms

Objective 1

Value delivery network (p. 351)
Marketing channel (distribution channel) (p. 352)
Channel level (p. 354)
Direct marketing channel (p. 355)
Indirect marketing channel (p. 355)

Objective 2

Channel conflict (p. 355)
Conventional distribution channel (p. 356)
Vertical marketing system (VMS) (p. 356)
Corporate VMS (p. 356)
Contractual VMS (p. 357)
Franchise organisation (p. 357)
Administered VMS (p. 358)
Horizontal marketing system (p. 358)
Multi-channel distribution system (p. 359)
Disintermediation (p. 360)

Objective 3

Marketing channel design (p. 362)
Intensive distribution (p. 364)
Exclusive distribution (p. 364)
Selective distribution (p. 364)

Objective 4

Marketing channel management (p. 365)

Objective 5

Marketing logistics (physical distribution) (p. 368)
Supply chain management (p. 369)
Distribution centre (p. 371)
Multimodal transport (p. 373)
Integrated logistics management (p. 373)
Third-party logistics (3PL) provider (p. 375)

Discussion and critical thinking

Discussing the concepts

12.1 Compare and contrast upstream and downstream partners in a company's supply chain. Explain why *value delivery network* might be a better term to use than *supply chain*. (AACSB: Communication)

12.2 Discuss direct marketing channels and indirect marketing channels. Provide examples of each type of marketing channel. (AACSB: Communication; Reflective thinking)

12.3 What channel design decisions do manufacturers face for maximum effectiveness?

12.4 Name and describe the three strategies available when determining the number of marketing intermediaries. (AACSB: Communication; Reflective thinking)

12.5 List and briefly describe the major logistics functions. Provide an example of a decision a logistics manager would make for each major function. (AACSB: Communication; Reflective thinking)

Critical-thinking exercises

12.6 Form a small group and research the distribution challenges faced by companies expanding into emerging international markets such as China, Africa and India. Develop a multimedia presentation on how one company overcame these challenges. (AACSB: Communication; Reflective thinking; Use of IT)

12.7 The term *last mile* is often used in the telecommunications industry. Research what is going on in this industry and how the *last mile* has evolved in recent years, and then predict where it is heading in the future. What companies are major players in the last mile, and how does the concept of net neutrality fit in? (AACSB: Communication; Reflective thinking)

12.8 Multimodal transport is a crucial component of the logistics industry. Search the internet to find the largest multimodal facilities in the Europe. Review the key features offered at these terminals and report your findings on their similarities and differences. (AACSB: Communication; Use of IT; Reflective thinking)

Mini cases and applications

Online, mobile and social media marketing: self-publishing

Do you think that you have what it takes to write a bestselling novel? In the past, authors had to go through traditional publishing houses to print and distribute their work, but technology has turned the publishing industry on its head. Although aspiring authors could always self-publish a book, selling it through the traditional channels – book shops – was only a pipe dream for most. But that has all changed thanks to the internet and social media. Amazon's Kindle Direct Publishing is a popular platform for self-publishers, but other online services offer similar opportunities with hundreds of thousands of authors and titles. For example, Amanda Hocking's self-published e-book sales caught the attention of a publisher, and now the former social worker is a millionaire. Self-published books have grown nearly 300 per cent in less than ten years, with the majority being e-books. A large proportion of readers worldwide now own e-readers, such as Kindles and iPads. That creates opportunities for anyone wanting to distribute their works to these avid readers. For example, after being turned away by traditional publishers, author Christine Bronstein created her own online social network to promote her book, *Nothing But the Truth, So Help Me God*: *51 Women Reveal the Power of Positive Female Connection*, which launched on Amazon and Barnes & Noble sites.

12.9 Visit a self-publishing site such as Amazon's Kindle Direct (https://kdp.amazon.com/) and create a presentation to give to aspiring authors about distributing their works this way. (AACSB: Communication; Use of IT; Reflective thinking)

12.10 What other industries' channels of distribution have been impacted dramatically by online, mobile and social media? (AACSB: Communication; Reflective thinking)

Marketing ethics: supplier safety

Fast-fashion retailers, such as Zara, H&M and others, demand short lead times and quick changes from suppliers, to feed consumers' demand for changing fashions. Retailers used to place orders almost a year in advance and suppliers produced high volumes cheaply. But fast-fashion retailers now offer new stock in their stores almost weekly to get customers coming back. Additionally, many retailers are placing small initial orders, and if styles take off with consumers, they quickly re-order – a tactic known as 'chasing'. Appropriate stock levels in the clothing industry have always been difficult to predict, but it appears that retailers are pushing this worry back onto suppliers. Bangladesh is the second-largest clothing producer for US and European brands and retailers. However, fires and building collapses due to lax safety concerns killed thousands of workers and even some of the factory executives. Unlike more developed countries, the industry in Bangladesh is loosely regulated. That, coupled with the demands to feed the fast-fashion industry, is alleged to be the cause of these tragedies. As a result, US and European brands and retailers are coming under greater scrutiny concerning supplier issues. IndustriALL, a Geneva-based international union, organised a proposal to enhance supplier safety in Bangladesh that many, but not all, Western retailers/brands accepted.

12.11 Write a brief report on the Bangladesh Accord on Fire and Building Safety proposed by IndustriALL. Which retailers signed the agreement and why have some retailers refused to sign the pact? (AACSB: Communication; Reflective thinking)

12.12 Should retailers be responsible for safety conditions in garment factories in other countries? (AACSB: Communication; Reflective thinking; Ethical reasoning)

Marketing by numbers: Tyson expanding distribution

Tyson Foods is the largest US beef and chicken supplier, processing more than 100,000 head of cattle and 40-plus million chickens weekly. Primary distribution channels are supermarket meat departments. However, the company is now expanding distribution into convenience stores. There are almost 150,000 petrol stations and convenience stores where the company would like to sell hot buffalo chicken bites near the checkout. This is a promising channel, as sales are growing considerably at these retail outlets and profit margins on prepared foods are higher than selling raw meat to grocery stores. Tyson will have to hire 10 more sales representatives at a salary of $45,000 each to expand into this distribution channel because many of these types of stores are independently owned. Each convenience store is expected to generate an average of $50,000 in revenue for Tyson. Refer to Appendix 2 to answer the following questions.

12.13 If Tyson's contribution margin is 30 per cent on this product, what increase in sales will it need to break even on the increase in fixed costs to hire the new sales reps? (AACSB: Communication; Analytical reasoning)

12.14 How many new retail accounts must the company acquire to break even on this tactic? What average number of accounts must each new rep acquire? (AACSB: Communication; Analytical reasoning)

Video case

Progressive

see www.pearsoned.co.uk/kotler

Progressive has attained top-tier status in the insurance industry by focusing on innovation. Progressive was the first company to offer drive-in claims service, instalment payment of premiums, and 24/7 customer service. But perhaps Progressive's most innovative moves involve its channels of distribution. Whereas most insurance companies distribute via intermediary agents or direct-to-consumer methods, Progressive was one of the first to see value in doing both. In the late 1980s, it augmented its agency distribution with a direct 800-number channel.

Two decades ago, Progressive moved into the digital future by becoming the first major insurer to launch a website. Soon after, it allowed customers to buy car insurance policies online in real time. Today, customers can use Progressive's website to do everything from managing their own account information to reporting claims directly. Progressive even offers one-stop concierge claim service.

After viewing the Progressive video segment, answer the following questions about marketing channels.

12.15 Apply the concept of the supply chain to Progressive.

12.16 Using the model of consumer and business channels found in the chapter, sketch out as many channels for Progressive as you can. How does each of these channels meet distinct customer needs?

12.17 Discuss the various ways that Progressive has had an impact on the insurance industry.

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Company case

Thorntons: a journey to revitalise its brand

Thorntons is a household name chocolate brand and independent chocolate retailer in the UK with 228 stores and 186 franchise shops. Among them, 16 shops are cafés. It was established in 1911 and it now one of the best-known brands on Britain's high streets. It is listed on the London Stock Exchange. It was bought by Ferrero SpA in 2015 for £112 million. Unlike Cadburys that predominantly relies upon retailers for its distribution strategy, traditionally, Thorntons sells its product directly to consumers through its own or franchise shops, and increasingly more through its own online shop and third parties, such as supermarkets.

Thorntons has a number of different types of competitors, including national brands, such as Cadbury, Mars, Galaxy, Kit Kat, Snickers and Milky Bar, and also independent chocolate retailers, such as Hotel Chocolat, which can be considered as the closest and most immediate competition, as it has a similar business model of shops selling exclusively its own branded chocolate products. Hotel Chocolat opened its first shop in 2004, and has been experiencing fast growth. It has 100 shops, cafés and restaurants and is now competing directly with Thorntons in the high streets, shopping centres and malls. It is currently smaller than Thorntons, but more profitable.

Channel strategy

Traditionally Thorntons' main growth strategy was expanding through opening new stores. Although the expansion helped the company to increase the turnover to £214.8 million in 2009, the operating profit decreased to only £7.94 million. Thorntons' sales are generally highly impacted by seasonality, with a significant percentage of sales (it is reported about 35 per cent) occurring during the weeks leading to Christmas, and about 10 per cent before Easter. This puts a great deal of pressure on the running of the many physical stores in the high streets or shopping centres. Besides selling directly through its own shops, Thorntons also sells its products widely through supermarkets and discounted retailers. This has been a deliberate choice to overcome the overcapacity issue of its factory, built in more ambitious times. This decision to sell more through third-party retailers was made due to the difficulty of mail order, because of the product's fragility and freshness. This put Thorntons in direct competition with national brands such as Lindt at the premium level and Cadbury at the mass-market level. However, there was a worry that Thorntons failed to distinguish itself in the premium market and that its slogan – 'The Art of the Chocolatier' – had become vacuous. As noted by one industry observer, 'It's probably not the present you'd give to impress a girlfriend. You might give it to your mother for Mother's Day'. This expansion of distribution to supermarkets and other retailers has resulted in channel cannibalisation. As observed by an industry analyst at the time, 'the more you can get your Thorntons chocolate in your local Tesco or Sainsbury, the less you'll need to go to a Thorntons shop'. In addition, it undermined the premium and exclusive image of the brand. It was suggested that Thorntons' problem was caused by its failure to adapt to changing tastes towards darker, less sugary flavours.

To turn things around, a new plan was needed. The decrease in profitability prompted Thorntons to conduct a strategic review in 2011. One idea was to focus on British heritage and tradition, and an ultimate push toward international expansion. This idea was rejected. The result of the review was a decision to shift toward a more diversified distribution strategy and to close between 120 and 180 of its shops, with a continuous emphasis on selling through supermarkets and other retailers. It also wanted to reduce its over-confidence on seasonal events such as Christmas, Easter and Valentine's Day, to develop its year-round relevance by introducing new gift ranges for other more personal occasions such as birthdays, anniversaries and congratulations. Another major part of the new strategy was to improve its store merchandising, displays and customer service. As its CEO, Jonathan Hart, said at the time, 'our goal is to refocus the business across all channels and seek to deliver industry competitive returns over the next three to five years'.

Competition from Hotel Chocolat

However, Thorntons faced some new challenges. The biggest one came from its closest competitor: Hotel Chocolat. The competition between the two has long been intense. For example, back in 2007, Thorntons' then top chocolate maker was forced to resign after being caught squashing truffles in one of Hotel Chocolat's stores. Unlike Thorntons' retrenching, Hotel Chocolat has been experiencing rapid growth over the recent years. One of the major marketing strategies of Hotel Chocolat is the focus on emotional experience. According to its CEO, 'it was aspirational. I was trying to come up with something that expressed the power that chocolate has to lift you out of your current mood and take you to a better place. It's an emotionally charged food product that people are buying for the taste and the way it makes them feel.' It wants to make it an emotional experience for people to shop for and eat chocolate, and make people feel good about eating it. To achieve this aspiration, its products need a high cocoa content, and the store needs to feel like a 'sanctuary' providing 'escapism' for customers. In terms of distribution strategy, Hotel Chocolat has also been careful and selective by selling through its own stores or selected premium channel partners, such as John Lewis and Waitrose, to match its brand values. This distribution strategy aims to 'make people feel good about buying chocolate, so not in a commoditised way. . . . if they become too widely available there's a risk that could diminish', according to its CEO, Angus Thirlwell.

This strategy has paid off nicely for Hotel Chocolat. With the first shop being opened in 2004, in just over a decade Hotel Chocolat now has 103 shops as well as cafés and restaurants. And Hotel Chocolat has been much more profitable than Thorntons. For example, for the second half of 2014, Hotel Chocolat reported a £6.6 million pre-tax profit, beating Thorntons' £6.5 million, having just 81 stores at the time compared with Thorntons' 242 stores.

To the contrary, Thorntons' products have been widely available through mass distribution channels. According to some critics, many of its stores appear more akin to a discounter and a place for bargain hunting, due to the various sales promotions and discounts it offers. Hence, its own shops offer no obvious added value for shoppers as compared to buying its products in supermarkets. This has resulted in a positioning problem for Thorntons' products: appearing mass-market but with premium pricing.

New era

In June 2015, Italian company Ferrero SpA, the second-largest chocolate and confectionery company in the world, bought Thorntons for £112 million with the aim to broaden its roots and to continue its previous success in the UK market. Ferrero SpA owns some iconic brands, such as Ferrero Rocher, Nutella, Kinder Eggs, Tic Tac and Rafaello. The deal enables Ferrero to become the fourth-largest chocolate brand in the UK with a near 7 per cent UK market share. However, Ferrero had some important decisions to make regarding Thorntons' future strategy. The key one was positioning. According to some analysts, it was a decision between continuing the existing strategy (i.e., reducing the number of shops with stronger focus on wholesale sales through other retailers) or trying to move it more upmarket. Or in the words of an independent analyst, it was a choice between 'Motel Chocolate' or Hotel Chocolat.

Meanwhile the whole industry is facing some thorny issues. The biggest threat is the shrinking of the market size in the UK, particularly over the recent years. The market size in terms of sales monetary amount has stagnated with some decrease in amount of chocolate being sold. Due to growing awareness of the health concerns associated with eating sugar and rising child obesity, people are eating less chocolate, particularly those with more sugar. This has helped boosts the sales of premium dark chocolate, such as those made by Lindt Excellence and Hotel Chocolat. At the same time, the costs of core ingredients of chocolate (e.g., cocoa and palm oil) have increased, which put manufacturers under pressure to either cut costs or increase prices. This has an important implication for the targeting and positioning of the chocolate brands: targeting the hungry impulse buyers or more health-conscious buyers who buy chocolates as luxury treats.

Effort to revitalise the brand

In 2016, a year after acquiring Thorntons, Ferrero decided to invest £4.9 million in media spend, including its first TV advert for six years to promote the relaunch of Thorntons. The purpose of this campaign was to change people's perception of the brand being too 'commoditised' and characterised by 'frequent deep-cut promotions', to build an emotional connection with customers through a refocus on craftsmanship and to appeal to younger consumers. It also invested in experiential marketing with the hope of building stronger brand loyalty by means of free sampling of Thorntons brands and other Ferrero brands in the run-up to Christmas 2016.

Meanwhile according to some analysts, because Thorntons has too many stores in the wrong locations, and it is expensive to run and maintain them, Thorntons has to slim down its estate and needs to consolidate its wholesale arm by focusing on building the supermarket channel. Meanwhile online sales, particularly for gift purchases, have increased both for Thorntons and its closest rival, Hotel Chocolat.

Questions for discussion

1 What are the distribution channel options available for Thorntons to sell its products? What are their pros and cons from both the company and customers' perspectives?

2. How do you evaluate Thorntons' decision to sell its products through intermediary retailers, such as supermarkets and discount stores, meanwhile closing down own stores?
3. How do you see the importance of direct online selling for Thorntons' future growth?
4. Considering the new strategic investment in branding by its parent company, what channel strategies you would suggest to Thorntons, and why?

Sources: Andrew Clark, 'Thorntons: why the chocolate-maker has gone into meltdown', *Guardian*, 8 May 2011, https://www.theguardian.com/business/2011/may/08/thorntons-chocolate-brand-goes-stale; Rosie Baker, 'Thorntons to close 180 stores and shift strategy', *Marketing Week*, 28 June 2011, https://www.marketingweek.com/2011/06/28/thorntons-to-close-180-stores-and-shift-strategy/; Katie Hope, 'The sticky dilemma facing chocolate firms', 26 June 2015, BBC, https://www.bbc.co.uk/news/business-33260415; Katie Hope, 'The man who built the Hotel Chocolat empire', BBC, 27 October 2014, https://www.bbc.co.uk/news/business-29689340; 'Thorntons shares jump 42% on £112m Ferrero offer', BBC, 22 June 2015, https://www.bbc.co.uk/news/business-33221033; Ian Fletcher, 'Chocolate sales plunge by £78m: 12 biggest names suffer slump amid health warnings over sugar and rising child obesity', *Daily Mail*, 2 October 2017, https://www.dailymail.co.uk/news/article-4939132/Chocolate-sales-plunge-78m.html; Charlotte Rogers, 'Ferrero commits £4.9m to Thorntons media push ahead of relaunch', *Marketing Week*, 5 August 2016, https://www.marketingweek.com/2016/08/05/ferrero-commits-4-9m-to-thorntons-media-push-ahead-of-relaunch/; Jack Torrance and Oliver Gill, 'Thorntons turns to supermarkets to halt £37.5m slump', *The Telegraph*, 19 August 2018, https://nam-dev-cdn.awspreprod.telegraph.co.uk/business/2018/08/19/thorntons-turns-supermarkets-halt-375m-slump/; Chloe Rigby, 'Thorntons sells more chocolate online – but less through stores and supermarkets', *Internet Retailing*, 2 March 2015, https://internetretailing.net/themes/themes/thorntons-sells-more-chocolate-online--but-less-through-stores-and-supermarkets-12718; 'Hotel Chocolat is selling more 'hedonistic' treats', BBC, 19 October 2016, https://www.bbc.co.uk/news/business-37701397; https://www.hotelchocolat.com/uk/about/Our-Story.html; https://www.hotelchocolat.com/uk/about/Our-Story.html, accessed May 2019.

Chapter Thirteen

Retailing and wholesaling

Chapter preview

We now look more deeply into the two major intermediary marketing channel functions: retailing and wholesaling. You already know something about retailing – retailers of all shapes and sizes serve you every day, both in stores and online. However, you probably know much less about the hoard of wholesalers working behind the scenes. In this chapter, we examine the characteristics of different kinds of retailers and wholesalers, the marketing decisions they make and trends for the future.

First let's read about how Waitrose has made marketing decisions in an increasingly competitive sector.

Learning outcomes

- **Objective 1** You will be able to explain the role of retailers in the distribution channel and describe the major types of retailers.
  Retailing (pp. 387–393)
- **Objective 2** You will be able to describe the major retailer marketing decisions.
  Retailer marketing decisions (pp. 393–399)
- **Objective 3** You will be able to discuss the major trends and developments in retailing.
  Retailing trends and developments (pp. 399–405)
- **Objective 4** You will be able to explain the major types of wholesalers and their marketing decisions.
  Wholesaling (pp. 405–410)

Waitrose: defending against the discounters

Since the 2008 financial crisis, the competitive landscape for the supermarket sector in the UK has changed dramatically. The sector used to be dominated by the big four: Tesco, Sainsbury's, Asda and Morrisons, followed by some smaller brands with unique differentiation, such as Waitrose (known for being upmarket) and Co-operative (known for being convenient). However, due to squeezed disposable income, the big four have faced increasing pressure from German discount chains Aldi and Lidl, which have both increased their market share, mainly at the expense of the big four, whose combined market share dropped from 76.3 per cent in 2012 to just 69.3 per cent in 2017.

As of 2018, after the big four, Aldi was ranked as the fifth largest supermarket in the UK with 7 per cent market share, which is not far behind Morrisons (the fourth largest with 10.4 per cent market share). Lidl was ranked as the seventh (5.2 per cent market share) behind Co-op (6.3 per cent). Waitrose was ranked as the eighth largest supermarket with a market share of 5.1 per cent. Waitrose was overtaken by Aldi in 2015 and Lidl in 2017 in terms of market share. The business model of the discounters is to offer deep price discounts on almost all items by focusing on a narrow range of choice and copycat versions of high-street lines.

Although in terms of market share ranking, Waitrose seems to be the main victim of the aggressive expansion of the German discounters, Waitrose's market share has been increasing and, more recently, stabilising. In terms of sales revenue, Waitrose's sales revenue had increased from £4.3 billion in 2009 to £6.3 billion by 2017. And as of December 2018, it has 349 Waitrose stores in the UK, representing an increase of 151 stores since 2009. Therefore, it is safe to say that up to now Waitrose has managed to fend off the game-changing threat from the German discounters. So what factors have contributed to Waitrose's continued success in such a turbulent and hostile environment?

Positioning

Waitrose, founded in 1904, is a British supermarket with an 'upmarket' reputation. It is currently the food retail division of the John Lewis Partnership. It used to concentrate its business in the south of England and started to expand nationally from the mid-2000s. It is generally perceived that Waitrose's main customers are from the upper-middle class, as compared to Marks & Spencer's middle-class targeting, and the mass-marketing of the big four. Unlike the typical supermarkets, the size of Waitrose stores tends to be smaller, with a limited range of choice but consistent high product quality.

This positioning is further strengthened and enacted by Waitrose's location strategy. Typically, Waitrose stores are located in affluent residential areas. According to some estate agents, the house prices in areas where there is a Waitrose store were about 25 per cent higher than the UK average, with a 50 per cent premium in London in Waitrose postcodes. This is what people call the 'Waitrose effect'. However, it is not clear whether Waitrose causes the house price premium, or if Waitrose follows affluent customers in opening its new stores. Some people believe that it is a virtual circle. On one hand, Waitrose invests in stores in the areas that match the profile of its target customers; on the other hand, the opening of a Waitrose is seen by many as a statement that the area is a pleasant place to live and 'a nice middle-class area where you are bound to find excellent schools and good coffee shops', hence enhancing the location's desirability.

For its food products, it emphasises quality and freshness, which come with premium pricing. This positioning caters very well for the upper-middle and middle classes of Britain. Although premium and upmarket pricing is largely true for the fresh food products and its own private labels, it is more difficult to justify the premium pricing for the packaged goods of the same manufacturers' brands and to convince the shoppers to pay extra. However, some customers are still willing to pay more for the same thing from Waitrose in return for a better shopping environment than other supermarkets.

After the financial crisis in 2008, Waitrose acknowledged the potential weakness of its upmarket brand perception and its limited product range for family shopping trips. According to its then managing director, Mark Price, Waitrose should not be known as 'upmarket' any more, as the price of many of the brands of packaged goods is similar to, if not cheaper, than those of Tesco, thanks to Waitrose's decision to price-match with Tesco from 2010. In addition, in 2009 it introduced and later expanded its Essential line (its value range of products with simple white-based packaging) with a tagline 'quality you'd expect at prices you wouldn't'. This line has been highly successful and by 2016 had over 2,000 items and £1.1 billion annual sales. Meanwhile it maintains its more exclusive Heston Blumenthal range and in 2015 launched Waitrose 1 (with a tagline of 'The very best of Waitrose'), a premium market food brand. Other major product lines offered include Waitrose LOVE Life (the healthy range of Waitrose products, mainly ready meals with controlled and counted calories) and Waitrose Duchy Organic (now the UK's largest own-label organic brand and the second largest UK organic brand overall).

To further change the perception that Waitrose was too expensive for a family shopping trip, Waitrose expanded its product categories with up to 25,000 stock keeping units (or SKUs), while (unlike bigger supermarkets) offering a smaller range of choice for each SKU.

Meanwhile, Waitrose did not overlook its essential and fundamental differentiation: quality service and customer experience. Indeed, simultaneously with recent expansion, Waitrose invested heavily in modernising its existing stores and training its staff. In 2017, Waitrose was rated the best supermarket for the third year in a row based on customers' satisfaction levels, according to *Which?*'s supermarket annual survey. It was rated particularly highly for its staff availability and helpfulness.

Waitrose introduced and later expanded its Essential line with a tagline 'quality you'd expect at prices you wouldn't'. This line has been highly successful and by 2016 had over 2,000 items and £1.1 billion annual sales.
Source: Clynt Garnham Food & Drink/Alamy Stock Photo

Responding to the rise of discounters

Against the rise of the discounters in the UK grocery market, it seems natural for other supermarkets to respond with price drops and discounts to win back customers. However, Waitrose did 'the opposite of what everyone else is doing'. According to Waitrose, instead of lowering its prices, its strategy was to favour promotions against permanent price cuts and providing value to its loyalty scheme (myWaitrose) members who account for 70 per cent of its sales. At the same time, it also acknowledges the importance of staying competitive on price by price matching with Tesco for national brands and with Sainsbury's for own brands. More importantly, it aims to be 'everything that the discounters aren't' by focusing on service and customer in-store experience, with staff training and a major push into high-quality fresh food and food-on-the-go. For example, it has introduced new features in some of its stores, including in-store tasting (particularly during festive seasons such as Christmas) and a stand-alone fruit juice bar. And more recently, it has reconfirmed its focus on customer experience by raising product quality, expanding its health and well-being offering, and increasing the number of in-store specialists and 'food ambassadors' to advise customers. Waitrose's recent brand campaign, the 'Beautifully Simple' campaign, focused back on food quality by showcasing the quality of its ingredients, aiming to inspire customers to cook more often using quality fresh ingredients with a tagline 'Great food is simple when you start with the best'. The campaign employed traditional media including TV, print, digital display and outdoor, as well as social media. The social media campaign included the use of Facebook Canvas, image carousels and hyperlapse videos to share the recipes. It involved a user-generated content competition with #beautifullysimple on Instagram and Twitter to encourage customers to share their own dish photos with a chance of winning prizes, including vouchers for two for a day course at the Waitrose Cookery School, plus a set of kitchenware. The prizes can also be won by customers leaving a comment and a photo of their recreation showing the recipe on Waitrose's dedicated 'beautifully simple' competition posts on Facebook. Three winners were selected each fortnight for entries between 18 April and 13 June 2018.[1]

The Waitrose story sets the stage for examining the fast-changing world of today's resellers. This chapter looks at *retailing* and *wholesaling*. In the first section, we look at the nature and importance of retailing, the major types of store and non-store retailers, the decisions retailers make and the future of retailing. In the second section, we discuss these same topics as they apply to wholesalers.

Retailing

What is retailing? We all know that Tesco, Waitrose, Aldi, Carrefour and Asda are retailers, but so are Amazon, the local Premier Inn and a private doctor seeing patients. **Retailing** includes all the activities involved in selling products or services directly to final consumers for their personal, non-business use. Many institutions – manufacturers, wholesalers and retailers – do retailing. But most retailing is done by **retailers**, businesses whose sales come *primarily* from retailing. Retailing plays a very important role in most marketing channels. In 2017, retailers accounted for more than £400 billion of sales to final consumers.[2]

Author comment

You already know a lot about retailers. You deal with them every day – store retailers, service retailers, online and mobile retailers, and others.

Connecting brands with consumers

Retailers connect brands with consumers in the final phases of the buying process and at the point of purchase. In fact, many marketers are now embracing the concept of **shopper marketing**, focusing the entire marketing process – from product and brand development to logistics, promotion and merchandising – towards turning shoppers into buyers as they approach the point of sale. Of course, every well-designed marketing effort focuses on customer buying behaviour. What differentiates the concept of shopper marketing is the suggestion that these efforts should be coordinated around the shopping process itself.

Shopper marketing builds around what P&G calls the 'First Moment of Truth' – the critical three to seven seconds that a shopper considers a product on a store shelf. However, the dramatic growth of online and mobile shopping has added new dimensions to shopper marketing. The retailing 'moment of truth' no longer takes place only in stores. Instead, Google defines a 'zero moment of truth' when consumers begin the buying process by searching for and learning about products online.[3]

Today's consumers are increasingly *omni-channel buyers*, who make little distinction between in-store and online shopping and for whom the path to a retail purchase runs across multiple channels. For these buyers, a particular purchase might consist of researching a product online and buying it from an online retailer without ever setting foot in a retail store. Alternatively, they might use a smartphone to research a purchase on the fly or even while in retail store aisles. For example, it's common to see a consumer examining an item at John Lewis while at the same time using a mobile app to look for coupons or check product reviews and prices at Amazon or other online channels.

Thus, these days, shopper marketing and the 'point of purchase' go well beyond in-store buying. They involve consumers working across multiple channels as they shop. Influencing consumers' buying decisions calls for **omni-channel retailing**, creating a seamless cross-channel buying experience that integrates in-store, online and mobile shopping.[4]

Although most retailing is still done in retail stores, in recent years direct and online retailing have been growing much faster than store retailing. We discuss direct, online and omni-channel retailing in detail later in this chapter and in Chapter 17. For now, we will focus on store retailing.

Retailing All the activities involved in selling goods or services directly to final consumers for their personal, non-business use.

Retailer A business whose sales come *primarily* from retailing.

Shopper marketing Focusing the entire marketing process on turning shoppers into buyers as they approach the point of sale, whether during in-store, online or mobile shopping.

Omni-channel retailing Creating a seamless cross-channel buying experience that integrates in-store, online, and mobile shopping.

Types of retailers

Retail stores come in all shapes and sizes – from your local hairstyling salon or family-owned restaurant to national speciality chain retailers such as JD Sports or Currys PC World to supermarkets such as Tesco or Asda. The most important types of retail stores are described in Table 13.1 and discussed in the following sections. They can be classified in terms of several characteristics, including the *amount of service* they offer, the breadth and depth of their *product lines*, the *relative prices* they charge and how they are *organised*.

Table 13.1 Major store retailer types

Type	Description	Examples
Speciality store	A store that carries a narrow product line with a deep assortment, such as clothing stores, sporting-goods stores, furniture stores, florists and bookstores.	Charles Tyrwhitt (men's clothes), JD Sports (sporting goods), Lakeland (specialised kitchenware)
Department store	A store that carries several product lines – typically clothing, home furnishings and household goods – with each line operated as a separate department managed by specialist buyers or merchandisers.	Macy's (US), House of Fraser (UK), Le Bon Marché (France), Karstadt (Germany)
Supermarket	A relatively large, low-cost, low-margin, high-volume, self-service operation designed to serve the consumer's total needs for grocery and household products.	Tesco, Sainsbury's (UK), Auchan, Carrefour (France), Aldi, Metro, Lidl (Germany)
Convenience store	A relatively small store located near residential areas, open long hours seven days a week, and carrying a limited line of high-turnover convenience products at slightly higher prices.	Tesco Express (UK), Spar (throughout Europe), Albert Heijn To Go (Netherlands)
Discount store	A store that carries standard merchandise sold at lower prices with lower margins and higher volumes.	Poundland, B&M (UK), Dia (Carrefour's hard discount stores across Europe)
Off-price retailer	A store that sells merchandise bought at less-than-regular wholesale prices and sold at less than retail. These include *factory outlets* owned and operated by manufacturers; *independent off-price retailers* owned and run by entrepreneurs or by divisions of larger retail corporations; and *warehouse* (*or wholesale*) *clubs* selling a limited selection of brand-name groceries, appliances, clothing and other goods at deep discounts to consumers who pay membership fees.	Mikasa (factory outlet), Superdrug (UK and Ireland), Costco, Sam's Club, BJ's Wholesale Club (warehouse clubs in US and UK), TK Maxx (UK and Europe), Gap Outlet (UK and Europe)
Superstores	A very large store traditionally aimed at meeting consumers' total needs for routinely purchased food and non-food items. This category includes *supercentres*, combined supermarket and discount stores and *category killers*, which carry a deep assortment in a particular category.	Tesco Superstores (UK), Auchan and Carrefour hypermarkets (Europe), Walmart Supercenter, SuperTarget, Meijer (US discount stores); Staples (UK and Europe), Toysmith (category killer)

Amount of service

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

Self-service retailers serve customers who are willing to perform their own *locate-compare-select* process to save time or money. Self-service is the basis of all discount operations and is typically used by retailers selling convenience goods (such as supermarkets) and nationally branded, fast-moving shopping goods (such as Tesco or Auchan). *Limited-service retailers*, such as Currys PC World or Halfords (electrical goods, motoring and cycling products), provide more sales assistance because they carry more shopping goods about which customers need information. Their increased operating costs result in higher prices.

Full-service retailers, such as high-end speciality stores (for example, Goldsmiths or Le Creuset) and first-class department stores (such as John Lewis or Harrods), assist customers in every phase of the shopping process. Full-service stores usually carry more speciality goods for which customers need or want assistance or advice. They provide more services, which results in much higher operating costs. These higher costs are passed along to customers as higher prices.

Speciality store A retail store that carries a narrow product line with a deep assortment within that line.

Department store A retail store that carries a wide variety of product lines, each operated as a separate department managed by specialist buyers or merchandisers.

Supermarket A large, low-cost, low-margin, high-volume, self-service store that carries a wide variety of grocery and household products.

Convenience store A small store, located near a residential area, that is open long hours seven days a week and carries a limited line of high-turnover convenience goods.

Product line

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

By contrast, **department stores** carry a wide variety of product lines. In recent years, middle-market department stores have been squeezed between more focused and flexible speciality stores on the one hand and more efficient, lower-priced discounters on the other. In response, many have added promotional pricing to meet the discount threat. Others have stepped up the use of store brands and single-brand *shop-in-shop* concepts to compete with speciality stores. Still others are trying direct and online selling. Service remains the key differentiating factor. Retailers such as John Lewis, Harrods, Harvey Nichols and other high-end department stores are doing well by emphasising exclusive merchandise and high quality service.

Supermarkets are the most frequently visited type of retail store. Today, however, they are facing slow sales growth because of slower population growth and an increase in competition from discounters (Aldi, Lidl, Iceland) on the one hand and speciality food stores (Whole Foods Market) on the other.[5] Traditional supermarkets in the UK (Tesco, Sainsbury's) have been hit hard by.

In the battle for 'share of stomachs,' some supermarkets are competing head-on with large discounters such as Costco and Aldi by cutting costs, establishing more-efficient operations and lowering prices. Other supermarkets have moved upmarket, providing improved store environments and higher-quality food offerings, such as from-scratch bakeries, gourmet deli counters, natural foods and fresh seafood departments. Still others are introducing their own smaller, fresh-format stores that compete with higher-end speciality grocers. These fresh-format stores cater to customers seeking health and wellness and the ease of shopping in smaller, warmer environments. They specialise in fresh produce and high-quality prepared foods – all at affordable prices.

Convenience stores are small stores that carry a limited line of high-turnover convenience goods. For example, Tesco Express and Sainsbury's Local are chains of convenience stores operated by the major supermarket companies, with the aim of allowing consumers to do local 'top-up' shopping as well as their main shop at a supermarket or superstore. The big companies have purchased small chains of local convenience outlets and re-branded them, as well as opening new sites and locating at petrol stations. Other convenience stores are operated as independent ventures or as small regional chains.

Sainsbury's Locals are convenience stores that allow consumers to do local 'top-up' shopping as well as their main shop at a supermarket or superstore.

Source: Justin Kase zsixz/Alamy Stock Photo

Pets at Home store is a category killer retailer, the largest pet supplies retailer in the UK.

Source: Casper Douglas/Shutterstock

Superstores are much larger than regular supermarkets and offer a large assortment of routinely purchased food products, non-food items and services. These discount retailers offer *supercentres*, very large combination food and discount stores. Recent years have also seen the explosive growth of superstores that are actually giant speciality stores, the so-called **category killers** (e.g., B&Q, Toysmith, Pets at Home). They feature huge stores that carry a very deep assortment of a particular line with a knowledgeable staff. Category killers are prevalent in a wide range of categories, including electronics, home-improvement products, books, baby products, toys and sporting goods. They are particularly significant channels of distribution in the United States.

Finally, for many retailers, the product line is actually a service. **Service retailers** include hotels, banks, airlines, restaurants, colleges, hospitals, cinemas, tennis clubs, bowling alleys, repair services, hair salons and dry cleaners. In many countries, service retailers are growing faster than product retailers.

Superstore A store much larger than a regular supermarket that offers a large assortment of routinely purchased food products, non-food items and services.

Category killer A giant speciality store that carries a very deep assortment of a particular line.

Relative prices

Retailers can also be classified according to the prices they charge (see Table 13.1). Most retailers charge regular prices and offer normal-quality goods and customer service. Others offer higher-quality goods and service at higher prices. Retailers that feature low prices are discount stores and 'off-price' retailers.

Discount stores

A **discount store** (e.g., B&M, Aldi or Lidl) sells standard merchandise at lower prices by accepting lower margins and selling higher volume. The early discount stores cut expenses by offering few services and operating in warehouse-like facilities in low-rent, high-traffic districts. Today's discounters have improved their store environments and increased their services while at the same time keeping prices low through lean, efficient operations.

Leading 'big-box' discounters, such as Walmart and Target, dominate the retail scene in the US, although that dominance by this type of retailer is much less pronounced in Europe. However, even 'small-box' discounters are thriving in the current economic environment. For example, Poundland is Europe's biggest single-price discount store (all items sell for £1), and has done well during the recession. Poundland has moved from its low-income consumer base into mainstream shopping centres and attracts a broader market. Poundland is expanding its non-UK business as DEALZ, although not using the single price policy. The Poundland slogan is 'Amazing value every day'.

Costco excels at low-cost operations and low prices. Costco is a retail treasure-hunt where both low-end and high-end products meet deep-discount prices.

Source: Greg Balfour Evans/Alamy Stock Photo

Off-price retailers

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

Aldi is now ranked as the fifth largest supermarket, with 7 per cent market share in the UK, just behind the big four chains.

Source: Mark Waugh/Alamy Stock Photo

The three main types of off-price retailers are *independents*, *factory outlets* and *warehouse clubs*. **Independent off-price retailers** either are independently owned and run or are divisions of larger retail corporations. Although many off-price operations are run by smaller independents, most large off-price retailer operations are owned by bigger retail chains. Examples include store retailers such as TK Maxx and online sellers such as Overstock.com. TK Maxx promises brand name and designer fashions for 20 to 60 per cent off department store prices. How does it fulfil this promise? Its buyers are constantly on the lookout for deals. 'So when a designer overproduces and department stores overbuy,' says the company, 'we swoop in, negotiate the lowest possible price, and pass the savings on.'[6]

Factory outlets – manufacturer-owned and operated stores by firms such as Burberry, Gap, Levi Strauss and others – sometimes group together in *factory outlet malls* and *value-retail centres*. At these centres, dozens of outlet stores offer prices as much as 50 per cent below retail on a wide range of mostly surplus, discounted or irregular goods. Whereas outlet malls consist primarily of manufacturers' outlets, value-retail centres combine manufacturers' outlets with off-price retail stores and department store clearance outlets.

These malls in general are now moving upmarket – and even dropping *factory* from their descriptions. A growing number of outlet malls now feature luxury brands such as Coach, Polo Ralph Lauren, Dolce & Gabbana, Giorgio Armani, Burberry and Versace. As consumers become more value-minded, even upper-end retailers are accelerating their factory outlet strategies, placing more emphasis on these outlets. Many companies now regard outlets not simply as a way of disposing of problem merchandise but as an additional way of gaining business for fresh merchandise. The combination of highbrow brands and lowbrow prices found at outlets provides powerful shopper appeal, especially in thriftier times.

Warehouse clubs (also known as *wholesale clubs* or *membership warehouses*), such as such as Costco in the US and UK, and Makro in Europe and Asia, operate in huge, warehouse-like facilities and offer few frills.

In exchange for the bare-bones environment, they offer ultra-low prices and surprise deals on selected branded merchandise. Warehouse clubs have grown rapidly in recent years. These retailers appeal not only to low-income consumers seeking bargains on bare-bones products but also to all kinds of customers shopping for a wide range of goods, from necessities to extravagances.

Consider Costco, now the world's second-largest retailer behind only Walmart. Low price is an important part of Costco's equation, but what really sets Costco apart is the products it carries and the sense of urgency that it builds into the Costco shopper's store experience.[7]

Costco is the world's second-largest retailer, behind only Walmart. Costco's sales are growing rapidly. In just the past four years, Costco's revenues have surged 30 per cent; profits are up 50 per cent. Costco offers a limited selection of nationally branded and private-label products in a wide range of categories at very low prices to shoppers who pay an annual membership fee. It stocks about 4,000 items, often only jumbo sizes (a typical supermarket stocks 40,000 items). And to keep costs and prices low, it operates out of big, draughty, bare-bones stores and use their substantial buying power to wring low prices from suppliers.

Price is an important part of the equation, and Costco seems addicted to selling every item at the lowest possible price. But more than just focusing on low discount prices, Costco focuses on high value through low mark-ups, regardless of the ultimate price. Costco's strategy is to give customers the best value through low margins, whether it's on a pantry staple or a high-priced wine. Costco's operating profit margins average a razor-thin 3.1 per cent.

Service retailer A retailer whose product line is actually a service; examples include hotels, airlines, banks, colleges and many others.

Discount store A retail operation that sells standard merchandise at lower prices by accepting lower margins and selling at higher volume.

Off-price retailer A retailer that buys at less-than-regular wholesale prices and sells at less than retail.

Independent off-price retailer An off-price retailer that is independently owned and operated or a division of a larger retail corporation.

Factory outlet An off-price retailing operation that is owned and operated by a manufacturer and normally carries the manufacturer's surplus, discontinued or irregular goods.

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

TK Maxx sells brand-name clothing at discount prices aimed at the budget-conscious. Stocking new products each week, the discounter provides a treasure hunt for bargain shoppers.
Source: David J. Green - retail themes/Alamy Stock Photo

Thus, Costco excels at low-cost operations and low prices. What is it, then, that really sets Costco apart? It has to do with Costco's differentiated value proposition – with the products it carries and sense of urgency that it builds into the shopping experience. Whereas other wholesale retailers stand for low prices, Costco is a retail treasure-hunt where both low-end and high-end products meet deep-discount prices. Alongside the gallon jars of peanut butter, four-packs of toothpaste, and 2,250-count packs of Q-Tips, Costco offers an ever-changing assortment of high-quality products – even luxuries – all at tantalisingly low margins. Mixed in with its regular stock of staples, Costco features a glittering, constantly shifting array of one-time specials on brands such as Calvin Klein, Chanel, Prada and Breitling – deals you just won't get anywhere else. It finds the best deals on premium electronics and appliances, then sells them at rock-bottom prices.

Once inside, many customers fall prey to 'the Costco effect' – spending more than they'd planned to. There was a time when only the great unwashed masses shopped at off-price retailers. But Costco has changed all that. Even people who don't have to pinch pennies shop there. Costco's flair even extends to its store brand – Kirkland Signature. Costco puts the Kirkland Signature brand on a wide range of goods. Customers seek out Kirkland Signature products not just for price but also for quality. Costco is much more than a big-box store that 'stacks 'em high and sells 'em cheap' – more than just a place to load up on large sizes of consumer staples. Each Costco store is a theatre of retail that creates buying urgency and excitement for customers. In many ways, retailing boils down to the unglamorous art of getting the right product in the right place at the right time at the right price. But there's a lot more than that to Costco's value proposition. Says Costco founder and former CEO Jim Sinegal: 'Do that without being boring. That's the trick.'

Organisational approach

Although many retail stores are independently owned, others band together under some form of corporate or contractual organisation. Table 13.2 describes four major types of retail organisations – *corporate chains*, *voluntary chains*, *retailer cooperatives*, and *franchise organisations*.

Corporate chains Two or more outlets that are commonly owned and controlled.

Corporate chains are two or more outlets that are commonly owned and controlled. They have many advantages over independents. Their size allows them to buy in large quantities at lower prices and gain promotional economies. They can hire specialists to deal with areas such as pricing, promotion, merchandising, inventory control and sales forecasting.

The great success of corporate chains caused many independents to band together in one of two forms of contractual associations. One is the *voluntary chain* – a wholesaler-sponsored group of independent retailers that engages in group buying and common merchandising. The other type of contractual association is the *retailer cooperative* – a group of independent retailers that bands together to set up a jointly owned, central wholesale operation and conduct joint merchandising and promotion efforts. Founded in the Netherlands in 1932, Spar is the world's largest independent voluntary retail trading chain, trading from approximately 12,700 stores in 48 countries worldwide. These organisations give independents the buying and promotion economies they need to meet the prices of corporate chains.

Table 13.2 Major types of retail organisations

Type	Description	Examples
Corporate chain	Two or more outlets that are commonly owned and controlled. Corporate chains appear in all types of retailing but they are strongest in department stores, discount stores, food stores, pharmacies and restaurants.	John Lewis (UK department stores), Tesco (UK discount stores), Sainsbury (UK grocery stores), Boots (UK pharmacies)
Voluntary chain	Wholesaler-sponsored group of independent retailers engaged in group buying and merchandising.	Spar (European voluntary chain)
Retailer cooperative	Group of independent retailers who jointly establish a central buying organisation and conduct joint promotion efforts.	The Co-operative Group (UK consumer cooperative)
Franchise organisation	Contractual association between a franchisor (a manufacturer, wholesaler or service organisation) and franchisees (independent businesspeople who buy the right to own and operate one or more units in the franchise system).	McDonald's, Subway, Pizza Hut

Another form of contractual retail organisation is a **franchise**. The main difference between franchise organisations and other contractual systems (voluntary chains and retail cooperatives) is that franchise systems are normally based on some unique product or service; a method of doing business; or the trade name, goodwill or patent that the franchisor has developed. Franchising has been prominent in fast-food restaurants, hotels, health and fitness centres, car sales and service dealerships, and estate agencies.

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

However, franchising covers a lot more than just burger joints and fitness centres. Franchises have sprung up to meet just about any need. For example, Mad Science Group franchisees put on science programmes for schools, children's clubs and birthday parties. Soccer Shots offers programmes that give kids aged two to eight an introduction to basic soccer skills at day-care centres, schools and parks. Mr. Handyman provides repair services for homeowners, while Merry Maids tidies up their houses. Supercuts offers affordable, anytime, walk-in haircuts and in the US, H&R Block provides tax-preparation services. More than one-third of H&R Block's 12,000 retail offices are owned and operated by franchisees.[8] The UK franchise industry, with over 900 franchise systems across the country, contributes £15.1 billion to the UK economy. It employs over 620,000 people in over 44,000 franchise outlets.[9]

These days, it's nearly impossible to stroll or drive down a city street without seeing a McDonald's, Subway or Premier Inn. One of the best-known and most successful franchisers, McDonald's, now has more than 36,000 stores in more than 100 countries. It serves 69 million customers a day and racks up more than $98 billion in annual system-wide sales. More than 80 per cent of McDonald's restaurants worldwide are owned and operated by franchisees.[10]

Retailer marketing decisions

Retailers are always searching for new marketing strategies to attract and hold customers. In the past, retailers attracted customers with unique product assortments and more or better services. Today, the assortments and services of various retailers are looking more and more alike. You can find most consumer brands not only in department stores but also in mass-merchandise discount stores, off-price discount stores and all over the internet. Thus, it's now more difficult for any one retailer to offer exclusive merchandise.

Author comment

Not surprisingly, retailers must make the same types of segmentation, positioning and marketing mix of decisions as any other marketer.

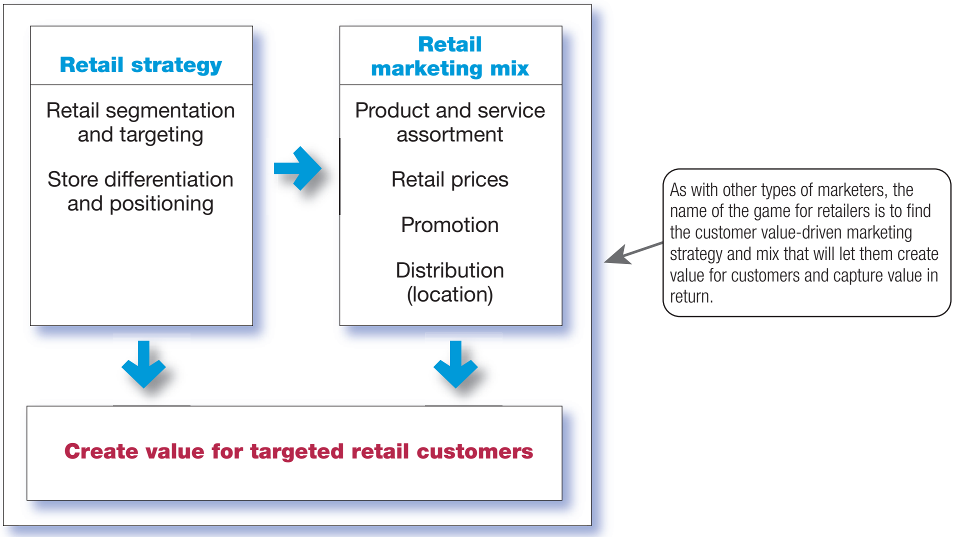

Figure 13.1 Retailer marketing strategies

Service differentiation among retailers has also eroded. Many department stores have trimmed their services, whereas discounters have increased theirs. In addition, customers have become smarter and more price sensitive. They see no reason to pay more for identical brands, especially when service differences are shrinking. For all these reasons, many retailers today are rethinking their marketing strategies.

As shown in Figure 13.1, retailers face major marketing decisions about *segmentation and targeting*, *store differentiation and positioning*, and the *retail marketing mix*.

Segmentation, targeting, differentiation and positioning decisions

Retailers must first segment and define their target markets and then decide how they will differentiate and position themselves in these markets. Should they focus on upscale, midscale or downscale shoppers? Do target shoppers want variety, depth of assortment, convenience or low prices? Until they define and profile their markets, retailers cannot make consistent decisions about product assortment, services, pricing, advertising, store décor, online and mobile site design, or any of the other decisions that must support their positions.

Too many retailers, even big ones, fail to clearly define their target markets and positions. For example, what market does clothing chain Gap target? What is Gap's value proposition? If you're having trouble answering those questions, you're not alone – so is Gap's management.[11]

> In its heyday, Gap was solidly positioned on 'effortless cool' – the then-fashionable preppy look focused on comfortable, casual clothes and easy shopping. But as its core Generation X customers aged and moved on, Gap stores didn't. Moving into the 2000s, Gap catered to short-lived fashion trends that alienated its loyal customer base. At the same time, it has struggled unsuccessfully to define new positioning that works with today's younger shoppers. And more-contemporary fast-fashion retailers such as H&M and Zara have moved in aggressively on Gap's turf. Whereas these brands are clearly targeted and positioned, Gap's identity has become muddled. As a result, the chain's sales have flattened for fallen off. 'Neither they nor their consumer know exactly who they are targeting', says one retail analyst. Gap 'hasn't got a story', says another. Is it 'trying to sell to my wife or my teenage daughter or both? I don't think you can do both'. To rekindle the brand, Gap needs to 'define who the brand's core customers are and be exceptional to them'.

By contrast, successful retailers define their target markets well and position themselves strongly. For example, Tesco positions itself strongly on low prices and what those always-low prices mean to its customers. But if giant Tesco, with roughly a third of the UK grocery market, dominates the low-price position, how can other retailers hope to compete? Again, the answer is good targeting and positioning. For example, Waitrose has fewer than 400 stores in the UK and slightly more than 5 per cent of the market versus Tesco's global network of stores in multiple trading formats and 30 per cent of the UK market. How does this small grocery chain compete with Tesco? Waitrose succeeds by carefully positioning itself *away* from Tesco. It targets a select group of upscale customers and offers them high-quality products with outstanding provenance. In fact, not only is Waitrose growing much faster than Tesco, some devoted Waitrose customers are more likely to boycott the local Tesco than to shop at it.

Waitrose can't match Tesco's massive economies of scale, incredible volume purchasing power, ultra-efficient logistics, wide selection and hard-to-beat prices. But then again, it doesn't generally try. By positioning itself strongly away from Tesco and other discounters, Waitrose has grown solidly, even in tighter economic times.

With solid targeting and positioning, a retailer can compete effectively against even the largest and strongest competitors. For example, Aldi, a German discount supermarket, opened the first store in the UK in 1990. However, with clear low-price positioning and targeting at price-conscious buyers, it managed to grow very fast, and currently has over 770 stores in the UK. It can offer highly competitive prices by avoiding brand names products as much as possible and offering a smaller selection of items with a relatively smaller store size. It managed to attract customers from the bigger competitors, such as Tesco and Asda. It is now ranked as the fifth biggest supermarket with 7 per cent of the market share in the UK, just behind the big four chains.[12]

Product assortment and services decision

Retailers must decide on three major product variables: product assortment, services mix and store atmosphere.

The retailer's *product assortment* should differentiate it while matching target shoppers' expectations. One strategy is to offer a highly targeted product assortment: High & Mighty carries extra-large clothing sizes; Gadget Shop offers an unusual assortment of gadgets and gifts; and Accessorize offers about every imaginable kind of accessory, from hair decorations and jewellery to bags and scarves. Alternatively, a retailer can differentiate itself by offering merchandise that no other competitor carries, such as store brands or national brands on which it holds exclusive rights. For example, a department store like John Lewis may get exclusive rights to carry a well-known designer's labels, and also offer its own private-label lines. The major supermarkets do not only sell products from national brands, but also offer products with their own exclusive private labels. For example, Waitrose offers a number of different own brands, including Waitrose 1 (the premium quality range), Waitrose Duchy Organic (the organic food range), and so on.

The *services mix* can also help set one retailer apart from another. For example, some retailers invite customers to ask questions or consult service representatives in person or via phone or tablet. The John Lewis Partnership promises 'The Partnership aims to deal honestly with its customers and secure their loyalty and trust by providing outstanding choice, value and service'. Waitrose offers its members free coffee when they use their own reusable coffee mug. Hobbycraft, an arts and crafts superstore retail chain in the UK, offers in-store crafting workshops and demonstrations.

The *store's atmosphere* is another important element in the reseller's product arsenal. Retailers want to create a unique store experience, one that suits the target market and moves customers to buy. Many retailers practise *experiential retailing*, as consumers are moving to invest in experiences rather than products. Retailers are trying not just to attract people to their stores, but also leave them with memories by giving them a fun and unique experience. With its Big Sleepover campaign, IKEA invited over 100 fans who won a Facebook challenge to spend the night in the warehouse in Essex, UK, provided them with massages and salons, and allowed them to select, with the help of sleep expert, the mattress, sheets and pillows to give them a tailored experience.[13]

Today's digital technologies present many new challenges and opportunities for shaping retail experiences. The surge in online and mobile shopping has changed retail customer behaviours and expectations. As a result, a wide range of store retailers – from high-tech sellers such as Apple to high-touch sellers like Audi and Build-A-Bear – are digitising the in-store experience. They are merging the physical and digital worlds to create new-age experiential retailing environments:[14]

> Digitising in-store retail is not just for technology retailers like Apple. Companies in a wide range of other industries are also pioneering the concept. Take German car maker Audi, for instance. In the lead-up to the 2012 Summer Olympics in London, Audi threw open the doors to its first Audi City, a stunningly innovative digitised showroom in London's busy Piccadilly Circus area.
>
> Rather than displaying a sea of shiny new vehicles, the Audi City showroom contains very few actual cars and future Audi showrooms may have none at all. Instead, Audi City is all-digital. Prospective customers use touchscreens and cameras to design and manipulate virtual, life-size cars of their dreams displayed on massive screens surrounding the showroom space. When they've finished, a video shows the car they've designed in action, complete with the exact sound of the chosen engine in full stereo fidelity. The car is then loaded onto a memory stick that the customer can take for later remembering and sharing.
>
> The idea of buying a car without actually seeing it flies in the face of car retailing tradition. But these car-buying times are anything but traditional. Audi sees digitisation as a way to fit showrooms into smaller urban settings and to overcome the limitations of physical dealerships. With 12 different models, each with up to six different trim levels, all with numerous options, no physical dealership can have every possible model on hand. Virtual showrooms, however, can present every model in Audi's extensive portfolio in every possible permutation. Moreover, customers can call them up instantly and make changes on the fly.
>
> So far, the Audi City virtual experience is producing very real-world results. Audi City showrooms in London, Beijing and Dubai are outselling their traditional counterparts by 70 per cent, with an average increase in margin per vehicle of 30 per cent. And the digitised auto lounges are bringing more new customers through the doors. Ninety per cent of Audi City visitors are new to the brand.

Successful retailers carefully orchestrate virtually every aspect of the consumer store experience. The next time you step into a retail store – whether it sells consumer electronics, hardware, food or high fashion – stop and carefully consider your surroundings. Think about the store's layout and displays. Listen to the background music. Check out the colours. Smell the smells. Chances are good that everything in the store, from the layout and lighting to the music and even the colours and smells, has been carefully orchestrated to help shape the customers' shopping experiences – and open their wallets.

For example, retailers choose the colours in their logos and interiors carefully: Black suggests sophistication, orange is associated with fairness and affordability, white signifies simplicity and purity (think Apple stores), and blue connotes trust and dependability (financial institutions use it a lot). And most large retailers have developed signature scents that you smell only in their stores:[15]

> Anytime Fitness pipes in 'Inspire', a eucalyptus-mint fragrance here to create a uniform scent from store to store and mask that 'gym' smell. Bloomingdale's uses different essences in different departments: the soft scent of baby powder in the baby store, coconut in the swimsuit area, lilacs in intimate apparel, and sugar cookies and evergreen scent during the holiday season. Luxury men's fashion brand Hugo Boss chose a signature smooth, musky scent for all of its stores. 'We wanted it to feel like coming home', says a Hugo Boss marketer. Scents can subtly reinforce a brand's imagery and positioning. For example, the Hard Rock Café Hotel in Orlando added a scent of the ocean in its lobby to help guests imagine checking into a seaside resort (even though the hotel is located an hour from the coast). To draw customers into the hotel's often-overlooked downstairs ice cream shop, the hotel put a sugar cookie aroma at the top of the stairs and a whiff of waffle cone at the bottom. Ice cream sales jumped 45 per cent in the following six months.

Such experiential retailing confirms that retail stores are much more than simply assortments of goods. They are environments to be experienced by the people who shop in them.

Price decision

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

Thus, Harvey Nichols, founded in 1813, caters to the upper crust by selling clothing, shoes and jewellery created by designers such as Chanel, Prada and Hermes. The upmarket retailer pampers its customers with services such as a personal shopper and in-store showings of the upcoming season's trends with cocktails and hors d'oeuvres. By contrast, TK Maxx sells brand-name clothing at discount prices aimed at the budget-conscious. Stocking new products each week, the discounter provides a treasure hunt for bargain shoppers. 'No sales. No gimmicks', says the retailer. 'Just brand name and designer fashions for you . . . for up to 60 per cent off department store prices.'

Retailers must also decide on the extent to which they will use sales and other price promotions. Some retailers use no price promotions at all, competing instead on product and service quality rather than on price. For example, it's difficult to imagine Harvey Nichols holding a two-for-the-price-of-one sale on Chanel handbags, even in a tough economy. Other retailers – such as Asda, Costco and Poundland – practise *everyday low pricing*, charging constant, everyday low prices with few sales or discounts.

Still other retailers practice *high-low pricing* – charging higher prices on an everyday basis coupled with frequent sales and other price promotions to increase store traffic, create a low-price image, or attract customers who will buy other goods at full prices. Recent tighter economic times caused a rash of high-low pricing, as retailers poured on price cuts and promotions to coax bargain-hunting customers into their stores. Which pricing strategy is best depends on the retailer's overall marketing strategy, the pricing approaches of its competitors, and the economic environment.

Promotion decision

Retailers use various combinations of the five promotion tools – advertising, personal selling, sales promotion, public relations, and direct and social media marketing – to reach consumers. They advertise in newspapers and magazines and on radio and television. Advertising may be supported by newspaper inserts and catalogues. Store salespeople greet customers, meet their needs and build relationships. Sales promotions may include in-store demonstrations, displays, sales and loyalty programmes. PR activities, such as new-store openings, special events, newsletters and blogs, store magazines and public service activities, are also available to retailers.

Most retailers also interact digitally with customers using websites and digital catalogues, online ads and video, social media, mobile ads and apps, blogs and email. Almost every retailer, large or small, maintains a full social media presence. For example, Asos, a British online fashion and cosmetic retailer with 20 million social media followers, has successfully developed its brand by relying upon social media marketing. Its in-house content team produces videos and editorial content (1,600 videos and 500 articles in a year) for not only its print magazines, but also website and social media channels. One example is its first Instagram Stories campaign, which developed a 15-second spot showing young people, pictured in formal wear and sportswear as well as jeans and dresses (highlighting the diversity of ASOS' offerings), jumping into a pool, playing basketball, joking around in a house and ending with a message 'ASOS: Next Level You'. The campaign aimed to deliver a brand message, help to drive awareness and engagement, and entertain the audience. And it has achieved these aims by reaching 3 million people, a 14 percentage-point uplift in ad recall, a three-point increase in brand awareness in the UK, as well as leading a seven-point increase in brand awareness in the US.[16]

Digital promotions let retailers reach individual customers with carefully targeted messages. For example, office products retailer Staples emails its regular customers with online links to provide a reminder that it is time to reorder some office supplies, and highlight special offers and awards for additional purchases. And many retailers, including drug and beauty stores and supermarkets, distribute personalised versions of their circulars to their loyalty programme members, who can log into their personal accounts on computers, tablets and smartphones. Based on their members' characteristics and previous purchases, the personalised promotions highlight sales items and offers of special interest to each specific customer.

Place decision

Retailers often point to three critical factors in retailing success: location, location and location! It's very important that retailers select locations that are accessible to the target market in areas that are consistent with the retailer's positioning. For example, Apple locates its stores in high-end malls and trendy shopping districts – such as the Trafford Centre (Greater Manchester), and Regent Street (London) – not out-of-town retail parks. By contrast, to keep costs down and support its 'cheap gourmet' positioning, B&M places its stores in lower-rent locations. Small retailers may have to settle for whatever locations they can find or afford. Large retailers, however, usually employ specialists who use advanced methods to select store locations.

Most stores today cluster together to increase their customer pulling power and give consumers the convenience of one-stop shopping. In the US and most European countries, city centres were the main form of retail cluster until the 1950s. Every large city and town had a central area with department stores, speciality stores, banks and cinemas. When people began moving to the suburbs, however, city centres, with their traffic, parking and crime problems, began to lose business. In recent years, many cities have joined with merchants to revive dcity centre shopping areas, generally with only mixed success.

Shopping centre A group of retail businesses built on a site that is planned, developed, owned and managed as a unit.

A **shopping centre** is a group of retail businesses built on a site that is planned, developed, owned, and managed as a unit. In the US, a *regional shopping centre*, or *regional shopping mall*, the largest and most dramatic shopping centre, has from 50 to more than 100 stores, including two or more full-line department stores. It is like a covered mini-downtown and attracts customers from a wide area. A *community shopping centre* contains between 15 and 50 retail stores. It normally contains a branch of a department store or variety store, a supermarket, speciality stores, professional offices and sometimes a bank. Most shopping centres are *neighbourhood shopping centres* or *strip malls* that generally contain between 5 and 15 stores. These centres, which are close and convenient for consumers, usually contain a supermarket, perhaps a discount store and several service stores – dry cleaner, pharamacist, hardware store, local restaurant or other stores.[17]

In Europe, while there has been considerable development of more attractive central shopping malls, like the giant Bluewater out-of-town shopping centre in Kent and new Westfield shopping centres throughout the UK, market size limits the potential more than is the case in the United States.

A newer form of shopping centre is the so-called power centre. *Power centres* are huge unenclosed shopping centres consisting of a long strip of retail stores, including large, freestanding anchors such as John Lewis, Debenhams and Marks & Spencer. Each store has its own entrance with parking directly in front for shoppers who wish to visit only one store.

In contrast, *lifestyle centres* are smaller, open-air malls with upscale stores, convenient locations and non-retail activities, such as a playground, skating rink, hotel, dining establishments and a cinema complex. The most recent lifestyle centres often consist of *mixed-use* developments, with ground-floor retail establishments and apartments above, combining shopping convenience with the community feel of a neighbourhood centre. Meanwhile, traditional regional shopping malls are adding lifestyle elements – such as fitness centres, children's play areas, common areas and multiplex cinemas – to make themselves more social and welcoming. In all, today's centres are more like places to hang out rather than just places to shop.

Some similar developments are occurring in the UK, where giant retail centres are attracting visitors with a mix of leisure and entertainment facilities as well as shops. The

Trafford Centre in Greater Manchester has a miniature Legoland; Bluewater in Kent has a pirate-themed park for children and a live music venue; and Westfield London has Gymbox, a trendy fitness centre with classes such as Thug Box, as well as a huge cinema complex and 50 bars and restaurants. However, the rise of the 'supermall' is at the expense of smaller, secondary centres.[18]

Bear in mind that the 'mall' is an American icon, as in 'hanging out at the mall' as a prime leisure activity. However, in the UK and Europe, the intensity of large shopping centres is generally less, although the situation varies across the different countries involved. While the American shopping centre types are of interest, the European picture is complicated by the smaller geographical area of most individual countries, a longer history of urbanisation, longer established city centres, and cultural differences which are reflected in consumer shopping preferences and attitudes towards shopping. You should not expect to find a direct replication of the American model in any European country, although there will be examples of each of the shopping centre types in each country, varying from local shopping areas to major regional centres and malls. It is not feasible to generalise about shopping centre types and developments Europe-wide, and marketers need to look closely at differences between countries of interest regarding retail developments. Marketers must recognise that retail structures vary considerably across the countries in Europe.

Retailing trends and developments

Author comment

Retailers must constantly adapt their marketing strategies and mixes to today's challenging, fast-changing retail environment.

Retailers operate in a harsh and fast-changing environment, which offers threats as well as opportunities. Consumer demographics, lifestyles and spending patterns are changing rapidly, as are retailing technologies. To be successful, retailers need to choose target segments carefully and position themselves strongly. They need to take the following retailing developments into account as they plan and execute their competitive strategies.

Tighter consumer spending

Following many years of good economic times for retailers, the Great Recession turned many retailers' fortunes from boom to bust. Even as the economy has recovered, retailers will feel the effects of changed consumer spending patterns well into the future.

Some retailers actually benefit from a down economy. For example, as consumers cut back and looked for ways to spend less on what they bought, big discounters such as Costco scooped up new business from bargain-hungry shoppers. And price-oriented and off-price retailers such as Aldi, Lidl and TK Maxx have attracted greater shares of more frugal buyers.

For other retailers, however, tighter consumer spending meant tough times. During and following the recession, several large and familiar retailers declared bankruptcy or closed their doors completely – including household names such as Woolworths, Past Times, La Senza, Focus DIY, Oddbins and Borders, to name a few, and others remain at risk. Other retailers have laid off employees, cut their costs, and offered deep price discounts and promotions aimed at luring cash-strapped customers back into their stores. As the economy has improved and as consumers have retained their more frugal spending ways, many retailers have added new value pitches to their positioning.

When reacting to economic difficulties, retailers must be careful that their short-term actions don't damage their long-term images and positions. For example, drastic price discounting can increase immediate sales but damage brand loyalty. One analyst calls this 'death by discount' and suggests that 'virtually every retailer – at both the high and the low end – has fallen so deeply into the trap that discounting has become an expectation of customers rather than a bonus'.[19] A stroll through your local shopping mall confirms this assessment. However, instead of relying on cost cutting and price reductions, retailers should focus on building greater customer value within their long-term store positioning strategies. For example, in the long run, a retailer like Waitrose cannot afford to abandon the quality, innovation and service that differentiate it from Tesco and other discounters.

New retail forms, shortening retail life cycles and retail convergence

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

New retail forms are always emerging. One of the most recent blockbuster retailing trends is the advent of online retailing, by both online-only and store retailers, via websites, mobile apps and social media. But lesser innovations occur regularly. For example, many retailers are now using limited-time *pop-up stores* that let them promote their brands to seasonal shoppers and create buzz in busy, high-rent areas. In the UK, pop-up shops were once reserved for edgy fashion and low-quality electrical goods but now extend to restaurants, galleries and even nightclubs. eBay runs a pop-up shop in London for a week and McDonald's had a temporary outlet in the Olympic Park for six weeks. John Lewis, Chanel and US boutiques have all run temporary premises in central London. Using empty shops – or in the case of Dum Dums Donutterie, selling gourmet doughnuts from a converted shipping container – pop-up shops allow entrepreneurs, merchants, designers and artists to try out an idea before committing to permanent premises. Dum Dums now sell in Harrods. In 2013 the Crown Estate opened Piccadilly to pop-ups for niche newcomers as part of moves to reinvent Britain's high street. Even hotels have pop-ups:[20]

> Snoozebox was born when veteran hotelier Robert Breare was sheltering from the rain at the Le Mans 24-hour motor race. The idea was to build comfortable, portable cabins and transport them – by air, land or sea – to sporting and musical events. By 2013, Snoozebox was shipping stackable containers to house guests at events including Le Mans, the Edinburgh Festivals of plays and concerts, and the G8 Summit. Snoozebox can go most places where events are being held but there is not enough accommodation for the people visiting. Snoozebox negotiates with event promoters to drop its serviced, air-conditioned rooms closest to the event action. That does not come cheap – three nights in a Snoozebox for two adults and a child at the Formula 1 Santander British Grand Prix costs around £800 but you are right next to the race track. Snoozebox is a pop-up hotel.

New retail forms: Snoozebox was born when veteran hotelier Robert Breare was sheltering from the rain at the Le Mans 24-hour race. The idea was to build comfortable, portable cabins and transport them to sporting and musical events. Snoozebox is a pop-up hotel.
Source: Matthew Horwood/Alamy Stock Photo

Today's retail forms appear to be converging. Increasingly, different types of retailers now sell the same products at the same prices to the same consumers thanks in part to the price transparency the internet provides. For example, you can buy brand-name home appliances at department stores, discount stores, home-improvement stores, off-price retailers, electronics superstores and a slew of online sites that all compete for the same customers. If you can't find the microwave oven you want at Tesco Extra or Currys PC World, you can step across the street and find one at Homebase or Argos – or just order one online from Amazon. This merging of consumers, products, prices and retailers is called *retail convergence*. Such convergence means greater competition for retailers and greater difficulty in differentiating the product assortments of different types of retailers.

The rise of mega-retailers

The rise of huge mass merchandisers and speciality superstores, the formation of vertical marketing systems, and a rash of retail mergers and acquisitions have created a core of superpower mega-retailers. With their size and buying power, these giant retailers can offer better merchandise selections, good service and strong price savings to consumers. As a result, they grow even larger by squeezing out their smaller, weaker competitors.

The mega-retailers have shifted the balance of power between retailers and producers. A small handful of retailers now controls access to enormous numbers of consumers, giving them the upper hand in their dealings with manufacturers. For example, you may never have heard of speciality coatings and sealants manufacturer RPM International, but you've probably used one or more of its many familiar do-it-yourself brands – such as Rust-Oleum paints, Plastic Wood and Dap fillers, Mohawk and Watco finishes, and Testors hobby cements and paints – all of which you can buy at your local hardware or hobby store. However, a dominant hardware retailer like Home Depot in the US is a very important customer to RPM, accounting for a significant share of its consumer sales. However, Home Depot's sales of $83 billion are 18 times RPM's sales of $4.6 billion. As a result, the giant retailer can, and often does, use this power to wring concessions from RPM and thousands of other smaller suppliers.[21]

Growth of direct, online, mobile and social media retailing

Most consumers still make a majority of their purchases the old-fashioned way: They go to a store, find what they want, wait in line to put down their cash or credit cards and bring home the goods. However, consumers now have a broad array of non-store alternatives, including direct and digital shopping via websites, mobiles apps and social media. As we'll discuss in Chapter 17, direct and digital marketing are currently the fastest-growing forms of marketing.

Today, thanks to advanced technologies, easier-to-use and enticing online sites and mobile apps, improved online services and the increasing sophistication of search technologies, online retailing is thriving. In fact, in the UK, online retailing in 2017 accounted for 16.3 per cent of total retail sales. More importantly, online buying is growing at a much brisker pace than retail buying as a whole. Online sales' ratio to total retail sales has over the last decade increased from 3.4 per cent in 2007 to 16.3 per cent in 2017.[22]

Retailer online sites, mobile apps and social media also influence a large amount of in-store buying. And an estimated 15 per cent of all online sales now take place on mobile devices. Retailers of all kinds rely on social media to engage their buyer communities.

The spurt in online, mobile and social media retailing is both a blessing and a curse to store retailers. Although it gives them new channels for engaging and selling to customers, it also creates more competition from online-only retailers. Many shoppers now check out merchandise at physical-store showrooms but then buy it online using a computer or mobile device, sometimes while in the store – a process called **showrooming**. These days, over 90 per cent of smartphone-carrying shoppers use their phones while shopping in stores. And as many as half of all shoppers who buy products online check them out first at a traditional store.[23] Store retailers have been hit hard by showrooming.

Showrooming The shopping practice of coming into retail store showrooms to check out merchandise and prices but instead buying from an online-only rival, sometimes while in the store.

Today, however, many store retailers are developing effective strategies to counter showrooming. Others are even embracing it as an opportunity to highlight the advantages of shopping in stores versus online-only retailers. The flip side of showrooming is *webrooming*, by which consumers first check out merchandise online, then buy it in a store. The key for store retailers is to convert showrooming shoppers into buyers when they visit the store.

The need for omni-channel retailing

The boundaries between in-store and online retailing are rapidly blurring. For most customers, it's no longer a matter of deciding whether to shop in a store *or* to shop online. The internet and digital devices have spawned a whole new breed of shopper and way of shopping. Today's omni-channel buyers shift seamlessly across online and in-store channels throughout the buying process. They've become used to researching and buying anywhere, anytime – whether it's in the store, online, on the go or even online while in the store. This massive shift in how people shop calls for massive changes in how store retailers operate. To meet the needs of these omni-channel buyers, store retailers must master *omni-channel retailing*, integrating store and online channels into a single shopper experience.

At first, as online and mobile shopping caught fire, store retailers worried about *showrooming* – smartphone-wielding customers researching products online while examining them in stores, then jumping ship to catch lower online prices. But most store retailers have now adjusted to the showrooming threat with price-matching and other in-store tactics. In fact, smart retailers now see phone-toting customers not as a threat but as an opportunity. For example, for some retailers, omni-channel shoppers have a higher-than-average propensity to purchase. One study showed that shoppers who use mobile devices in stores are almost twice as likely to purchase from the same retailer in-store or online than to buy elsewhere. Retailers have learned that shoppers with smartphones are doing far more than just checking online prices. More often, they are filling in the information gap.

An increasing share of the growth in online sales is being captured by omni-channel retailers who successfully merge the virtual and physical worlds. Physical store operators are experiencing considerable digital success, while online merchants – including Amazon – are expanding with showrooms, pop-up shops and other ways of meeting shoppers face to face.[24] But omni-channel retailing goes way beyond just helping in-store customers as they cross-shop on digital devices. It requires carefully integrating the entire range of available shopping channels, both in-store and out, from discovery to purchase in the buying process. For example, most large retailers are now boosting their own online and digital selling options and linking them with stores. One popular way to do that is by letting customers order online and pick up in the store. The 'click-and-collect' experience merges the attractions of digital and in-store shopping. Some customers even use mobile to place online orders with a given retailer while visiting that retailer's store. For example, John Lewis's enhanced website complements its stores around the UK. Although many John Lewis customers make purchases online, the site offers a range of features designed to build loyalty to the Partnership and pull customers into stores. Like many retailers, John Lewis has discovered that its best customers shop both online and offline.

In addition to websites, omni-channel retailers are integrating other digital shopping channels. They offer handy mobile apps that pull customers to both their websites and stores, let them prepare shopping lists, help them locate merchandise inside stores, and send daily alerts and exclusive discounts to their phones. Social media also play an important part in omni-channel retailing. Thirty per cent of shoppers made purchases via social media last year, 44 per cent discovered new products via social networks and 49 per cent made purchases based on referrals from social media. In turn, most large store retailers now use social media extensively to engage customers, build community, and link buyers to their websites and stores. The key to good omni-channel retailing is to integrate these elements to create that critical seamless, anywhere, anytime, omni-channel shopping experience that today's customers seek.[25]

Growing importance of retail technology

As omni-channel shopping becomes the norm, retail technologies have become critically important as competitive tools. Progressive retailers are using advanced information technology and software systems to produce better forecasts, control inventory costs, interact electronically with suppliers, send information between stores and even sell to customers within stores. They have adopted sophisticated systems for checkout scanning, RFID inventory tracking, merchandise handling, information sharing and customer interactions.

Perhaps the most startling advances in retail technology concern the ways in which retailers are connecting with consumers. As the surge in online and mobile shopping has changed retail customer behaviours and expectations, a wide range of store retailers are merging the physical and digital worlds to create new-age experiential retailing environments. For example, at AT&T's new flagship store in Chicago, customers can sit at any of dozens of stations, sampling the latest phone apps and electronic gadgetry. Enthusiastic, iPad-wielding associates mingle with customers, talking tech and dispensing hands-on help and advice. With 130 digital screens and an 18-foot video wall, every aspect of the open space is designed to engage customers about future wireless technologies and services and let them experience the impact of AT&T's devices and services on their lives. It's 'like walking into a website', says AT&T's president of retail.[26]

Retail technology: retailers are experimenting with virtual reality to enhance the in-store experience.

Source: Dusan Petkovic/ Shutterstock

Many other advanced technologies are finding their way into retail showrooms. One is beacon technology, Bluetooth connections that greet and engage customers via their smartphones as they shop around in stores. For example, when opted-in customers enter a store or shopping centre, a beacon signal wakes up an app on their smartphone or tablet, which welcomes them and alerts them to location-specific rewards, deals, discounts and personalised product recommendations within the store or shopping centre. The technology can also link in-store and at-home browsing; if the customer 'likes' a specific product online, the app can remind them where to find it in the store, pop up a brief product video and maybe pass along a for-you-only deal. The goal is to engage tech-savvy and social customers as a trusted companion and to personalise their in-store shopping experience.[27]

Other retailers are experimenting with *virtual reality* to enhance the in-store shopping experience. For example, customers at North Face's Manhattan store can don virtual-reality headsets that transport them to remote hiking, climbing or even base-jumping locations where they can experience gutsy jumps off a 420-foot cliff, all while using North Face gear. Marriott guests can put on virtual-reality goggles for up-close tours of destinations such as Hawaii or London. Intel has developed a 'smart' dressing room in which shoppers can change outfits and colours with a wave of the hand. And car maker Audi is testing virtual reality in dealer showrooms. Customers use iPads to select any Audi model and then customise each element, from engine type and wheels to paint colour and interior seats. They then put on a headset and earphones to experience the sights and sounds of their customised car in virtual reality. They can move around the outside of the car, open the boot and doors, check under the bonnet and even sit in the driver's seat. Although virtual reality technologies are difficult and expensive to implement now, they hold interesting promise for the future.[28]

Green retailing

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

At the most basic level, most large retailers are making their stores more environmentally friendly through sustainable building design, construction and operations. For example, under its 'People & Planet Positive' sustainability strategy, home furnishings retailer IKEA's long-term goal is to become 100 per cent sustainable:[29]

The 'People & Planet Positive' strategy begins with making IKEA's 328 giant stores in 28 countries more energy independent and efficient. To power its stores, IKEA has committed to owning and operating 224 wind turbines and has installed 700,000 solar panels – 90 per cent of its US stores have solar panels. By 2020, IKEA will generate as much energy as it uses from renewable sources. Inside its stores, IKEA uses only energy-efficient LED lighting. Most stores also sort food waste from in-store customer restaurants for composting or send it to treatment centres where it is turned into animal feed or biogas to fuel cars and buses. Some IKEAs offer customer recycling centres for products such as plastic, paper, CFL lightbulbs, batteries and even appliances that no longer work or are no longer wanted.

Retailers are also greening up their product assortments. For example, IKEA now sells only LED lighting products in its stores, and a growing proportion of the home furnishing products it sells are made from sustainable and renewable cotton, wood and other resources. IKEA suppliers must adhere to the retailer's IWAY supplier code of conduct sustainability standards. IKEA's goal is to have all of its home furnishings made from renewable, recyclable or recycled materials. 'At IKEA, sustainability is central to our business,' says the company, 'to ensure that we have a positive impact on people and the planet.'

Many retailers have also launched programmes that help consumers make more environmentally responsible decisions. Staples's Easy on the Planet programme 'makes it easier to make a difference' by helping customers to identify green products sold in its stores and to recycle printer cartridges, mobile phones, computers and other office technology products. Staples recycles some 30 million printer cartridges and 10 million pounds of old technology each year.[30]

Finally, many large retailers are joining forces with suppliers and distributors to create more sustainable products, packaging and distribution systems. For example, Amazon works closely with the producers of many of the products it sells to reduce and simplify their packaging.

Green retailing yields both top- and bottom-line benefits. Sustainable practices lift a retailer's top line by attracting consumers looking to support environmentally friendly sellers and products. They also help the bottom line by reducing costs. For example, Amazon's reduced-packaging efforts increase customer convenience and eliminate 'wrap rage' while at the same time saving packaging costs. And IKEA's more energy-efficient buildings not only appeal to customers and help save the planet but also cost less to operate.

Green retailing: under its 'People & Planet Positive' sustainability strategy, home furnishings retailer IKEA's long-term goal is to become 100% sustainable, both in its operations and in the products it sells.
Source: Inter IKEA Systems B.V

Global expansion of major retailers

Retailers with unique formats and strong brand positions are increasingly moving into other countries. Many are expanding internationally to escape saturated home markets. Over the years, some giant retailers, such as McDonald's, Carrefour and Walmart, have become globally prominent as a result of their marketing prowess.

However, some US retailers are still significantly behind Europe and Asia when it comes to global expansion. Although nine of the world's top 20 retailers are US companies, only six of these retailers have set up operations outside North America (Walmart, Home Depot, Walgreens, Amazon, Costco and Best Buy). Of the 11 non-US retailers in the world's top 20, 10 have stores in at least 10 countries. Foreign retailers that have gone global include France's Carrefour, Groupe Casino and Groupe Auchan; Germany's Metro, Lidl and Aldi chains; Britain's Tesco; and Japan's Seven & I.[31]

International retailing presents challenges as well as opportunities. Retailers can face dramatically different retail environments when crossing countries, continents and cultures. Simply adapting the operations that work well in the home country is usually not enough to create success abroad. Instead, when going global, retailers must understand and meet the needs of local markets.

Wholesaling

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

Wholesalers buy mostly from producers and sell mostly to retailers, industrial consumers and other wholesalers. As a result, many of the nation's largest and most important wholesalers are largely unknown to final consumers.

For example, in Britain, the Institute of Grocery Distribution estimates that sales through the grocery and foodservice wholesaling sector in 2016 reached nearly £30 billion, and are likely to grow at 0.9 per cent annually to 2021.[32] Convenience and traditional grocery retailers get their supplies mainly from wholesalers. Outside grocery, while Boots the Chemist is familiar to British consumers as a high-street retailer, consumers are generally less aware of the Alliance Boots International wholesale business or the importance of wholesalers in supplying small pharmacies throughout the country: [33]

> Pharmaceutical distributors provide 90 per cent of Britain's medicines, covering all of the UK's population. Full-line wholesalers act as a one-stop shop for almost all pharmaceutical products and services, playing a key role in the cost-effective and safe distribution of a diverse and comprehensive range of healthcare products, all to exact orders on a same-day basis. The National Health Service relies on the efficient and effective service they provide, delivering to pharmacists, doctors, hospitals, sometimes even to individual patients across the whole country.
>
> Boots the Chemist is one of Britain's best-known high street retailers. But Boots UK is a member of Alliance Boots, an international pharmacy-led health and beauty group. Alliance Boots is a pharmaceutical wholesale business, which together with associates and joint ventures, supplies medicines, other healthcare products and related services to over 160,000 pharmacies, doctors, health centres and hospitals from over 370 distribution centres in 21 countries. The business provides high service levels to pharmacists in terms of frequency of delivery, product availability, delivery accuracy, timeliness and reliability at competitive prices. Retail customers are offered innovative added-value services which help pharmacists develop their own businesses. In addition to wholesaling of medicines and other healthcare products, Alliance Boots provides services to pharmaceutical manufacturers that are increasingly seeking to gain greater control over their product distribution. These services include pre-wholesale and contract logistics, direct deliveries to pharmacies and specialised medicine delivery including related home healthcare. Alliance Boots is the largest pharmaceutical wholesaler/distributor in Europe and has recently merged with Walgreens in the US.

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

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

Author comment

Whereas retailers primarily sell goods and services directly to final consumers for personal use, wholesalers sell primarily to those buying for resale or business use. Because wholesalers operate behind the scenes, they are largely unknown to final consumers. But they are very important to their business customers.

Wholesaling All the activities involved in selling goods and services to those buying for resale or business use.

Wholesaler A firm engaged primarily in wholesaling activities.

- *Buying and assortment building.* Wholesalers can select items and build assortments needed by their customers, thereby saving much work.
- *Bulk breaking.* Wholesalers save their customers money by buying in large lots and breaking bulk (breaking large lots into small quantities).
- *Warehousing.* Wholesalers hold stocks, thereby reducing the inventory costs and risks of suppliers and customers.
- *Transportation.* Wholesalers can provide quicker delivery to buyers because they are closer to buyers than are producers.
- *Financing.* Wholesalers finance their customers by giving credit, and they finance their suppliers by ordering early and paying bills on time.
- *Risk bearing.* Wholesalers absorb risk by taking title and bearing the cost of theft, damage, spoilage and obsolescence.
- *Market information.* Wholesalers give information to suppliers and customers about competitors, new products and price developments.
- *Management services and advice.* Wholesalers often help retailers train their sales staff, improve store layouts and displays, and set up accounting and inventory control systems.

Types of wholesalers

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

Wholesalers fall into three major groups (see Table 13.3): *merchant wholesalers*, *brokers and agents* and *manufacturers' and retailers' branches and offices*. **Merchant wholesalers** are the

Table 13.3 Major types of wholesalers

Type	Description
Merchant wholesalers	Independently owned businesses that take title to all merchandise handled. There are full-service wholesalers and limited-service wholesalers.
Full-service wholesalers	Provide a full line of services: carrying stock, maintaining a sales force, offering credit, making deliveries and providing management assistance. Full-service wholesalers include wholesale merchants and industrial distributors.
Wholesale merchants	Sell primarily to retailers and provide a full range of services. General merchandise wholesalers carry several merchandise lines, whereas general line wholesalers carry one or two lines in great depth. Speciality wholesalers specialise in carrying only part of a line.
Industrial distributors	Sell to manufacturers rather than to retailers. Provide several services, such as carrying stock, offering credit and providing delivery. May carry a broad range of merchandise, a general line or a speciality line.
Limited-service wholesalers	Offer fewer services than full-service wholesalers. Limited-service wholesalers are of several types:
Cash-and-carry wholesalers	Carry a limited line of fast-moving goods and sell to small retailers for cash. Normally do not deliver.
Truck wholesalers (or truck jobbers)	Perform primarily a selling and delivery function. Carry a limited line of semi-perishable-merchandise (such as milk, bread, snack foods), which is sold for cash as deliveries are made to supermarkets, small groceries, hospitals, restaurants, factory cafeterias and hotels.
Drop shippers	Do not carry inventory or handle the product. On receiving an order, drop shippers select a manufacturer, who then ships the merchandise directly to the customer. Drop shippers operate in bulk industries, such as coal, timber and heavy equipment.

Type	Description
Rack jobbers	Serve grocery and drug retailers, mostly in non-food items. Rack jobbers send delivery trucks to stores, where the delivery people set up toys, paperbacks, hardware items, health and beauty aids or other items. Rack jobbers price the goods, keep them fresh, set up point-of-purchase displays, and keep inventory records.
Producers' cooperatives	Farmer-owned members that assemble farm produce for sale in local markets. Producers' cooperatives often attempt to improve product quality and promote a co-op brand name, such as Sun-Maid raisins, Sunkist oranges or Diamond walnuts.
Mail-order or web wholesalersw	Send catalogues to or maintain websites for retail, industrial and institutional customers featuring jewellery, cosmetics, speciality foods and other small items. Its primary customers are businesses in small outlying areas.
Brokers and agents	Do not take title to goods. The main function is to facilitate buying and selling, for which they earn a commission on the selling price. Generally specialise by product line or customer type.
Brokers	Bring buyers and sellers together and assist in negotiation. Brokers are paid by the party who hired the broker and do not carry stock, get involved in financing or assume risk. Examples include food brokers, property brokers, insurance brokers and security brokers.
Agents	Represent either buyers or sellers on a more permanent basis than brokers do. There are four types.
Manufacturers' agents	Represent two or more manufacturers of complementary lines. Often used in such lines as -apparel, furniture and electrical goods. A manufacturer's agent is hired by small manufacturers who cannot afford their own field sales forces and by large manufacturers who use agents to open new territories or cover territories that cannot support full-time salespeople.
Selling agents	Have contractual authority to sell a manufacturer's entire output. The selling agent serves as a sales department and has significant influence over prices, terms and conditions of sale. Found in product areas such as textiles, industrial machinery and equipment, coal and coke, chemicals and metals.
Purchasing agents	Generally have a long-term relationship with buyers and make purchases for them, often receiving, inspecting, warehousing and shipping the merchandise to buyers. Purchasing agents help clients obtain the best goods and prices available.
Commission merchants	Take physical possession of products and negotiate sales. Used most often in agricultural marketing by farmers who do not want to sell their own output. Take a truckload of commodities to a central market, sell it for the best price, deduct a commission and expenses and remit the balance to the producers.
Manufacturers' and retailers' branches and offices	Wholesaling operations conducted by sellers or buyers themselves rather than operating through independent wholesalers. Separate branches and offices can be dedicated to either sales or purchasing.
Sales branches and offices	Set up by manufacturers to improve stock control, selling and promotion. Sales branches carry stock and are found in industries such as timber and automotive equipment and parts. Sales offices do not carry inventory and are most prominent in industries like clothing, accessories and dry goods.
Purchasing offices	Perform a role similar to that of brokers or agents but are part of the buyer's organisation. Many retailers set up purchasing offices in major market centres, such as London and Paris.

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

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

Manufacturers' and retailers' branches and offices Wholesaling by sellers or buyers themselves rather than through independent wholesalers.

largest single group of wholesalers, accounting for roughly 50 per cent of all wholesaling. Merchant wholesalers include two broad types: full-service wholesalers and limited-service wholesalers. *Full-service wholesalers* provide a full set of services, whereas the various *limited-service wholesalers* offer fewer services to their suppliers and customers. The different types of limited-service wholesalers perform varied specialised functions in the distribution channel.

Brokers and *agents* differ from merchant wholesalers in two ways: They do not take title to goods, and they perform only a few functions. Like merchant wholesalers, they generally specialise by product line or customer type. A **broker** brings buyers and sellers together and assists in negotiation. **Agents** represent buyers or sellers on a more permanent basis. *Manufacturers' agents* (also called *manufacturers' representatives*) are the most common type of agent wholesaler. The third major type of wholesaling is that done in **manufacturers' and retailers' branches and offices** by sellers or buyers themselves rather than through independent wholesalers.

Wholesaler marketing decisions

Wholesalers now face growing competitive pressures, more-demanding customers, new technologies and more direct-buying programmes on the part of large industrial, institutional and retail buyers. As a result, they have taken a fresh look at their marketing strategies. As with retailers, their marketing decisions include choices of segmentation and targeting, differentiation and positioning, and the marketing mix – product and service assortments, price, promotion and distribution (see Figure 13.2).

Segmentation, targeting, differentiation, and positioning decisions

Like retailers, wholesalers must segment and define their target markets and differentiate and position themselves effectively – they cannot serve everyone. They can choose a target group by sise of customer (for example, large retailers only), type of customer (convenience

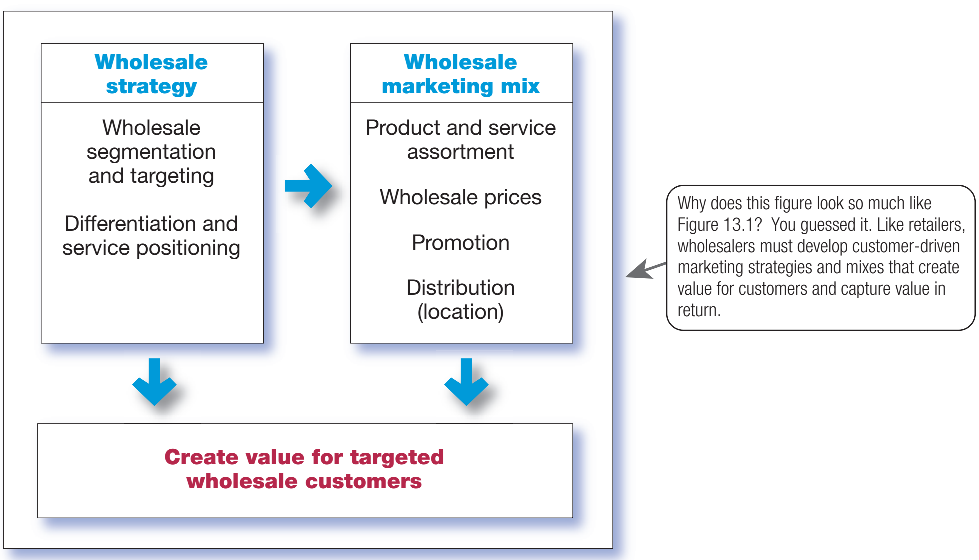

Figure 13.2 Wholesaler marketing strategies

stores only), the need for service (customers who need credit), or other factors. Within the target group, they can identify the more profitable customers, design stronger offers, and build better relationships with them. They can propose automatic reordering systems, establish management-training and advisory systems, or even sponsor a voluntary chain. They can discourage less-profitable customers by requiring larger orders or adding service charges to smaller ones.

Marketing mix decisions

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

Price is also an important wholesaler decision. Wholesalers usually mark up the cost of goods by a standard percentage and operate on small margins. As retail and industrial customers face increasing costs and margins pressures, they turn to wholesalers, looking for lower prices. Wholesalers may, in turn, cut their margins on some lines to keep important customers. They may also ask suppliers for special price breaks in cases when they can turn them into an increase in the supplier's sales.

Although *promotion* can be critical to wholesaler success, most wholesalers are not promotion minded. They have historically used largely scattered and unplanned trade advertising, sales promotion, personal selling and public relations. Like other business-to-business marketers, wholesalers need to make a team effort to sell, build and service major accounts. Wholesalers also need to adopt some of the non-personal promotion techniques used by retailers. They need to develop an overall promotion strategy and make greater use of supplier promotion materials and programmes.

Digital and social media are playing an increasingly important role in wholesaler promotion. For example, Grainger, an American industrial supply company, maintains an active presence on Facebook, YouTube, Twitter, LinkedIn and Google+. It also provides a feature-rich mobile app. On its YouTube channel, Grainger lists more than 500 videos on topics ranging from the company and its products and services to keeping down inventory costs.

Finally, *distribution* (location) is important. Wholesalers must choose their locations, facilities and other locations carefully. There was a time when wholesalers could locate in low-cost areas and invest little money in their buildings, equipment and systems. Today, however, as technology zooms forward, such behaviour results in outdated systems for material handling, order processing and delivery.

Instead, today's large and progressive wholesalers have reacted to rising costs by investing in automated warehouses and IT systems. Orders are fed from the retailer's information system directly into the wholesaler's, and the items are picked up by mechanical devices and automatically taken to a shipping platform where they are assembled. Most large wholesalers use technology to carry out accounting, billing, inventory control and forecasting. Modern wholesalers are adapting their services to the needs of target customers and finding cost-reducing methods of doing business. They are also transacting more business online. For example, e-commerce is Grainger's fastest-growing sales channel, making Grainger the 13th-largest online seller in the United States and Canada. Online and mobile purchasing now account for 40 per cent of the wholesaler's total sales.[34]

Trends in wholesaling

Today's wholesalers face considerable challenges. The industry remains vulnerable to one of its most enduring trends – the need for ever-greater efficiency. Tight economic conditions have led to demands for even lower prices and the winnowing out of suppliers who are not adding value based on cost and quality. Progressive wholesalers constantly watch for better ways to meet the changing needs of their suppliers and target customers. They recognise that their only reason for existence comes from adding value, which occurs by increasing the efficiency and effectiveness of the entire marketing channel.

As with other types of marketers, the goal is to build value-adding customer relationships. For example, consider Sysco, an American multinational wholesale food distribution company that operates behind the scenes to supply more than 425,000 restaurants, schools, hospitals, colleges and other commercial customers that prepare meals away from home.[35]

Whether it's a hot dog from NRG Stadium (the home of the National Football League's Houston Texans) in Houston, the original Italian sub from Jersey Mike's, crab cakes from a Hilton Hotel or a ham and cheese sandwich at the local hospital cafeteria, the chances are good that the ingredients were supplied by Sysco, the nation's top food supplier. Sysco supplies anything and everything needed to run an eating establishment, from boxes of seafood, chicken and beef to 25-pound bags of rice or pasta to gallon jars of ketchup or salsa to boxes of plastic gloves and jugs of dishwashing detergent. What makes Sysco so valuable to its customers is that it procures and delivers these supplies more dependably, efficiently and cheaply than customers could ever hope to do on their own.

For example, Lowell's, the iconic restaurant in Seattle's Pike Place Market, procures almost all of its products conveniently through the Sysco Market online ordering system. Its orders are processed quickly and accurately at Sysco's automated distribution centre. Then, Lowell's – by itself or with the help of Sysco sales associates and dispatchers – can track the location of individual deliveries via the My Sysco Truck program. Sysco constantly seeks new ways to add more value and build trust, from product traceability for safety to sourcing products from local, small- to mid-sized farms, ranches and processors to serve the needs of customers whose businesses are positioned on sustainability and community. In short, Sysco more than lives up to its motto: 'Good things come from Sysco.'

The distinction between large retailers and large wholesalers continues to blur. Many retailers now operate formats such as wholesale clubs and supercentres that perform many wholesale functions. One of the greatest strengths of the large retailer is to integrate wholesale and retail operations under direct control. Companies like Tesco, Carrefour and Walmart make relatively little use of independent wholesalers, usually dealing direct with manufacturers and managing their own logistics operations for greater efficiency. Retailers like these maintain buying functions actively seeking products direct from manufacturers across the world. In return, some large wholesalers are setting up their own retailing operations. For example, in the United States until recently, SuperValu was classified as a food wholesaler, with a majority of its business derived from supplying grocery products to independent grocery retailers. However, over the past decade, SuperValu has started or acquired several retail food chains of its own – including Shop 'n Save – to become one of America's food retailers. Thus, even though it remains the largest food wholesaler in the US, SuperValu can be seen as a retailer because a majority of its sales come from retailing.[36] Nonetheless, such moves are unusual in a European context.

Wholesalers will continue to increase the services they provide to retailers – retail pricing, cooperative advertising, marketing and management information services, accounting services, online transactions and others. However, both the more value-focused environment and the demand for increased services have put the squeeze on wholesaler profits. Wholesalers that do not find efficient ways to deliver value to their customers will soon drop by the wayside. Fortunately, the increased use of computerised, automated and internet-based systems will help wholesalers contain the costs of ordering, shipping and inventory holding, thus boosting their productivity.

Learning outcomes review

Retailing and wholesaling consist of many organisations bringing goods and services from the point of production to the point of use. In this chapter, we examined the nature and importance of retailing, the major types of retailers, the decisions retailers make and the future of retailing. We then examined these same topics for wholesalers.

Objective 1 Explain the role of retailers in the distribution channel and describe the major types of retailers (pp. 387–393)

Retailing includes all the activities involved in selling goods or services directly to final consumers for their personal, non-business use. Retailers play an important role in connecting brands to consumers in the final phases of the buying process. *Shopper marketing* involves focusing the entire marketing process on turning shoppers into buyers as they approach the point of sale. These days, shopper marketing and the 'point of purchase' go well beyond in-store buying. Today's buyers are omni-channel consumers who work across multiple channels as they shop. Thus, influencing consumers' buying decisions calls for *omni-channel retailing*, creating a seamless cross-channel buying experience that integrates in-store, online and mobile shopping.

Retail stores come in all shapes and sizes, and new retail types keep emerging. Store retailers can be classified by the *amount of service* they provide (self-service, limited service or full service), *product line sold* (speciality stores, department stores, supermarkets, convenience stores, superstores and service businesses), and *relative prices* (discount stores and off-price retailers). Today, many retailers are banding together in corporate and contractual *retail organisations* (corporate chains, voluntary chains, retailer cooperatives and franchise organisations).

Objective 2 Describe the major retailer marketing decisions (pp. 393–399)

Retailers are always searching for new marketing strategies to attract and hold customers. They face major marketing decisions about segmentation and targeting, store differentiation and positioning, and the retail marketing mix.

Retailers must first segment and define their target markets and then decide how they will differentiate and position themselves in these markets. Those that try to offer 'something for everyone' end up satisfying no market well. By contrast, successful retailers define their target markets well and position themselves strongly.

Guided by strong targeting and positioning, retailers must decide on a retail marketing mix – product and services assortment, price, promotion and place. Retail stores are much more than simply an assortment of goods. Beyond the products and services they offer, today's successful retailers carefully orchestrate virtually every aspect of the consumer store experience.

A retailer's price policy must fit its target market and positioning, products and services assortment, and competition. Retailers use various combinations of the five promotion tools – advertising, personal selling, sales promotion, PR and direct marketing – to reach consumers. Online, mobile and social media tools are playing an ever-increasing role in helping retailers to engage customers. Finally, it's very important that retailers select locations that are accessible to the target market in areas that are consistent with the retailer's positioning.

Objective 3 Discuss the major trends and developments in retailing (pp. 399–405)

Retailers operate in a harsh and fast-changing environment, which offers threats as well as opportunities. Following years of good economic times, retailers have now adjusted to the new economic realities and more thrift-minded consumers. New retail forms continue to emerge. At the same time, however, different types of retailers are increasingly serving similar customers with the same products and prices (retail convergence), making differentiation more difficult. Other trends in retailing include the rise of megaretailers; the rapid growth of direct, online, mobile and social media retailing; the need for omni-channel retailing; the growing importance of retail technology; a surge in green retailing; and the global expansion of major retailers.

Objective 4 Explain the major types of wholesalers and their marketing decisions (pp. 405–410)

Wholesaling includes all the activities involved in selling goods or services to those who are buying for the purpose of resale or business use. Wholesalers fall into three groups. First, *merchant wholesalers* take possession of the goods. They include *full-service wholesalers* (wholesale merchants and industrial distributors) and *limited-service wholesalers* (cash-and-carry wholesalers, truck wholesalers, drop shippers, rack jobbers, producers' cooperatives and mail-order wholesalers). Second, *brokers* and *agents* do not take possession of the goods but are paid a commission for aiding companies in buying and selling. Finally, *manufacturers' and retailers' branches and offices* are wholesaling operations conducted by non-wholesalers to bypass the wholesalers.

Like retailers, wholesalers must target carefully and position themselves strongly. And, like retailers, wholesalers must decide on product and service assortments, prices, promotion and place. Progressive wholesalers constantly watch for better ways to meet the changing needs of their suppliers and target customers. They recognise that, in the long run, their only reason for existence comes from adding value, which occurs by increasing the efficiency and effectiveness of the entire marketing channel. As with other types of marketers, the goal is to build value-adding customer relationships.

Navigating the key terms

Objective 1
Retailing (p. 387)
Retailer (p. 387)
Shopper marketing (p. 387)
Omni-channel retailing (p. 387)
Speciality store (p. 389)
Department store (p. 389)
Supermarket (p. 389)
Convenience store (p. 389)
Superstore (p. 390)
Category killer (p. 390)
Service retailer (p. 391)
Discount store (p. 391)
Off-price retailer (p. 391)
Independent off-price retailer (p. 391)
Factory outlet (p. 391)
Warehouse club (p. 391)
Corporate chains (p. 392)
Franchise (p. 393)

Objective 2
Shopping centre (p. 398)

Objective 3
Showrooming (p. 401)

Objective 4
Wholesaling (p. 405)
Wholesaler (p. 405)
Merchant wholesaler (p. 406)
Broker (p. 408)
Agent (p. 408)
Manufacturers' and retailers' branches and offices (p. 408)

Discussion and critical thinking

Discussing the concepts

13.1 Define *omni-channel retailing* and explain its connection to *shopper marketing*. (AACSB: Communication)

13.2 Explain the various marketing decisions retailers must consider in designing strategies to attract and hold customers. (AACSB: Communication)

13.3 Name and describe the three types of off-price retailers. How do off-price retailers differ from discount stores? (AACSB: Communication)

13.4 Name and describe the three major groups of wholesalers. (AACSB: Communication; Reflective thinking)

13.5 Discuss the marketing mix decisions faced by wholesalers. What current challenges do wholesalers face? (AACSB: Communication; Reflective thinking)

Critical-thinking exercises

13.6 You need a new pair of jeans, and you have several retail options. From Table 13.1, choose three different major store retailer types and select a specific store for each type chosen. Visit each store and describe each store's segmentation and positioning strategy and retail marketing mix – product, price, place and promotion. How do the product assortments differ? What is each store's pricing approach? What promotional tools are used? Discuss store locations. (AACSB: Communication; Reflective thinking; Use of IT)

13.7 In a small group, present a plan for a new retail store. Who is the target market? Describe the merchandise, atmospherics, price points, services provided, location and how you would promote your retail store. Describe how you will differentiate your store from competitors. (AACSB: Communication; Reflective thinking)

13.8 Identify a retailer that is currently struggling. Discuss why it is having difficulties and suggest ways to turn things around. (AACSB: Communication; Reflective thinking)

Mini-cases and applications

Online, mobile and social media marketing: skipping the checkout line

The convenience of running to the store for a few grocery items can be hampered by long checkout lines. The creative geniuses at Selfycart (an independent personal checkout app developed by a startup based in San Jose, California, USA) solved this issue by developing an app that allows shoppers to browse, scan and pay for products in participating stores using their mobile devices without waiting in line. Selfycart's technology continues to change, including a virtual shopping cart, shopping lists, historical purchase information, list sharing and a coupon portal that virtually clips coupons. Selfycart also developed a daily deal section that offers discounts and special offers specific to each store. Selfycart will eventually introduce online ordering so consumers can add products to a virtual shopping cart, pay, and arrange store pickup at a specified time. Selfycart continues to discover new ways to create value for its users. Suddenly, skipping the line is an extremely appealing prospect!

13.9 Investigate the Selfycart app. What benefits and challenges will stores face in introducing Selfycart or any other mobile checkout app? (AACSB: Communication; Use of IT; Reflective thinking)

13.10 If Selfycart or a similar mobile checkout app was available at your grocery store, would you use it? What benefits would you gain by using this new technology? Discuss the challenges you would face. (AACSB: Communication; Reflective thinking)

Marketing ethics: marketplace fairness

The desire of many governments to regulate online marketing, particularly where taxes, security or censorship are involved, is a global issue. For example, in the US, the Marketplace Fairness Act of 2013 allows US states to require online retailers to collect sales taxes, in the same way that conventional retailers do. Most consumers purchase online knowing that they may not have to pay sales tax, which essentially lowers prices for consumers. This anomaly in the US results from a 1992 Supreme Court ruling stipulating that catalogue and online sellers need only collect sales taxes for states in which they have a physical presence. Consumers are supposed to remit taxes to their state if an online retailer does not collect them, but consumers often do not pay the taxes, causing States to miss out on millions in tax revenues. Online giant Amazon saw this as a competitive advantage and was very careful regarding how its employees behaved when conducting business in certain states to avoid the 'physical presence' requirement. Amazon opposed any initiatives to require online resellers to collect sales taxes. Bricks-and-mortar retailers cried foul, claiming online sellers have an unfair competitive price advantage. The Marketplace Fairness Act aims to eliminate that advantage. But will it? With more than 9,000 different tax jurisdictions, can a small retailer that also has an online presence compete with the Amazons and other online giants? While Amazon was initially against such legislation, the online reseller changed direction and supported the Act. The Act is now law in the US, subject to the states simplifying their sales tax arrangements.

13.11 Why did Amazon change its position regarding online sales taxes and why does it now support the Marketplace Fairness Act? (AACSB: Communication; Reflective thinking)

13.12 Discuss the impact the Marketplace Fairness Act will have on small retailers in the US. Is it fair that small retailers should have to collect sales taxes on online sales to customers outside of their state? (AACSB: Communication; Ethical reasoning; Reflective thinking)

Marketing by numbers: stockturn rate

Retailers need merchandise to make sales. In fact, a retailer's stock is its biggest asset. Not stocking enough merchandise can result in lost sales, but carrying too much stock increases costs and lowers margins. Both circumstances reduce profits. One measure of a reseller's stock management effectiveness is its stockturn rate. The key to success in retailing is realising a large volume of sales on as little stock as possible, while maintaining enough stock to meet customer demands.

13.13 Refer to Appendix 2, and determine the stockturn rate of a retailer carrying an average inventory at cost of €350,000, with a cost of goods sold of €800,000. (AACSB: Communication; Analytical reasoning)

13.14 If this company's stockturn rate was 3.5 last year, is the stockturn rate calculated above better or worse? Explain. (AACSB: Communication; Reflective thinking)

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Company case

Lush: striving for the ultimate customer experience

Lush, a handmade cosmetics company set up in 1994 in the UK, has been a successful cosmetics manufacturer and retailer since its inception. In just over 20 years, Lush has expanded and has nearly 1,000 stores globally in almost 50 countries. Its performance has been particularly sterling recently compared to the struggling of its closest rival, another longer-established and bigger cosmetics company in the UK: Body Shop. For example, it was reported that while Body Shop had been struggling with falling sales, Lush's sales surged 26 per cent to reach £723 million in the year ended June 2017 with an increase of 76 per cent in pre-tax profit at £43.2 million.

There are some similarities and differences between these two brands. Both brands are positioned based on ethical values (e.g. no animal testing) and being natural (use of natural ingredients). They are trying to attract the ethically conscious consumer with similar appeals and both also contribute significantly to charitable causes. However, Lush seems to have an additional appeal with its products, which are handmade using fresh natural ingredients. So what has made Lush so successful?

Product strategy: fresh and handmade

Lush produces cosmetics and body care products such as creams, shampoos, shower gels, lotions, moisturisers and so on, for the face, hair and body. It also produces fragrances, such as perfume and body sprays. Lush has a strict product policy, focusing on three main areas: freshness, handmade and solid. The first two were the pivotal columns of its product strategy. 'Freshness' means that Lush makes its products by incorporating whole fruits and vegetables (organic wherever possible) and minimising the use of synthetics and preservatives, with 65 per cent of its products being self-preserving. Lush strongly believes that adding chemicals is harmful for the body and the environment. Its products are suitable for both vegetarians and vegans. Most of Lush's products have a shelf life of not more than 14 months and can be stored at room temperature (except, for example, Fresh Face Masks that need to be kept refrigerated). 'Handmade' means that its products are made by hand in spaces that are 'more like big kitchens than manufacturing sites'. It also puts a sticker on each product, telling customers who made it, when it was made and when it goes out of date. Finally, 'solid' refers to the fact that a large number of its products are solid (such as the popular Bath Bomb), which require no preservatives or excess packaging and hence, according to Lush, are good for the environment. Lush claims that it 'uses less than half the packaging materials a comparable cosmetic company would use just by selling products without packaging'.

And 100 per cent of its products are recyclable, compostable or biodegradable.

Pricing

Lush's products are not cheap and cannot be cheap due to the cost of hand-making its products with fresh and natural materials. But at the same time it is not as expensive as those luxury brands, such as Chanel, Lancôme and Dior. For example, Lush's body lotion is priced at about £15 per 240g, while it costs less than £8 to buy a 300ml pack of Aveeno Daily Moisturising Lotion. Lush's face foundation costs about £17 for 30g package, but Chanel's foundation costs about £37 for the same amount. In this sense, Lush adopts premium, but non-luxury, pricing. According to Lush itself, it sets its products' prices based on the cost of the ingredients rather than what the market believes the cost should be. Lush also claims that despite the high quality, freshness and handmade nature of its products, it can reduce prices because it does not 'waste money on excess packaging, advertising, expensive marketing and storage facilities for large stock-holding'.

Promotion strategy

Lush follows a 'no advertising policy', which states that the company does not run TV campaigns or celebrity endorsements. It relies on both its own staff and customers to promote the brand. For example, in promoting its products, store staff can, in 'random acts of kindness', give away products to customers in need of cheering up, or for other reasons, such as celebrating a special occasion. In addition, Lush knows how to effectively leverage brand ambassadors, particularly in social media. The main aim of its social media marketing is to build connections with shoppers and nurture a strong brand community. As of December 2018, Lush UK's Instagram account has about 500,000 followers, while its North America account has over 4.2 million followers. This has inspired social media trends like the hashtag #bathart, which currently features more than 340,000 images of Lush's popular Bath Bomb product. On Facebook, Lush UK has over 410,000 Likes and 390,000 followers; Lush's North American account has over 1.23 million Likes and 1.2 million followers. In 2016, Lush launched its first stand-alone app, which allows its customers to shop online and read its online editorial content. The new app was downloaded 50,000 times within the first two days of the launch.

Lush also revamped its website by changing it from an e-commence platform to a 'publishing' platform. Besides communicating the 'breadth and depth' of its products, its homepage regularly features well-reported articles on major environmental, animal or human rights issues. These articles and stories are now populating its social media channels, including Instagram, Snapchat and YouTube. The storytelling of social values is a two-way communication with customers. Lush adjusts its storytelling based on the feedback it obtains from its customers on these social media channels. The aim of telling these social value stories is not just to build a brand image consistent with its value and vision, but also to encourage customers to 'learn and experience the values of the brand'. In addition, in order to further strengthen the integration between the in-store and digital experiences, Lush publishes short video clips on its website and app on how to use products and information about ingredients. Yet, interestingly, in April 2019, Lush made a surprising move to close several of its UK social media accounts on Facebook, Twitter and Instagram (US accounts remain operational) with a statement that 'We don't want to limit ourselves to holding conversations in one place, we want social to be placed back in the hands of our communities – from our founders to our friends'.

Besides the digital channels, Lush uses physical channels, such as shop windows, for its content strategy. In addition to showcasing its products, Lush uses shop windows to educate customers on the social issues that are most relevant to the brand positioning. These issues may include the refugee crisis, shark finning or call for help after a natural disaster. Lush is transitioning its windows from static posters to digital signage to enable it to post dynamic content based on inventory and world events, 'so for us to be able to flip a window overnight as a result of a natural disaster or political support that we need to rally'. The essence of Lush's promotion strategy can be demonstrated by the following statement, 'Brands can't just sell products to consumers anymore – to stay relevant they have to look out for the world too. If your mentality is still "screw the rest of them, I just want to make money" then you are eventually going to fail.'

'The ultimate customer experience'

Lush's core marketing strategy is a focus on customer experience. In recent years, Lush has been consistently ranked among the top five best UK brands for customer experience, according to KPMG Nunwood's annual rankings in its Customer Experience Excellence Index. In 2015 it was ranked first by beating strong contenders, such as First Direct and John Lewis. Besides the storytelling and value marketing, which offers valuable brand experience among its customers, Lush invests profusely to enhance in-store experience. This includes some traditional areas, such as interaction with customers, product display, store layout and atmosphere. For Lush, loyalty is not built by offering discounts; instead it is achieved by its staff having more time to talk to customers on the shop floor. One way of doing this is to apply technology in a smart way. Therefore, it has recently turned its attention to the digital infrastructure, to offer customers an even more seamless shopping environment by launching its own tablet till system. The tablet till system, besides being installed in the normal cash desks, allows its shop staff to roam the shop, offers mobile checkout points and personalises product information to customers. Early trial of the system benefits the company with up to 20 per cent increase in revenue and a reduction in queues. Other benefits include more space being spared for product display and cost savings from reduction in capital expenditure, and so on. But ultimately the goal is to enhance customer in-store experience.

#Spycops campaign

However, Lush's campaign-driven marketing strategy is not without criticism or controversy, particularly with its recent #Spycops campaign. In May 2018, Lush launched the campaign with the aim of highlighting previous abuses by undercover police officers in the UK. Its store windows displayed a mock-up image of a police officer in and out of uniform, and windows in some stores featured replica police tape stating 'Police Have Crossed the Line' and boxes featuring slogans including 'Police Spies Out of Lives'. However, the campaign immediately attracted criticism from police officers and the general public. This is because this campaign seemed to suggest that police officers were liars and involved in a cover-up of the abuse. For some, the Lush campaign was seen as a deliberate attack on the police force in the UK. It attracted negative publicity and criticism in national newspapers and among marketing practitioners. For example, Lush was criticised for taking it too far and crossing the line itself. As commented by an industry analyst, 'Clearly Lush is more than just cosmetics, but equally clearly it is not legitimately able to kick start a debate on 20th century undercover policing approaches.' It also infuriated some customers, as one customer commented on Lush's website:

> 'I was just about to order a bunch of stuff from you, having popped into the shops infrequently. However, I work in an undercover policing unit – counter corruption – and your home page alone has stopped me wanting to shop, for the sheer amount of anti-covert messages on there. Stand up for what you believe in by all means but for goodness sake think much harder about how you phrase, word and advertise things.'

And it has been praised by others:

> 'I think this campaign by Lush was brilliant and has inspired my love of Lush and made me want to support you for ever – it is sad that our police wish to cover up their corruption – be strong Lush and know we love you.'

Against the backlash, Lush made a public statement to defend the campaign citing that it was 'not anti-state/anti-police', and 'not about the real police work done by those front line officers who support the public every day – it is about a controversial branch of political undercover policing that ran for many years before being exposed'.

Questions for discussion

1. What do you think are the main factors that have driven Lush's success?
2. How do you rate Lush's retailing decisions regarding product, price, promotion and so on?
3. How do you evaluate Lush's online and digital strategies? How they are different from other typical ones?
4. And how do you evaluate the #Spycops campaign? Does it fit Lush's overall value and positioning? What could be its long-term impact on Lush?

Sources: Clare Hutchison, 'Lush washes off Body Shop fears as sales surge', *Evening Standard*, 13 March 2017, https://www.standard.co.uk/business/lush-washes-off-body-shop-fears-as-sales-surge-a3488636.html; Mark Jones and Nicole Manktelow, 'How Lush has grown without spending a dime on advertising', CMO, 28 November 2017, https://www.cmo.com/interviews/articles/2017/11/9/the-cmo-show-natasha-ritz-brand-communications-manager-lush-cosmetics.html#gs.dNSSc=M; Cate Trotter, 'What can you learn from Lush's retail strategy?' *Insider Trends*, 30 November 2017, https://www.insider-trends.com/inside-retail-strategy-lush/; Thomas Hobbs, 'Lush to prioritise subscription services and fan clubs as part of loyalty drive', *Marketing Week*, 25 October 2017, https://www.marketingweek.com/2017/10/25/lush-talks-subscription-services-and-fan-clubs/; Lucy Tesseras, 'Lush dethrones First Direct as the top brand for customer experience', *Marketing Week*, 10 September 2015, https://www.marketingweek.com/2015/09/10/lush-dethrones-first-direct-as-the-top-brand-for-customer-experience/; Sarah Vizard, 'Lush on its journey to provide "the ultimate customer experience"', *Marketing Week*, 22 January 2018, https://www.marketingweek.com/2018/01/22/lush-ultimate-customer-experience/; 'Lush drops "anti-spy cops" campaign', BBC, 8 June 2018, https://www.bbc.co.uk/news/uk-44413586; Mark Ritson, 'Lush's moronic #Spycops campaign is a new low for brand purpose', *Marketing Week*, 5 June 2018, https://www.marketingweek.com/2018/06/05/mark-ritson-lush-spycops/; https://uk.lush.com/article/product-policy; https://uk.lush.com/article/spycops-statement; and https://www.bbc.co.uk/news/technology-47871948, accessed May 2019.

Chapter Fourteen

Engaging consumers and communicating customer value: integrated marketing communications strategy

Chapter preview

In this and the next three chapters, we'll examine the last of the marketing mix tools – promotion. Companies must do more than just create customer value. They must also clearly and persuasively communicate that value. Promotion is not a single tool but rather a mix of several tools. Ideally, under the concept of *integrated marketing communications*, a company will carefully coordinate these promotion elements to engage customers and build a clear, consistent and compelling message about an organisation and its products.

We'll begin by introducing the various promotion mix tools. Next, we'll examine the rapidly changing communications environment – especially the addition of digital, mobile and social media – and the need for integrated marketing communications. Finally, we discuss the steps in developing marketing communications and the promotion budgeting process. In the next three chapters, we'll present the specific marketing communications tools: advertising and public relations (Chapter 15); personal selling and sales promotion (Chapter 16); and direct, online, mobile and social media marketing (Chapter 17).

Learning outcomes

- **Objective 1** Define the five promotion mix tools for communicating customer value.
  The promotion mix (p. 421)
- **Objective 2** Discuss the changing communications landscape and the need for integrated marketing communications.
  Integrated marketing communications (pp. 421–425)
- **Objective 3** Outline the communication process and the steps in developing effective marketing communications.
  Steps in developing effective marketing communications (pp. 426–432)
- **Objective 4** Explain the methods for setting the promotion budget and factors that affect the design of the promotion mix.
  Setting the total promotion budget and mix (pp. 432–438)

The #Drummondpuddlewatch case: how a creative agency's puddle went viral around the world

Elena Chatzopoulou, Associate Professor in Digital Marketing, Leonardo de Vinci Business School (EMLV), Paris – La Défense

Introduction

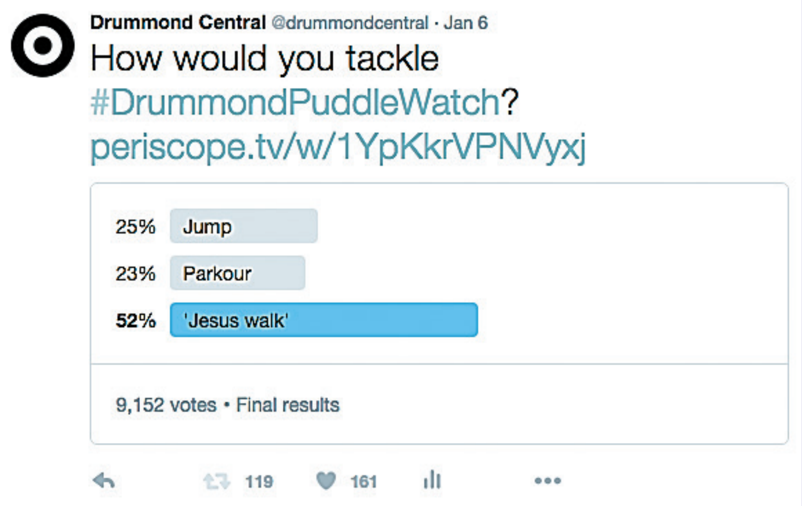
All it takes to become viral
Source: Richard Rippon

The post-modern era (or postmodernity) has been characterised as the digital era during which consumers are bombarded with information, advertisements, paid endorsements and several means of promotion. Under these circumstances, brands face the difficulty of differentiating themselves from others and it is harder than ever for their content to go viral. This case study shows how a company can break through advertising clutter and become popular around the world thanks to a viral. The #Drummondpuddlewatch became the number-one viral in the UK and number two in the world.

Everything started on a rainy day in Newcastle upon Tyne in the North East of England, where a puddle formed outside the window of a communication media company, Drummond Central. Richard Rippon, the social media manager of the company posted the event via Drummond's social media. He tweeted a humorous message about the puddle, asking how people would tackle the puddle, and added the #Drummondpuddlewatch hashtag. He added a poll with three choices, where the audience could vote: jump, parkour or 'Jesus walk'. He then decided to integrate Drummond's social media – a new thing at the time: the event was streamed live on Instagram Live, showing how people were trying to jump the puddle, and this immediately started trending among social media users.

The audience decoded the message quickly and all wanted to share the joy of puddle watch. #Drummondpuddlewatch became viral in couple of hours and even traditional media broadcast the event in their news. CNN asked the managing director of Drummond Central for a live interview, newspapers wrote articles about the puddle and many brands were making posts related to puddles and the #Drummondpuddlewatch.

Business problem



Everything started on Twitter
Source: Richard Rippon

As consumers are bombarded daily with information and promotions, businesses and brands have to position themselves as different and unique. The solution to the information flood seems to be no-content marketing, which often relies on elements of fun and uniqueness. Most companies nowadays follow aggressive promotion strategies; however, the #Drummondpuddlewatch viral creator, Richard Rippon, reveals that what happened was 'a happy accident' and that he had no intention of running a campaign to promote the company. Good things happen to good people, but there is also a logical explanation here. Audiences seem to be fed up with advertisements and other promotional material, so a funny viral with no promotional content interested people. If a funny

The audience participated actively in the viral
Source: Richard Rippon

message that does not explicitly advertise a brand or business is transmitted to the audience, it has many chances to become viral.

Moreover, people want to be part of a community and to feel connected with each other. As Beth Hazon, managing director of Drummond Central stated during her live interview on CNN, 'People want to be involved in a shared experience'. In this case, people were also actively involved by visiting the puddle. They could be there physically, so they went there with their surfboards to cross the puddle, while others went swimming in it. Their videos entertained viewers, who were also posting funny messages during the live streaming of the puddle.

The viral started on Twitter and then it moved to Instagram, following a successful integration of social media channels. It was also the result of a combination of traditional media and websites that picked up the puddle watch and so the event was given a lot of free publicity on websites, in newspapers and on television. As such, electronic word-of-mouth bloomed. It took only a few hours for the puddle to go viral. *Unilad* and *The Poke* websites shared the puddle watch case and by lunchtime, Drummond's team had 1,000 viewers on Instagram, 'a crazy number of viewers', Richard said. Furthermore, people were talking at work about the phenomenon and they were also sharing the link. All channels had the same message: a humorous approach to a cold and rainy day full of trouble for pedestrians. This message was simple, so the vast majority of the audience decoded it and engaged with it. As Richard argues, 'the puddle-watch was for everyone. There was something so marvellously simple about it'.

The case was also very successful due to the integration of traditional and digital media. CNN asked for a live interview and the requests from other traditional media went on for weeks afterwards. Everyone had the same question: 'how and why we did the puddle watch', Richard remembers, and he continues, 'well, we did it for our own entertainment and our agency is giving us the space to try new things'. As the viral had no content, a new phenomenon of integration also flourished. This time, it was not only about an integration of media channels but also about an integration of brands. Popular brands, knowing the success of the viral, sought to link their names with Drummond. Brands such as Lidl, Hunter, PG Tips, Marmite, Domino's and Star Wars UK were posting pictures and quotes about puddles on their social media accounts, also mentioning the #Drummondpuddlewatch.

Richard Rippon

Most importantly, the puddle watch occurred at the right time. This was a coincidence for the creators of the #Drummondpuddlewatch; however, future marketers need to apply this rule. Looking back at when the viral took place, it was 6 January, when people had just returned to work after the Christmas break. They were looking for a distraction and were more prone to watching the news and digital platforms. On top of this, Richard and his team in Drummond were ahead of the game. Live streaming had just launched on Instagram and as Richard stated 'Facebook live existed, but it was for celebrities and influencers. The puddle was open for everyone'. The communication channel was therefore consistent with the audience's identity and preferences, which enabled the message to be decoded easily and to be passed on effectively at the right time.

Drummond and its social media team fulfilled the Marketing Communication Tetrahedron (Keller, 2001; see references) and the processing goals that the audience were looking for. In other words, the audience was approached with the best effective communication options at the right time and place, hitting the 'sweet spot' of the audience, which led to a response from the audience's side.[1]

Building good customer relationships calls for more than just developing a good product, pricing it attractively and making it available to target customers. Companies must also *engage* consumers and *communicate* their value propositions to customers, and what they communicate should not be left to chance. All communications must be planned and blended into carefully integrated programmes. Just as good communication is important in building and maintaining any other kind of relationship, it is a crucial element in a company's efforts to engage customers and build profitable customer relationships.

Author comment

The promotion mix is the marketer's bag of tools for engaging and communicating with customers and other stakeholders. To deliver a clear and compelling message, each tool must be carefully coordinated under the concept of integrated marketing communications (IMC).

The promotion mix

A company's total **promotion mix** – also called its **marketing communications mix** – consists of the specific blend of advertising, public relations, personal selling, sales promotion and direct marketing tools that the company uses to engage consumers, persuasively communicate customer value and build customer relationships. The five major promotion tools are defined as follows:[2]

- **Advertising**. Any paid form of nonpersonal presentation and promotion of ideas, goods or services by an identified sponsor.
- **Sales promotion**. Short-term incentives to encourage the purchase or sale of a product or service.
- **Personal selling**. Personal customer interactions by the firm's sales force for the purpose of engaging customers, making sales and building customer relationships.
- **Public relations (PR)**. Building good relations with the company's various publics by obtaining favourable publicity, building up a good corporate image, and handling or heading off unfavourable rumours, stories and events.
- **Direct and digital marketing**. Engaging directly with carefully targeted individual consumers and customer communities to both obtain an immediate response and build lasting customer relationships.

Each category involves specific promotional tools that are used to communicate with customers. For example, *advertising* includes broadcast, print, online, mobile, outdoor and other forms. *Sales promotion* includes discounts, coupons, displays, demonstrations and events. *Personal selling* includes sales presentations, trade shows and incentive programmes. *Public relations* includes press releases, sponsorships, events and web pages. And *direct and digital marketing* includes direct mail, email, catalogues, online and social media, mobile marketing and more.

At the same time, marketing communication goes beyond these specific promotion tools. The product's design, its price, the shape and colour of its package, and the stores that sell it – *all* communicate something to buyers. Thus, although the promotion mix is the company's primary engagement and communications activity, the entire marketing mix – promotion *and* product, price and place – must be coordinated for greatest impact.

Promotion mix (marketing communications mix) The specific blend of promotion tools that the company uses to persuasively communicate customer value and build customer relationships.

Advertising Any paid form of nonpersonal presentation and promotion of ideas, goods or services by an identified sponsor.

Sales promotion Short-term incentives to encourage the purchase or sale of a product or a service.

Personal selling Personal presentation by the firm's sales force for the purpose of engaging customers, making sales and building customer relationships.

Public relations (PR) Building good relations with the company's various publics by obtaining favourable publicity, building up a good corporate image, and handling or heading off unfavourable rumours, stories and events.

Direct and digital marketing Engaging directly with carefully targeted individual consumers and customer communities to both obtain an immediate response and build lasting customer relationships.

Integrated marketing communications

In past decades, marketers perfected the art of mass marketing: selling highly standardised products to masses of customers. In the process, they developed effective mass-media communication techniques to support these strategies. Large companies now routinely invest millions or even billions of euros in television, magazine or other mass-media advertising, reaching tens of millions of

Author comment

Integrated marketing communications – IMC – is a really hot topic these days. No other area of marketing is changing so quickly and profoundly. A big part of the reason is the huge surge in customer engagement through digital media – online, mobile and social media marketing.

customers with a single ad. Today, however, marketing managers face some new marketing communications realities. Perhaps no other area of marketing is changing so profoundly as marketing communications, creating both exciting and challenging times for marketing communicators.

The new marketing communications model

Several major factors are changing the face of today's marketing communications. First, *consumers* are changing. In this digital, wireless age, consumers are better informed and more communications empowered. Rather than relying on marketer-supplied information, they can use the internet, social media and other technologies to find information on their own. They can connect easily with other consumers to exchange brand-related information or even create their own brand messages and experiences.

Second, *marketing strategies* are changing. As mass markets have fragmented, marketers are shifting away from mass marketing. More and more, they are developing focused marketing programmes designed to engage customers and build customer relationships in more narrowly defined micromarkets.

Finally, sweeping advances in *digital technology* are causing remarkable changes in the ways companies and customers communicate with each other. The digital age has spawned a host of new information and communication tools – from satellite and cable television systems to smartphones and tablets to the many faces of the internet (brand websites, email, blogs, social media and online communities, the mobile web and so much more). Just as mass marketing once gave rise to a new generation of mass-media communications, the new digital and social media have given birth to a more targeted, social and engaging marketing communications model.

Although network television, magazines, newspapers and other traditional mass media remain very important, their dominance is declining. In their place, advertisers are now adding a broad selection of more-specialised and highly targeted media to engage smaller customer communities with more personalised, interactive content. The new media range from speciality cable television channels and made-for-the-web videos to online ads, email and texting, blogs, mobile catalogues and coupons, and a burgeoning list of social media. Such new media have taken marketing by storm.

Some advertising industry experts even predict that the old mass-media communications model will eventually become obsolete. Mass-media costs are rising, audiences are shrinking, ad clutter is increasing and viewers are gaining control of message exposure through technologies such as video streaming or DVRs that let them skip disruptive television commercials. As a result, the sceptics suggest, marketers are shifting ever-larger portions of their marketing budgets away from old-media mainstays and moving them to online, social, mobile and other new-age media.

In recent years, although TV remains a potent advertising medium that captures a third or more of total advertising spending, its growth has slowed or declined. Ad spending in magazines, newspapers and radio has also lost ground. Meanwhile, spending in digital media has surged. Growing at a rate of 15 per cent a year, total digital ad spending is expected to pass TV spending this year. By 2020, digital media will capture an estimated 45 per cent of all ad spending compared with TV's 33 per cent. By far the fastest-growing digital category is mobile, which grew 38 per cent last year and will account for an estimated 74 per cent of all digital ad spending by 2020.

More and more, large advertisers – from Diageo to Unilever – are moving toward a 'digital-first' approach to building their brands. For example, Unilever, one of the world's largest advertisers, now spends as much as one-quarter of its €7 billion global marketing budget on digital media. In many European countries, as well as countries such as the United States and China, digital media account for closer to 50 per cent of its marketing budget.[3]

IKEA have been widely acknowledged as excellent at not only recognising but reacting to opportunities to react to events via digital media. A good example of this is IKEA's lightning response to online comparisons between their iconic blue shopping bag and a very expensive luxury-brand bag by Balenciaga. Commentators had widely noted that the two bags were very similar in size, style, shape, colour and even the double-looping handles. However, fashion journalists joked at the difference in price – a very modest €0.99 versus a staggering €1,800 for the (admittedly somewhat more robust) Balenciaga bag. In response to a Twitter-storm of comment, the wily Swedish retailer noted the 'flattering' resemblance and then rapidly launched a humorous ad with a tongue-in-cheek guide for consumers to help them tell the two bags apart. IKEA noted that their blue 'Frakta' bag and the designer 'counterfeit' was markedly different with advice such as 'Shake it. If it rustles, it's the real deal.' This superb ad, which was created by the Ikea Creative Hub and the agency Acne, not only captured the mood of the moment but skilfully exploited the opportunity for digital coverage. Indeed, mainstream media, including the *Daily Mail* newspaper and *Vogue*, picked up on the ad, generating more than 165 million unique media impressions and over €6 million of earned media. An impressive outcome on a tiny media budget.[4]

Walkers' use of social media has proved an excellent way to engage customers with the brand.

Source: Dave J Hogan/Getty Images

In an interesting link up between digital and physical promotions, Walkers in the UK recently transformed bus shelters into tweet-activated vending machines. As part of their search for new flavours (the 'Do Us a Flavour' campaign) the campaign featured a well-known UK ex-footballer and TV personality Gary Lineker. Commuters were required to tweet @Walkers_busstop with an additional code to be given a free packet of new-flavour crisps by a virtual image of the ex-England footballer. Consumers were then encouraged to vote for their favourite new recipe flavour online and via a Facebook page.

In the new marketing communications world, rather than using old approaches that interrupt customers and force-feed them mass messages, new media formats let marketers reach smaller communities of consumers in more engaging ways. For example, think about television viewing these days. Consumers can now watch their favourite programmes on just about anything with a screen – on televisions but also laptops, smartphones or tablets. And they can choose to watch programmes whenever and wherever they wish, often without commercials. Increasingly, some programmes, ads and videos are being produced only for online viewing.

Despite the shift toward digital media, however, traditional mass media still capture a sizeable share of the promotion budgets of most major marketing firms, a fact that probably won't change quickly. Thus, rather than the old-media model collapsing completely, most marketers foresee a shifting mix of both traditional mass media and online, mobile and social media that engage more-targeted consumer communities in a more personalised way. In the end, regardless of the communications channel, the key is to integrate all of these media in a way that best engages customers, communicates the brand message and enhances the customer's brand experiences.

As the marketing communications environment shifts, so will the role of marketing communicators. Rather than just creating and placing 'TV ads' or 'print ads' or 'Snapchat branded story ads', many marketers now view themselves more broadly as **content marketing** managers. As such, they create, inspire, and share brand messages and conversations with and among customers across a fluid mix of *paid, owned, earned* and *shared* communication channels. These channels include media that are both traditional and new as well as controlled and not controlled. It's not just advertising any more, notes one ad agency executive. 'It's about [communications] context and channels now, rather than just the message itself. It's about mapping the customer journey to start a conversation with consumers, one that leads to engagement, purchase, loyalty, and advocacy at different touchpoints against this integrated journey'.[5]

Content marketing Creating, inspiring, and sharing brand messages and conversations with and among consumers across a fluid mix of paid, owned, earned and shared channels.

The need for integrated marketing communications

The shift toward a richer mix of media and content approaches poses a problem for marketers. Consumers today are bombarded by brand messages from a broad range of sources. But all too often, companies fail to integrate their various communication channels. Mass-media ads

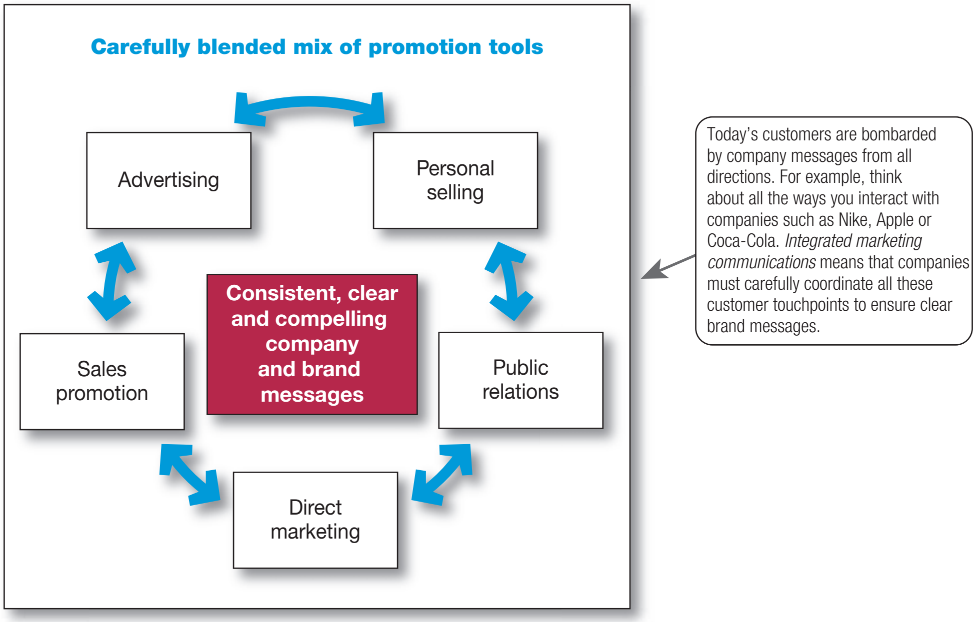


Figure 14.1 Integrated marketing communications

say one thing, whereas companies' websites, emails, social media pages or videos posted on YouTube say something altogether different.

One problem is that marketing content often comes from different parts of the company. Advertising messages are prepared by the advertising department or an ad agency. Other company departments or agencies prepare public relations messages, sales promotion events, and online or social media content. However, consumers don't distinguish between content sources the way marketers do. In the consumer's mind, brand-related content from different sources – whether it's a Champion's League ad, in-store display, mobile app or friend's social media post – all merge into a single message about the brand or company. Conflicting content from these different sources can result in confused company images, brand positions and customer relationships.

Thus, the explosion of online, mobile and social media marketing presents tremendous opportunities but also big challenges. It gives marketers rich new tools for understanding and engaging customers. At the same time, it complicates and fragments overall marketing communications. The challenge is to bring it all together in an organised way. To that end, most companies practise the concept of **integrated marketing communications (IMC)**. Under this concept, as illustrated in Figure 14.1, the company carefully integrates its many communication channels to deliver a clear, consistent and compelling message about the organisation and its products.

Integrated marketing communications (IMC) Carefully integrating and coordinating the company's many communications channels to deliver a clear, consistent and compelling message about the organisation and its products.

Often, different media play unique roles in engaging, informing and persuading consumers. For example, a recent study showed that more than two-thirds of advertisers and their agencies are planning video ad campaigns that stretch across multiple viewing platforms, such as traditional TV, and digital, mobile and social media. Such *video convergence*, as it's called, combines TV's core strength – vast reach – with digital's better targeting, interaction and engagement.[6] These varied media and roles must be carefully coordinated under the overall integrated marketing communications plan.

A great example of a well-integrated marketing communications effort is that of the ALS Foundation in the Netherlands:[7]

> The ALS Foundation's 'I have already died' campaign is the deserved winner of a raft of prestigious awards and is widely-acknowledged as an excellent integrated campaign that genuinely changed the world. The 'I have already died' campaign sought to increase awareness of ALS, commonly known as Lou Gehrig's disease, while encouraging pharmaceutical companies to devote more research to a search for a cure. As ALS sufferers usually pass on within three years of diagnosis; limited research has been conducted. In response, the agency Publicis Amsterdam

adopted a confrontational strategy – recording appeals from patients and airing them after they had died. The campaign received very heavy play on a wide range of media from TV to print with truly breathtaking results. Donations rose by 500 per cent, awareness increased from 60 per cent to 81 per cent and willingness to give rose from 27 per cent to 40 per cent.

In the past, no one person or department was responsible for thinking through the communication roles of the various promotion tools and coordinating the promotion mix. To help implement integrated marketing communications, some companies have appointed a marketing communications director who has overall responsibility for the company's communications efforts. This helps to produce better communications consistency and greater sales impact. It places the responsibility in someone's hands – where none existed before – to unify the company's image as it is shaped by thousands of company activities.

A view of the communication process

Integrated marketing communications involves identifying the target audience and shaping a well-coordinated promotional programme to obtain the desired audience response. Too often, marketing communications focus on immediate awareness, image or preference goals in the target market. But this approach to communication is too short-sighted. Today, marketers are moving toward viewing communications as managing ongoing customer engagement and relationships with the company and its brands.

Author comment

To develop effective marketing communications, you must first understand the general communication process.

Because customers differ, communications programmes need to be developed for specific segments, niches and even individuals. And, given today's interactive communications technologies, companies must ask not only 'How can we engage our customers?' but also 'How can we let our customers engage us?'

Thus, the communications process should start with an audit of all the potential touchpoints that target customers may have with the company and its brands. For example, someone purchasing a new wireless phone plan may talk to others, see television or magazine ads, visit various online sites for prices and reviews, and check out plans at a high-street phone shop, their local supermarket, or a provider's kiosk or store. The marketer needs to assess what influence each communication experience will have at different stages of the buying process. This understanding helps marketers allocate their communication dollars more efficiently and effectively.

To communicate effectively, marketers need to understand how communication works. Communication involves the nine elements shown in Figure 14.2. Two of these elements are the major parties in a communication – the *sender* and the *receiver*. Another two are the major communication tools – the *message* and the *media*. Four more are major communication functions – *encoding*, *decoding*, *response* and *feedback*. The last element is *noise* in the system.

Definitions of these elements follow and are applied to a Quick (the pan-Europe burger chain now owned by Burger King) '*Le Meilleur Pour Vous. Chaque Jour*' ('The Best for You. Every Day') television commercial.

- *Sender:* the *party sending the message* to another party – here, Quick.
- *Encoding:* the process of *putting thought into symbolic form* – for example, Quick's ad agency assembles words, sounds and illustrations into an ad that will convey the intended message.
- *Message:* the *set of symbols* that the sender transmits – the actual Quick ad.
- *Media:* the *communication channels* through which the message moves from the sender to the receiver – in this case, television and the specific television programmes that Quick selects.
- *Decoding:* the process by which the receiver *assigns meaning to the symbols* encoded by the sender – a consumer watches the Quick commercial and interprets the words and images it contains.
- *Receiver:* the *party receiving the message* sent by another party – the customer who watches the Quick ad.
- *Response:* the *reactions of the receiver* after being exposed to the message – any of hundreds of possible responses, such as the consumer likes Quick better, is more likely to eat at Quick next time, hums the 'Best for You' jingle, or does nothing.

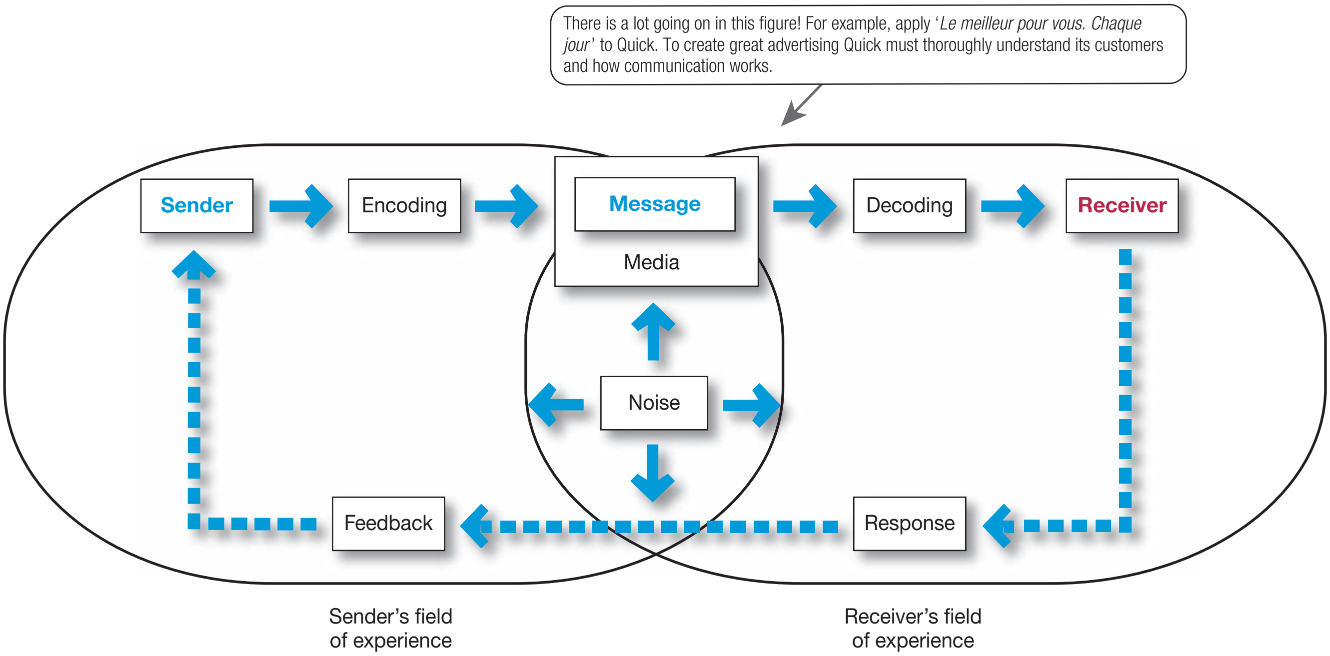


Figure 14.2 Elements in the communication process

- *Feedback:* the part of the *receiver's response communicated back to the sender* – Quick's research shows that consumers are either struck by and remember the ad or they write to or call Quick, praising or criticising the ad or its products.
- *Noise:* the *unplanned static or distortion* during the communication process, which results in the receiver getting a different message than the one the sender sent – the consumer is distracted while watching the commercial and misses its key points.

For a message to be effective, the sender's encoding process must mesh with the receiver's decoding process. The best messages consist of words and other symbols that are familiar to the receiver. The more the sender's field of experience overlaps with that of the receiver, the more effective the message is likely to be. Marketing communicators may not always *share* the customer's field of experience. For example, an advertising copywriter from one socio-economic level might create ads for customers from another level – say, wealthy business owners. However, to communicate effectively, the marketing communicator must *understand* the customer's field of experience.

This model points out several key factors in good communication. Senders need to know what audiences they wish to reach and what responses they want. They must be good at encoding messages that take into account how the target audience decodes them. They must send messages through media that reach target audiences, and they must develop feedback channels so that they can assess an audience's response to the message. Also, in today's interactive media environment, companies must be prepared to 'flip' the communications process – to become good receivers of and responders to messages sent by consumers.

Author comment

Now that we understand how communication works, it's time to turn all of those promotion mix elements into an actual marketing communications programme.

Steps in developing effective marketing communication

We now examine the steps in developing an effective integrated communications and promotion programme. Marketers must do the following: identify the target audience, determine the communication objectives, design a message, choose the media through which to send the message, select the message source and collect feedback.

Identifying the target audience

A marketing communicator starts with a clear target audience in mind. The audience may be current users or potential buyers, those who make the buying decision or those who influence it. The audience may be individuals, groups, special publics or the general public. The target audience will heavily affect the communicator's decisions on *what* will be said, *how* it will be said, *when* it will be said, *where* it will be said and *who* will say it.

Determining the communication objectives

Once the target audience has been defined, marketers must determine the desired response. Of course, in many cases, they will seek a *purchase* response. But purchase may result only after a lengthy consumer decision-making process. The marketing communicator needs to know where the target audience now stands and to what stage it needs to be moved. The target audience may be in any of six **buyer-readiness stages**, the stages consumers normally pass through on their way to making a purchase. These stages are *awareness*, *knowledge*, *liking*, *preference*, *conviction* and *purchase* (see Figure 14.3).

Buyer-readiness stages The stages consumers normally pass through on their way to a purchase, including awareness, knowledge, liking, preference, conviction and, finally, the actual purchase.

The marketing communicator's target market may be totally unaware of the product, know only its name, or know only a few things about it. Thus, the marketer must first build *awareness* and *knowledge*. For example, Kellogg's (which has a permanent cereal cafe in New York) recently took the idea to Ireland when they took over Urchin Restaurant and had local celebrities from the Gaelic Athletic Association such as Andy Moran, Danny Sutcliffe, Rena Buckley and Niamh Hegarty serving breakfast to the public. In conjunction with the Gaelic Athletic Association, the firm supports Kellogg's GAA Cúl Camps that offer children training in hurling, camogie, football and handball. There also support similar camps in other parts of Europe, Australia, the US and Canada.[8]

Assuming that target consumers *know* about a product, how do they *feel* about it? Almost all European consumers know about Kellogg's branded cereals like Cornflakes, Coco Pops and Bran Flakes. These brands have been around for a very long time. Kellogg's wants to move buyers through successively stronger stages of feelings toward the revamped cereals. These stages include *liking* (feeling favourable about Kellogg's cereals), *preference* (preferring the Kellogg's cereals to competing brands) and *conviction* (believing that Kellogg's cereals are the best cereals for them).

Companies like Kellogg's will invest in projects that connect with their customers and build relationships.
Source: George Sweeney/Alamy Stock Photo

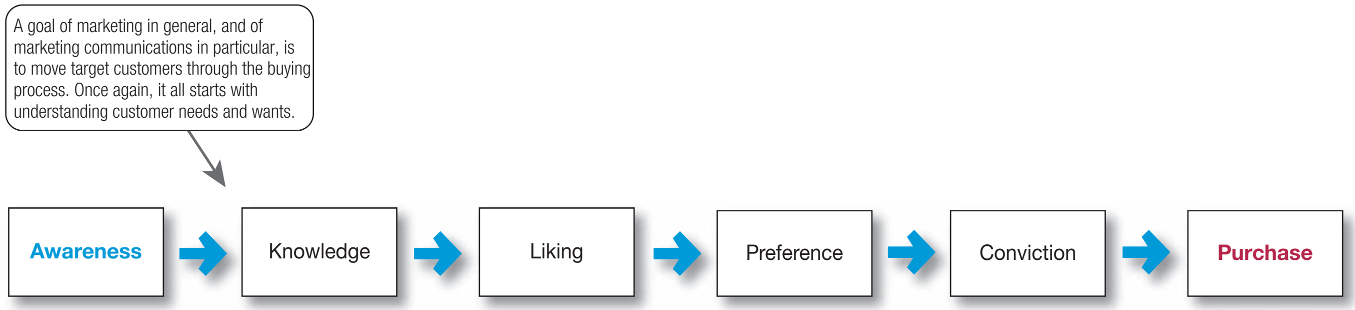


Figure 14.3 Buyer-readiness stages

Kellogg's marketers use a combination of promotion mix tools to create positive feelings and conviction. Initial TV commercials help build anticipation and an emotional brand connection. Images, text and videos on Kellogg's social media sites engage, entertain and educate potential buyers on the reformulation of the cereal products. Press releases and other PR activities help keep the buzz going about the products. A packed microsite tailored to most European countries (for example www.kelloggs.be/nl_BE/home.html or www.kelloggs.fr/fr_FR/home.html) provides additional information and buying opportunities.

Finally, some members of the target market might be convinced about the product but not quite get around to making the *purchase*. The communicator must lead these consumers to take the final step. To help reluctant consumers over such hurdles, Kellogg's might offer buyers special promotional prices (coupons, in-store discounts and special offers) and support the product with comments and reviews from customers at its web and social media sites and elsewhere.

Of course, marketing communications alone cannot create positive feelings and purchases for Kellogg's cereals. The cereal itself must provide superior value for customers. In fact, outstanding marketing communications can actually speed the demise of a poor product. The more quickly potential buyers learn about a poor product, the more quickly they become aware of its faults. Thus, good marketing communications call for 'good deeds followed by good words'. For example, to ensure that the healthier versions of its old Kellogg's favourites would succeed, before introducing the reformulated versions, Kellogg's researched colours and flavours, did consumer tastings, completed recipe experiments and spent hours listening to customers about the products.

Designing a message

Having defined the desired audience response, the communicator then turns to developing an effective message. Ideally, the message should get *attention*, hold *interest*, arouse *desire* and obtain *action* (a framework known as the *AIDA model*). In practice, few messages take the consumer all the way from awareness to purchase, but the AIDA framework suggests the desirable qualities of a good message.

When putting a message together, the marketing communicator must decide what to say (*message content*) and how to say it (*message structure* and *format*).

Message content

The marketer has to figure out an appeal or theme that will produce the desired response. There are three types of appeals: rational, emotional and moral. *Rational appeals* relate to the audience's self-interest. They show that the product will produce the desired benefits. Examples are messages showing a product's quality, economy, value or performance. Thus, in one ad, Virgin Atlantic simply states, 'Fly Virgin Atlantic Upper Class and get your own suite.' 'Quaker Instant Oatmeal. A warm, yummy way to help lower your cholesterol.' And a Weight Watchers' ad states this simple fact: 'The diet secret to end all diet secrets is that there is no diet secret.'

Emotional appeals attempt to stir up either negative or positive emotions that can motivate purchase. Communicators may use emotional appeals ranging from love, joy and humour to fear and guilt. Advocates of emotional messages claim that they attract more attention and create more belief in the sponsor and the brand. The idea is that consumers often feel before they think, and persuasion is emotional in nature. Thus, Michelin sells tyres using mild fear appeals, showing families riding in cars and telling parents 'Michelin: Because so much is riding on your tyres.' And De Beers' iconic emotional ads showing silhouettes of men surprising the women they love with diamond jewellery.

Good storytelling in a commercial often strikes an emotional chord. For example, rather than focusing only on the nuts and bolts and mileage information found in many car ads, an Audi ad, called 'The Commander', played to consumer's emotions:[9]

'The Commander' draws on nostalgia, sentiment, and father-and-son relationships. It opens with a depressed former astronaut whose life has seemingly passed him by. His son drops in to check on him, then takes him outside and offers him the keys to his Audi R8 V10 Plus – Audi's highest-performing car – which can reach speeds of 205 miles per hour. As he drives the Audi, the father is transported back to the best moments of his life, launching once again into the unknown, all to the soundtrack of David Bowie's 'Starman'. The commercial effectively tugged at the human spirit while reinforcing the Audi's extreme performance credentials. According to one journalist, the commercial created 'the melancholy that comes from watching a man whose best days in life have already passed by, and a resolution in watching him be his younger, courageous self.' By pinging viewer emotions, 'The Commander' received more than 8 million views on YouTube in less than one month.

Moral appeals are directed to an audience's sense of what is 'right' and 'proper'. They are often used to urge people to support social causes, such as a cleaner environment or aid to the disadvantaged. For example, a Colgate ad campaign urges people to 'Close the tap while brushing' their teeth to conserve water. One ad shows a young boy in a developing economy with a water bucket atop his head, noting, 'What you waste in two minutes is all his family needs for a day.'

Message structure

Marketers must also decide how to handle three message structure issues. The first is whether to draw a conclusion or leave it to the audience. Research suggests that, in many cases, rather than drawing a conclusion, the advertiser is better off asking questions and letting buyers come to their own conclusions.

The second message structure issue is whether to present the strongest arguments first or last. Presenting them first gets strong attention but may lead to an anticlimactic ending.

The third message structure issue is whether to present a one-sided argument (mentioning only the product's strengths) or a two-sided argument (touting the product's strengths while also admitting its shortcomings). Usually, a one-sided argument is more effective in sales presentations – except when audiences are highly educated or likely to hear opposing claims or when the communicator has a negative association to overcome. In this spirit, Marmite (the yeast extract spread) ran the 'You either Love it or Hate it' campaign with the follow-up of 'Show Your Love'. Heinz once ran the message 'Heinz Ketchup is slow good', and Listerine ran the message 'Listerine tastes bad twice a day'. In such cases, two-sided messages can enhance an advertiser's credibility and make buyers more resistant to competitor attacks.

Message format

The marketing communicator also needs a strong *format* for the message. In a print ad, the communicator has to decide on the headline, copy, illustration and colours. To attract attention, advertisers can use novelty and contrast; eye-catching pictures and headlines; distinctive formats; message size and position; and colour, shape and movement.

Presenters plan every detail carefully, from start to finish. If the message is to be communicated by television or video, the communicator must incorporate motion, pace and sound. If the message is carried on the product or its package, the communicator must watch texture, scent, colour, size and shape. For example, colour alone can enhance message recognition for a brand. One study suggests that colour increases brand recognition by up to 80 per cent – for example, Veuve Cliquot's (trademark orange), KitKat's (red and white), Ecover's (blue and green), Quick Burger Restaurant's (red and white), Dove's (predominately white with blue text) or UPS (brown). Thus, in designing effective marketing communications, marketers must consider colour and other seemingly unimportant details carefully.[10]

Choosing communication channels and media

The communicator must now select the *channels of communication*. There are two broad types of communication channels: *personal* and *nonpersonal*.

Personal communication channels

Personal communication channels Channels through which two or more people communicate directly with each other, including face-to-face, on the phone, via mail or email, or even through texting or an internet chat.

In **personal communication channels**, two or more people communicate directly with each other. They might communicate face-to-face, on the phone, via mail or email, or even through texting or an internet chat. Personal communication channels are effective because they allow for personal addressing and feedback.

Some personal communication channels are controlled directly by the company. For example, company salespeople contact business buyers. But other personal communications about the product may reach buyers through channels not directly controlled by the company. These channels might include independent experts – consumer advocates, bloggers and others – making statements to buyers. Or they might be neighbours, friends, family members, associates or other consumers talking to target buyers, in person or via social media or other interactive media. This last channel, **word-of-mouth influence**, has considerable effect in many product areas.

Word-of-mouth influence The impact of the personal words and recommendations of trusted friends, family, associates and other consumers on buying behaviour.

Personal influence carries great weight, especially for products that are expensive, risky or highly visible. One survey found that recommendations from friends and family are far and away the most powerful influence on consumers worldwide: More than 80 per cent of consumers said friends and family are the number-one influence on their awareness and purchase. Another study found that 72 per cent of consumers cited online reviews and trusted sources of buying information. Trust in ads ran from about 63 per cent to only 36 per cent, depending on the medium.[11] Is it any wonder, then, that few consumers buy a big-ticket item before checking out what existing users have to say about the product at a site such as Amazon? Who hasn't made an Amazon purchase based on another customer's review or the 'Customers who bought this also bought . . . ' section or decided against purchase because of negative customer reviews?

Companies can take steps to put personal communication channels to work for them. For example, as we discussed in Chapter 5, they can create *opinion leaders* for their brands – people whose opinions are sought by others – by supplying influencers with the product on attractive terms or by educating them so that they can inform others. **Buzz marketing** involves cultivating opinion leaders and getting them to spread information about a product or a service to others in their communities. For example, Netflix recruits 'Grammasters', influencers who have large Instagram followings. The Grammasters travel around the world taking photos and creating video content of familiar sets and scenes from popular original Netflix shows and posting them to Instagram, letting Netflix bingers engage even more deeply with their favourite Netflix series.[12]

Buzz marketing Cultivating opinion leaders and getting them to spread information about a product or a service to others in their communities.

Headquartered in Germany, trnd is a Europe-wide company who specialise (amongst other things) in the use of collaborative marketing formats to generate brand awareness and increase brand visibility of innovative products. Working with L'Oréal Paris, trnd assembled 2,500 fashion-oriented brand ambassadors to promote L'Oréal's Sublime Mousse. This involved equipping each ambassador (whose hair colour varied from dark brown to light blond) with an appropriate hair colour shaded mousse. Thereafter the brand ambassadors were encouraged to distribute samples to a wide range of friends and family. The resulting word-of-mouth was not only considerable but also highly targeted and therefore hugely efficient.[13]

Nonpersonal communication channels

Nonpersonal communication channels Media that carry messages without personal contact or feedback, including major media, atmospheres and events.

Nonpersonal communication channels are media that carry messages without personal contact or feedback. They include major media, atmospheres and events. Major *media* include print media (newspapers, magazines, direct mail), broadcast media (television, radio), display media (billboards, signs, posters) and online media (email, company websites, and brand mobile and social media sites). *Atmospheres* are designed environments that create or reinforce the buyer's leanings toward buying a product. Thus, lawyers' offices and banks are designed to communicate confidence and other qualities that might be valued by clients. *Events* are staged occurrences that communicate messages to target audiences. For example, public relations departments arrange grand openings, shows and exhibits, public tours and other events.

Nonpersonal communication affects buyers directly. In addition, using mass media often affects buyers indirectly by causing more personal communication. For example, communications might first flow from television, magazines and other mass media to opinion leaders and then from these opinion leaders to others. Thus, opinion leaders step between the mass media and their audiences and carry messages to people who are less exposed to media. Interestingly, marketers often use nonpersonal communication channels to replace or stimulate personal communications by embedding consumer endorsements or word-of-mouth testimonials in their ads and other promotions.

Selecting the message source

In either personal or nonpersonal communication, the message's impact also depends on how the target audience views the communicator. Messages delivered by highly credible or popular sources are more persuasive. Thus, many food companies promote to doctors, dentists and other health-care providers to motivate these professionals to recommend specific food products to their patients. And marketers hire celebrity endorsers – well-known athletes, actors, musicians and even cartoon characters – to deliver their messages. Premier League football star Wayne Rooney lends his image to brands such as Nike and E. A. Sports, Sarah Jessica Parker speaks for Garnier, Keith Richards endorses Louis Vuitton and the end of every Formula 1 race finds drivers scrabbling to put on their latest endorsed watches and hats. Actress Sophia Vergara speaks for CoverGirl, State Farm, Comcast, Rooms to Go and other brands, and has her own clothing line, actor George Clooney loves his Nestlé Nespresso espresso machine and tennis great Serena Williams endorses Gatorade, Nike and Beats by Dre.

But companies must be careful when selecting celebrities to represent their brands. Picking the wrong spokesperson can result in embarrassment and a tarnished image. For example, a dozen or more big brands – including Nike, Anheuser-Busch, Radio Shack, Oakley, Trek bikes and Giro helmets – faced embarrassment when pro cyclist Lance Armstrong was stripped of his Tour de France titles and banned for life from competitive cycling for illegal use of performance-enhancing drugs. Previously considered a model brand spokesman, Armstrong once earned nearly €16 million in endorsement income in a single year. 'Arranged marriages between brands and celebrities are inherently risky', notes one expert. 'Ninety-nine per cent of celebrities do a strong job for their brand partners', says another, 'and 1 per cent goes off the rails'.[14] More than ever, it's important to pick the right celebrity for the brand.

Celebrity endorsements can be risky: many brands faced embarrassment when Lance Armstrong was stripped of his titles and admitted drug use.

Source: ZUMA Press Inc / Alamy Stock Photo

Collecting feedback

After sending the message or other brand content, the communicator must research its effect on the target audience. This involves asking target audience members whether they remember the content, how many times they saw it, what points they recall, how they felt about the content, and their past and present attitudes toward the brand and company. The communicator would also like to measure behaviour resulting from the content – how many people bought the product, talked to others about it, or visited the store.

Feedback on marketing communications may suggest changes in the promotion programme or in the product offer itself. For example, Stockmann's uses television and newspaper advertising to inform area consumers about its stores, services and merchandising events. Suppose feedback research shows that 80 per cent of all shoppers in an area recall seeing the store's ads and are aware of its merchandise and sales. Sixty per cent of these aware shoppers have visited a Stockmann's store in the past month, but only 20 per cent of those who visited were satisfied with the shopping experience.

These results suggest that although promotion is creating *awareness*, Stockmann's stores aren't giving consumers the *satisfaction* they expect. Therefore, Stockmann's needs to improve the shopping experience while staying with the successful communications programme. In contrast, suppose research shows that only 40 per cent of area consumers are aware of the store's merchandise and events, only 30 per cent of those aware have shopped recently, but 80 per cent of those who have shopped return soon to shop again. In this case, Stockmann's needs to strengthen its promotion programme to take advantage of its power to create customer satisfaction in the store.

Setting the total promotion budget and mix

Author comment

In this section, we'll look at the promotion budget-setting process and at how marketers blend the various marketing communication tools into a smooth-functioning integrated promotion mix.

We have looked at the steps in planning and sending communications to a target audience. But how does the company determine its total *promotion budget* and the division among the major promotional tools to create the *promotion mix*? By what process does it blend the tools to create integrated marketing communications? We now look at these questions.

Setting the total promotion budget

One of the hardest marketing decisions facing a company is how much to spend on promotion. John Wanamaker, the department store mogul, once said, 'I know that half of my advertising is wasted, but I don't know which half. I spent $2 million for advertising, and I don't know if that is half enough or twice too much.' For example, BMW spends hundreds of millions of euros annually on advertising, but is that too little, just right or too much? Thus, it is not surprising that industries and companies vary widely in how much they spend on promotion. Promotion spending may be 10–12 per cent of sales for consumer packaged goods, 20 per cent for cosmetics and only 1.9 per cent for household appliances. Within a given industry, both low and high spenders can be found.[15]

How does a company determine its promotion budget? Here, we look at four common methods used to set the total budget for advertising: the *affordable method*, the *percentage-of-sales method*, the *competitive-parity method* and the *objective-and-task method*.

Affordable method

Affordable method Setting the promotion budget at the level management thinks the company can afford.

Some companies use the **affordable method**: They set the promotion budget at the level they think the company can afford. Small businesses often use this method, reasoning that the company cannot spend more on advertising than it has. They start with total revenues, deduct operating expenses and capital outlays, and then devote some portion of the remaining funds to advertising.

Unfortunately, this method of setting budgets completely ignores the effects of promotion on sales. It tends to place promotion last among spending priorities, even in situations in which advertising is critical to the firm's success. It leads to an uncertain annual promotion budget, which makes long-range market planning difficult. Although the affordable method can result in overspending on advertising, it more often results in underspending.

Percentage-of-sales method

Percentage-of-sales method Setting the promotion budget at a certain percentage of current or forecasted sales or as a percentage of the unit sales price.

Other companies use the **percentage-of-sales method**, setting their promotion budget at a certain percentage of current or forecasted sales. Or they budget a percentage of the unit sales price. The percentage-of-sales method is simple to use and helps management think about the relationships between promotion spending, selling price and profit per unit.

Despite these claimed advantages, however, the percentage-of-sales method has little to justify it. It wrongly views sales as the *cause* of promotion rather than as the *result*. Although studies have found a positive correlation between promotional spending and brand strength, this relationship often turns out to be effect and cause, not cause and effect. Stronger brands with higher sales can afford the biggest ad budgets.

Thus, the percentage-of-sales budget is based on the availability of funds rather than on opportunities. It may prevent the increased spending sometimes needed to turn around falling sales. Because the budget varies with year-to-year sales, long-range planning is difficult. Finally, the method does not provide any basis for choosing a *specific* percentage, except for what has been done in the past or what competitors are doing.

Competitive-parity method

Still other companies use the **competitive-parity method**, setting their promotion budgets to match competitors' outlays. They monitor competitors' advertising or get industry promotion spending estimates from publications or trade associations and then set their budgets based on the industry average.

Competitive-parity method
Setting the promotion budget to match competitors' outlays.

Two arguments support this method. First, competitors' budgets represent the collective wisdom of the industry. Second, spending what competitors spend helps prevent promotion wars. Unfortunately, neither argument is valid. There are no grounds for believing that the competition has a better idea of what a company should be spending on promotion than does the company itself. Companies differ greatly, and each has its own special promotion needs. Finally, there is no evidence that budgets based on competitive parity prevent promotion wars.

Objective-and-task method

The most logical budget-setting method is the **objective-and-task method**, whereby the company sets its promotion budget based on what it wants to accomplish with promotion. This budgeting method entails (1) defining specific promotion objectives, (2) determining the tasks needed to achieve these objectives, and (3) estimating the costs of performing these tasks. The sum of these costs is the proposed promotion budget.

Objective-and-task method
Developing the promotion budget by (1) defining specific promotion objectives, (2) determining the tasks needed to achieve these objectives and (3) estimating the costs of performing these tasks. The sum of these costs is the proposed promotion budget.

The advantage of the objective-and-task method is that it forces management to spell out its assumptions about the relationship between euros spent and promotion results. But it is also the most difficult method to use. Often, it is hard to figure out which specific tasks will achieve the stated objectives. For example, suppose Samsung wants a 95 per cent awareness level for its latest smartphone model during the six-month introductory period. What specific advertising messages, marketing content and media schedules should Samsung use to attain this objective? How much would this content and media cost? Samsung management must consider such questions, even though they are hard to answer.

Shaping the overall promotion mix

The concept of integrated marketing communications suggests that the company must blend the promotion tools carefully into a coordinated *promotion mix*. But how does it determine what mix of promotion tools to use? Companies within the same industry differ greatly in the design of their promotion mixes. For example, cosmetics maker Avon in the UK spends most of its promotion funds on personal selling and direct marketing, whereas competitors Rimmel and Max Factor spend heavily on consumer advertising. We now look at factors that influence the marketer's choice of promotion tools.

Author comment
In this section, we'll look at how marketers blend the various marketing communication tools into a smooth-functioning, integrated and engaging promotion mix.

The nature of each promotion tool

Each promotion tool has unique characteristics and costs. Marketers must understand these characteristics in shaping the promotion mix.

Advertising

Advertising can reach masses of geographically dispersed buyers at a low cost per exposure, and it enables the seller to repeat a message many times. Television advertising can reach huge audiences. An estimated 380 million people worldwide watched the last Champions League Final (considerably more people than watched the US Super Bowl). A cricket World Cup match between India and Pakistan can be watched by over 1 billion viewers, while the 2018 Fifa World Cup final between France and Belgium brought around 800 million viewers to their TV sets for at least 20 minutes of the game. In the US, consider the commercial for Finnish company Supercell's popular mobile game 'Clash of Clans: Revenge' starring Liam Neeson, which aired during Super Bowl XLIX. In addition to the more than 150-plus million TV viewers (admittedly largely in North America), it became the most-viewed Super Bowl ad on YouTube for the year, capturing a stunning 82 million YouTube views by year's end. Thus, for companies that want to reach a mass audience, TV is the place to be.[16]

Beyond its reach, large-scale advertising says something positive about the seller's size, popularity and success. Because of advertising's public nature, consumers tend to view advertised products as more legitimate. Advertising is also very expressive; it allows the company to dramatise its products through the artful use of visuals, print, sound and colour. On the one hand, advertising can be used to build up a long-term image for a product (such as Heineken ads). On the other hand, advertising can trigger quick sales (as when Burger King advertises weekend specials).

Advertising also has some shortcomings. Although it reaches many people quickly, mass-media advertising is impersonal and lacks the direct persuasiveness of company salespeople. For the most part, advertising can carry on only a one-way communication with an audience, and the audience does not feel that it has to pay attention or respond. In addition, advertising can be very costly. Although some advertising forms – such as newspaper, radio or online advertising – can be done on smaller budgets, other forms, such as network TV advertising, require very large budgets. For example, the one-minute 'Clash of Clans: Revenge' Super Bowl ad by the Finnish firm Supercell cost €7.7 million for media time alone, not counting the costs of producing the ad. That's €129,000 per tick of the clock.

Personal selling

Personal selling is the most effective tool at certain stages of the buying process, particularly in building up buyers' preferences, convictions and actions. It involves personal interaction between two or more people, so each person can observe the other's needs and characteristics and make quick adjustments. Personal selling also allows all kinds of customer relationships to spring up, ranging from matter-of-fact selling relationships to personal friendships. An effective salesperson keeps the customer's interests at heart to build a long-term relationship by solving a customer's problems. Finally, with personal selling, the buyer usually feels a greater need to listen and respond, even if the response is a polite 'No, thank you.'

These unique qualities come at a cost, however. A sales force requires a longer-term commitment than does advertising – advertising can be turned up or down, but the size of a sales force is harder to change. Personal selling is also the company's most expensive promotion tool, costing companies on average €500 or more per sales call, depending on the industry.[17] Firms spend up to three times as much on personal selling as they do on advertising.

Sales promotion

Sales promotion includes a wide assortment of tools – coupons, contests, discounts, premiums and others – all of which have many unique qualities. They attract consumer attention, engage consumers, offer strong incentives to purchase, and can be used to dramatise product offers and boost sagging sales. Sales promotions invite and reward quick response. Whereas advertising says, 'Buy our product', sales promotion says, 'Buy it now'. Sales promotion effects can be short lived, however, and often are not as effective as advertising or personal selling in building long-run brand preference and customer relationships.

Public relations

Public relations is very believable – news stories, features, sponsorships and events seem more real and believable to readers than ads do. PR can also reach many prospects who avoid salespeople and advertisements – the message gets to buyers as 'news and events' rather than as a sales-directed communication. And, as with advertising, public relations can dramatise a company or product. Marketers tend to underuse public relations or use it as an afterthought. Yet a well-thought-out public relations campaign used with other promotion mix elements can be very effective and economical.

Direct and digital marketing

The many forms of direct and digital marketing – from direct mail, catalogues and telephone marketing to online, mobile and social media – all share some distinctive characteristics. Direct marketing is more targeted: it's usually directed to a specific customer or customer community. Direct marketing is immediate and personalised: messages can be prepared quickly – even in real time – and tailored to appeal to individual consumers or brand groups. Finally, direct marketing is interactive: it allows a dialogue between the marketing team and the consumer, and messages can be altered depending on the consumer's response. Thus, direct and digital marketing are well suited to highly targeted marketing efforts, creating customer engagement and building one-to-one customer relationships.

Promotion mix strategies

Marketers can choose from two basic promotion mix strategies: *push* promotion or *pull* promotion. Figure 14.4 contrasts the two strategies. The relative emphasis given to the specific promotion tools differs for push and pull strategies. A **push strategy** involves 'pushing' the product through marketing channels to final consumers. The producer directs its marketing activities (primarily personal selling and trade promotion) toward channel members to induce them to carry the product and promote it to final consumers. For example, Husqvarna (the originally Swedish but now truly global firm) does very little promoting of its outdoor products to final consumers. Instead, Husqvarna's sales force works with national-level retailers, independent dealers and other channel members, who in turn push Husqvarna's products to final consumers.

Push strategy A promotion strategy that calls for using the sales force and trade promotion to push the product through channels. The producer promotes the product to channel members, who in turn promote it to final consumers.

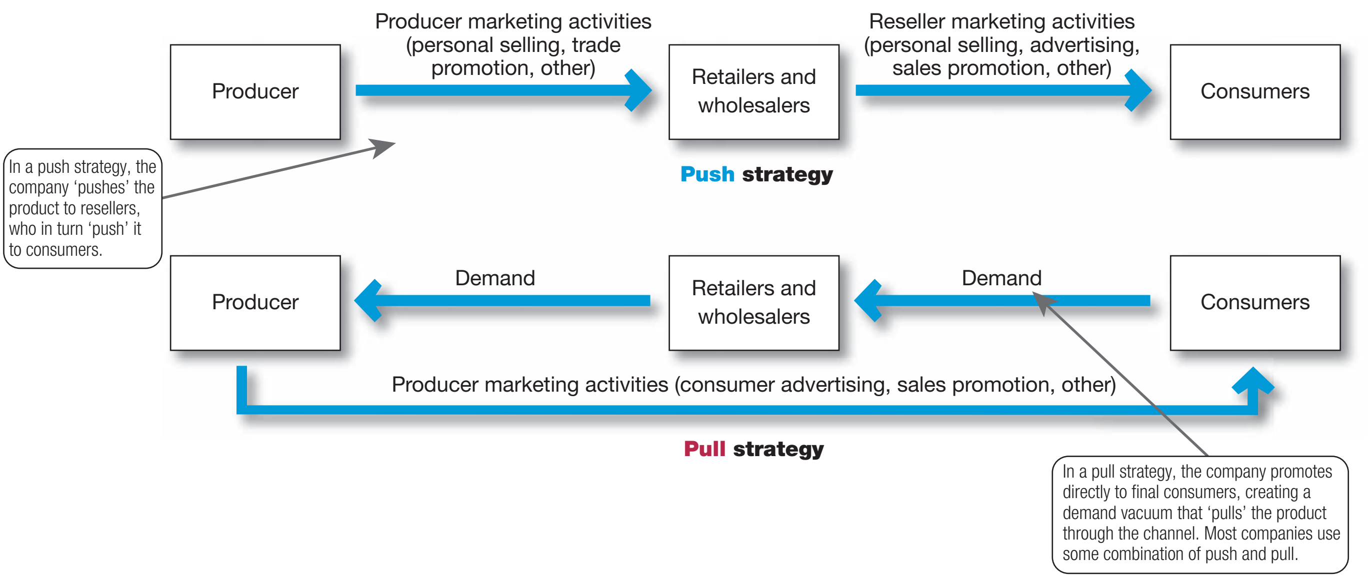


Figure 14.4 Push versus pull promotion strategy

Pull strategy A promotion strategy that calls for spending a lot on consumer advertising and promotion to induce final consumers to buy a particular product, creating a demand vacuum that 'pulls' the product through the channel.

Using a **pull strategy**, the producer directs its marketing activities (primarily advertising, consumer promotion and direct and digital media) toward final consumers to induce them to buy the product. For example, Unilever promotes its Axe grooming products directly to its young male target market using TV and print ads, web and social media brand sites and other channels. If the pull strategy is effective, consumers will then demand the brand from retailers, such as Carrefour, Tesco or Walmart, who will in turn demand it from Unilever. Thus, under a pull strategy, consumer demand 'pulls' the product through the channels.

Some industrial-goods companies use only push strategies; likewise, some direct marketing companies use only pull strategies. However, most large companies use some combination of both. For example, Unilever spends €7 billion worldwide each year on consumer marketing and sales promotions to create brand preference and pull customers into stores that carry its products.[18] At the same time, it uses its own and distributors' sales forces and trade promotions to push its brands through the channels so that they will be available on store shelves when consumers come calling.

Companies consider many factors when designing their promotion mix strategies, including the type of product and market. For example, the importance of different promotion tools varies between consumer and business markets. Business-to-consumer companies usually pull more, putting more of their funds into advertising, followed by sales promotion, personal selling and then public relations. In contrast, business-to-business marketers tend to push more, putting more of their funds into personal selling, followed by sales promotion, advertising and public relations.

Integrating the promotion mix

Having set the promotion budget and mix, the company must now take steps to see that each promotion mix element is smoothly integrated. Guided by the company's overall communications strategy, the various promotion elements should work together to carry the firm's unique brand messages and selling points. Integrating the promotion mix starts with customers. Whether it's advertising, personal selling, sales promotion, public relations or digital and direct marketing, communications at each customer touchpoint must deliver consistent marketing content and positioning. An integrated promotion mix ensures that communications efforts occur when, where and how *customers* need them.

To achieve an integrated promotion mix, all of the firm's functions must cooperate to jointly plan communications efforts. Many companies even include customers, suppliers and other stakeholders at various stages of communications planning. Scattered or disjointed promotional activities across the company can result in diluted marketing communications impact and confused positioning. By contrast, an integrated promotion mix maximises the combined effects of all a firm's promotional efforts.

Socially responsible marketing communication

In shaping its promotion mix, a company must be aware of the many legal and ethical issues surrounding marketing communications. Most marketers work hard to communicate openly and honestly with consumers and resellers. Still, abuses may occur, and public policy makers have developed a substantial body of laws and regulations to govern advertising, sales promotion, personal selling and direct marketing. In this section, we discuss issues regarding advertising, sales promotion and personal selling. We discuss digital and direct marketing issues in Chapter 17.

Advertising and sales promotion

By law, companies must avoid false or deceptive advertising. Advertisers must not make false claims, such as suggesting that a product cures something when it does not. They must avoid ads that have the capacity to deceive, even though no one may actually be deceived. A car cannot be advertised as getting 32 miles per gallon unless it does so under typical conditions, and diet bread cannot be advertised as having fewer calories simply because its slices are thinner.

Sellers must avoid bait-and-switch advertising that attracts buyers under false pretences. For example, a large retailer advertised a sewing machine at €150. However, when consumers tried to buy the advertised machine, the seller downplayed its features, placed faulty machines on showroom floors, understated the machine's performance and took other actions in an attempt to switch buyers to a more expensive machine. Such actions are both unethical and illegal.

A company's trade promotion activities also are closely regulated. For example, under the EU Unfair Commercial Practices Directives sellers cannot undertake misleading or aggressive practices that disadvantage customers.

Beyond simply avoiding legal pitfalls, such as deceptive or bait-and-switch advertising, companies can use advertising and other forms of promotion to encourage and promote socially responsible programmes, actions and ideas. Companies in almost every industry now promote a wide range of social and environmental causes related to their brands. For example, Google recently launched a €45 million 'Made with Code' marketing and advertising campaign that encourages young girls to pursue science and technology careers. The company found that 74 per cent of girls express interest in science, technology, engineering and maths (STEM), but later less than 1 per cent of girls plan to major in computer science. Through ads, dedicated digital and social media sites, events and partnerships with not-for-profit organisations, Google's campaign promotes the idea that the things young girls love, from their smartphone apps to fashions to their favourite movies, are 'made with code'. 'Simply put, code is a tool that lets you write your story with technology', says Google. 'Girls start out with a love of science and technology, but lose it somewhere along the way. Let's help encourage that passion.'[19]

Personal selling

A company's salespeople must follow the rules of 'fair competition'. Most countries have enacted deceptive sales acts that spell out what is not allowed. For example, salespeople may not lie to consumers or mislead them about the advantages of buying a particular product. To avoid bait-and-switch practices, salespeople's statements must match advertising claims.

Different rules apply to consumers who are called on at home or who buy at a location that is not the seller's permanent place of business versus those who go to a store in search of a product. Because people who are called on may be taken by surprise and may be especially vulnerable to high-pressure selling techniques, the EU Distance Selling Directive is most commonly interpreted as allowing a *seven-day cooling-off rule* to give special protection to customers who are not seeking products. Under this rule, customers who agree to sales via mail order, the internet, digital TV or telephone have a week in which to cancel a contract or return merchandise and get their money back – no questions asked.

Much personal selling involves business-to-business trade. In selling to businesses, salespeople may not offer bribes to purchasing agents or others who can influence a sale. They may not obtain or use technical or trade secrets of competitors through bribery or industrial espionage. Finally, salespeople must not disparage competitors or competing products by suggesting things that are not true.

Learning outcomes review

In this chapter, you learned how companies use integrated marketing communications (IMC) to communicate customer value. Modern marketing calls for more than just creating customer value by developing a good product, pricing it attractively and making it available to target customers. Companies also must clearly and persuasively engage current and prospective consumers and *communicate* that value to them. To do this, they must blend five promotion mix tools, guided by a well-designed and implemented IMC strategy.

Objective 1 Define the five promotion mix tools for communicating customer value (p. 421)

A company's total *promotion mix* – also called its *marketing communications mix* – consists of the specific blend of *advertising, personal selling, sales promotion, public relations* and *direct and digital marketing* tools that the company uses to engage consumers, persuasively communicate customer value and build customer relationships. *Advertising* includes any paid form of nonpersonal presentation and promotion of ideas, goods or services by an identified sponsor. In contrast, *public relations* focuses on building good relations with the company's various publics. *Personal selling* is personal presentation by the firm's sales force for the purpose of making sales and building customer relationships. Firms use *sales promotion* to provide short-term incentives to encourage the purchase or sale of a product or service. Finally, firms seeking immediate response from targeted individual customers use *direct and digital marketing* tools to engage directly with customers and cultivate relationships with them.

Objective 2 Discuss the changing communications landscape and the need for integrated marketing communications (pp. 421–425)

The explosive developments in communications technology and changes in marketer and customer communication strategies have had a dramatic impact on marketing communications. Advertisers are now adding a broad selection of more-specialised and highly targeted media and content – including online, mobile and social media – to reach smaller customer segments with more-personalised, interactive messages. As they adopt richer but more fragmented media and promotion mixes to reach their diverse markets, they risk creating a communications hotchpotch for consumers. To prevent this, companies have adopted the concept of *integrated marketing communications (IMC)*. Guided by an overall IMC strategy, the company works out the roles that the various promotional tools and marketing content will play and the extent to which each will be used. It carefully coordinates the promotional activities and the timing of when major campaigns take place.

Objective 3 Outline the communication process and the steps in developing effective marketing communications (pp. 426–432)

The communication process involves nine elements: two major parties (sender, receiver), two communication tools (message, media), four communication functions (encoding, decoding, response and feedback) and noise. To communicate effectively, marketers must understand how these elements combine to communicate value to target customers.

In preparing marketing communications, the communicator's first task is to *identify the target audience* and its characteristics. Next, the communicator has to determine the *communication objectives* and define the response sought, whether it be *awareness*, *knowledge*, *liking*, *preference*, *conviction* or *purchase*. Then a *message* should be constructed with an effective content and structure. *Media* must be selected, both for personal and nonpersonal communication. The communicator must find highly credible sources to deliver messages. Finally, the communicator must collect *feedback* by watching how much of the market becomes aware, tries the product and is satisfied in the process.

Objective 4 Explain the methods for setting the promotion budget and factors that affect the design of the promotion mix (pp. 432–438)

The company must determine how much to spend on promotion. The most popular approaches are to spend what the company can afford, use a percentage of sales, base promotion on competitors' spending, or base it on an analysis and costing of the communication objectives and tasks. The company has to divide the *promotion budget* among the major tools to create the *promotion mix*. Companies can pursue a *push* or a *pull* promotional strategy – or a combination of the two. People at all levels of the organisation must be aware of the many legal and ethical issues surrounding marketing communications. Companies must work hard and proactively at communicating openly, honestly and agreeably with their customers and resellers.

Navigating the key terms

Objective 1
Promotion mix (or marketing communications mix) (p. 421)
Advertising (p. 421)
Sales promotion (p. 421)
Personal selling (p. 421)
Public relations (PR) (p. 421)
Direct and digital marketing (p. 421)

Objective 2
Content marketing (p. 423)
Integrated marketing communications (IMC) (p. 424)

Objective 3
Buyer-readiness stages (p. 427)
Personal communication channels (p. 430)
Word-of-mouth influence (p. 430)
Buzz marketing (p. 430)
Nonpersonal communication channels (p. 430)

Objective 4
Affordable method (p. 432)
Percentage-of-sales method (p. 432)
Competitive-parity method (p. 433)
Objective-and-task method (p. 433)
Push strategy (p. 435)
Pull strategy (p. 436)

Discussion and critical thinking

Discussing the concepts

14.1 Name and describe the five major promotion tools used in a company's marketing communications mix. (AACSB: Communication)

14.2 Discuss content marketing and how marketers are using a new framework that builds on how and by whom marketing content is created, controlled and distributed. (AACSB: Communication)

14.3 What is integrated marketing communications (IMC), and how does a company go about implementing it? (AACSB: Communication)

14.4 Discuss the two broad types of communication channels used by marketing communicators to distribute messages. (AACSB: Communication)

14.5 How does a company determine its promotional budget? (AACSB: Communication)

Critical-thinking exercises

14.6 Identify a new consumer food or beverage product. Using the major promotion tools, design a promotion campaign for the product. Identify how you are using both push and pull strategies. (AACSB: Communication; Use of IT; Reflective thinking)

14.7 In a small group, select an advertisement that appropriately addresses each aspect of the communication process shown in Figure 14.2. Illustrate how each element is represented in the company's advertisement. Discuss how the advertisement, by itself, does or does not constitute effective marketing communication for the product. (AACSB: Communication; Reflective thinking)

14.8 According to a Nielsen Global Survey, consumers are more likely to support companies that they perceive as socially responsible. Find three examples of advertisements that incorporate socially responsible marketing messages. Do these advertisements increase your likelihood of buying from the company sponsoring them? Explain. (AACSB: Communication; Ethical reasoning; Reflective thinking)

Mini cases and applications

Online, mobile and social media marketing: #withoutshoes

Blake Mycoskie launched TOMS with a commitment to donate one pair of shoes for every pair sold. In May 2015, TOMS took to the social media with a campaign to extend its philanthropic mission. For each Instagram post showing bare feet and using the hashtag #withoutshoes, TOMS donated a pair of shoes to a child in need. The campaign demonstrated the company's commitment to its cause while expertly piggybacking on a common Instagram trend. The #withoutshoes campaign resulted in the donation of 296,243 pairs of shoes and won a Silver Anvil Award of Excellence from the Public Relations Society of America. TOMS's many one-for-one programmes for shoes and now necessities such as eyewear, water and even 'kindness' (anti-bullying training) help build strong customer relationships and brand community.

14.9 Explain how TOMS used public relations for the #withoutshoes campaign as part of the company's promotion mix. In what ways did this tool help promote TOMS? (AACSB: Communication; Reflective thinking)

14.10 Research the internet for more information on how TOMS engages consumers using promotion tools. Choose two specific campaigns and evaluate TOMS' promotion strategies for both. (AACSB: Communication; Reflective thinking; Use of IT)

Marketing ethics: an ethical promotion?

A Unilever brand in Thailand ran into some problems with one of its promotion campaigns, the 'Citra 3D Brightening Girls Search'. Citra Pearly White UV Body Lotion is marketed as a skin-whitening product. Skin whitening is popular in many Asian countries because lighter skin colour is associated with higher economic status. However, this belief is not created by marketers. Anthropologists point out that Asian cultures, and Thailand in particular, have long histories of associating darker skin tones with outdoor peasants and field workers and lighter skin tones with higher socio-economic status. Citra's advertising was criticised because it showed two female students – one lighter-skinned than the other – and asked them what would make them 'outstanding in uniform'. The darker girl seemed confused and didn't answer, while the lighter girl answered with Citra's product slogan. After considerable social media outcry, Citra pulled the ad, but it did not stop a related scholarship competition. The competition offered a 100,000 baht (€3,000) prize for the college student best demonstrating 'product efficacy' – that is, the whitest skin. The company claims its products help people feel good about themselves and enhance their self-esteem.[20]

14.11 Because lighter skin and skin whitening are popular in Thailand, is it wrong for marketers to offer and promote products that encourage this belief and behaviour? Explain why or why not. (AACSB: Communication; Reflective thinking; Ethical reasoning)

14.12 Find other examples of marketers creating controversy by promoting culture-based products that could be viewed as inappropriate by others outside of that culture. (AACSB: Communication; Reflective thinking)

Marketing by numbers: advertising-to-sales ratios

Using the percentage of sales method, an advertiser sets its budget at a certain percentage of current or forecasted sales. However, determining what percentage to use is not always clear. Many marketers look at industry averages and competitor spending for comparisons. Websites and trade publications publish data regarding industry averages to guide marketers in setting the percentage to use.

14.13 Find industry advertising-to-sales ratio data. Why do some industries have higher advertising-to-sales ratios than others? (AACSB: Communication; Use of IT; Reflective thinking)

14.14 Determine the advertising-to-sales ratios for two competing companies and compare them to the industry advertising-to-sales ratio found above. Why do you think there is a difference between competitors and the industry average? (AACSB: Communication; Use of IT; Analytical reasoning; Reflective thinking)

Video case

OXO

see www.pearsoned.co.uk/kotler

You might know OXO for its well-designed, ergonomic kitchen gadgets. But OXO's expertise at creating handheld tools that look great *and* work well has led it to expand into products for bathrooms, garages, offices, babies' rooms and even medicine cabinets. In the past, this award-winning manufacturer has managed to move its products into almost every home in the United States by relying on a consistent and in some cases non-traditional marketing strategy.

But in a highly competitive and turbulent market, OXO has focused on evaluating and modifying its marketing strategy in order to grow the brand. This video demonstrates how OXO is using strategic planning to ensure that its marketing strategy results in the best marketing mix for the best and most profitable customers.

After viewing the video featuring OXO, answer the following questions:

14.15 What is OXO's mission?

14.16 What are some of the market conditions that have led OXO to re-evaluate its marketing strategy?

14.17 How has OXO modified its marketing mix? Are these changes in line with its mission?

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Company case

Marie Curie: understanding service user experiences

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Marie Curie is a major UK charity for people living with terminal illness, and their families. Founded in 1948, the origins of the charity are interwoven with the work of Maria Skłodowska, a Polish scientist whose pioneering work into radioactivity was awarded the Nobel Prize, jointly with her husband, for separate projects, in 1903. In 1930 she gave her name to a UK hospital that specialised in the radiological treatment of women suffering from cancer and allied diseases. Today the charity offers palliative and end-of-life care support to 40,000 people annually.

The World Health Organization (WHO) defines palliative care as 'an approach that improves the quality of life of patients and their families facing the problems associated with life-threatening illness, through the prevention and relief of suffering by means of early identification and impeccable assessment and treatment of pain and other problems, physical, psychosocial and spiritual'. Transition into palliative care is a defining temporal moment. Contrary to other advances in medical care that can help to extend a patient's lifespan, service provision shifts from curative treatment to pain, medicine and symptom management, and focuses more closely on making time left meaningful rather than being future-oriented.

The work of Marie Curie in the UK is influenced by successive government reports into enhancing end-of-life care, which have generated a service map of what 'dying-well' might look like. It began in July 2008 with the first national strategy intent upon offering more service choice. In 2013, 'Ambitions for palliative and end of life care' appeared, which placed an emphasis on education and training, evidence and information, shared medical records and personalised care. During the same year 'What's important to me' and 'Dying without dignity' appeared. The first report set about establishing a 'national choice offer' built upon additional funding, 24/7 community care, shared medical records access and a named doctor overseeing support for each patient. The second report utilised case studies to highlight areas of particular concern in service provision.

In 2016 a further influential document appeared championing increased support, honest discussions with healthcare professionals, informed choices, the development of personalised care plans, the involvement of family, carers and others important to the patient in the planning process, and places to turn to for support and advice. While this 'dying-well' narrative overlaps many times, it is united in including support for caregivers and family members, and recognising that experiences of palliative care are impacted by aspects that are not commonly apparent in other areas of healthcare, i.e. psychosocial, spiritual and holistic support, for instance. Psychosocial support is linked to social factors and individual thought and behaviour. Spiritual support is linked to the human spirit or soul. Holistic support is linked to the treatment of the whole person, taking account of mental and social factors in addition to symptoms of disease.

Marie Curie contributes to this 'dying-well' narrative in multiple ways, through nursing, operating a volunteer programme and by running nine hospices in the community. Historically the term 'hospice' can be traced back to the Latin and Greek terms *hospe* and *hospitium*, equating it with 'hospitality, an inn'. Over time this relationship has become obscured by a more clinically derived dialogue. In essence 'hospice' today is about a philosophy of care for those living with a life-limiting illness. This care is delivered through a range of services, which include hospice units, hospital environments, care homes and care at home. In the UK, there are over 200 hospice units, usually referred to as 'hospices', collectively supporting around 200,000 patients annually.

There is some Government funding behind hospices, 32 per cent on average in England for adult care, Marie Curie benefiting from this too. The remaining costs are met by the organisation itself, usually via different forms of fundraising. This funding model has advantages and disadvantages. For instance, 100 per cent publicly funded healthcare organisations, as is the case in many parts of the National Health Service (NHS), have little local control over their service provision, yet do have financial security. Organisations with partial funding, as in the case of Marie Curie, have more local control over decision-making and activities, yet less financial security. For Marie Curie funding is often used to support staffing, nurses in particular, meaning that services so critical to care are in place.

The demand for hospice care is on the rise: with an ageing population, there is a greater need to access such services. Marie Curie accepts referrals from different routes including patients registered with doctors in its local area. While cancer continues to dominate referrals, other conditions are also supported including cardiovascular diseases, motor neurone disease and multiple sclerosis. Today dementia and frailty are increasingly a part of discussions linked to future service needs. Care is offered through a variety of service options including inpatient units, outpatient and day facilities (e.g. Sunflower Centre), programmes (e.g. Living Well) and clinics (e.g. breathlessness clinic and lymphoedema clinic). With over 2,000 nurses employed, Marie Curie is also able to offer support to people who wish to die peacefully within their own homes. This service is often referred to as a 'hospice-at-home' service.

In the UK, 'person-centred care' dominates health care delivery. This means that service delivery is planned to take account of the unique characteristics of the patient. Marie Curie works to deliver this model, looking at the individual needs of every patient and family member they work with. In some cases patients and their families may have a short relationship with Marie Curie, a matter of weeks, days or even hours. In other instances, this relationship may extend over a considerable period of time and involve the completion of multiple-day patient programmes prior to any inpatient support being offered. It may also continue in times of bereavement with family members utilising counselling services or joining self-help groups as is the case at Marie Curie Liverpool, which facilitates a men's bereavement group.

Just as manufacturing firms aim for zero defects, hospices such as Marie Curie strive to avoid service failures where customer expectations are not met. However, because services comprise unique human interactions, service failures are almost inevitable. Consequently, organisations focus on service recovery strategies to fix problems and retain their customers for the future. Because a hospice offers care to terminally ill patients, it may not get the opportunity to correct a service failure. This situation makes the identification of what hospice users really need and want, and to ascertain perceptions of the hospice's service delivery from the user's perspective, even more important than for other service providers.

To understand service user needs Marie Curie collects patient feedback. Feedback in healthcare is seen as a necessary, desirable, even essential feature of improving the quality of healthcare delivery. It helps to improve patient and doctor communication, minimise patient dissatisfaction and enhance patient empowerment. Such feedback is seen as a mechanism for changing healthcare processes, building trust and confidence and for improving clinical performance with the ultimate goal of achieving better healthcare outcomes.

However, collecting healthcare feedback is acknowledged as problematic. One particular criticism levied at the sector more generally is linked to the lack of systematic data collection with multiple processes in existence. Many traditional survey type tools exist. In the UK, one tool commonly used is the 'Family and Friends Test'. However, such approaches focus on measuring outcomes such as how quickly patients are assessed, whether they receive information leaflets, whether a discussion about their emotional needs is documented, etc. While these aspects are important, they provide little information about how the patient felt.

In recent years Marie Curie hospice in Liverpool have begun working with researchers at the University of Liverpool and other hospices to trial the application of a new method, 'The Trajectory Touchpoint Technique' (TTT), specifically designed to overcome existing palliative care measurement limitations. The TTT collects service user (patient, family and friends) stories of care structured around a set of seven service journey touchpoints: *pre-arrival; arrival; clinical care and support; facilities; shared spaces; little extras; discharge and aftercare* (see Table 1). Aide-memoire prompt cards are used for each touchpoint (see Figure 1 for an example of these) which include clip-art pictures, cartoons, or easy-to-recognise signs and symbols. These visuals allow conversations to include reference to both the tangible and intangible aspects of service delivery.

Table 1 Trajectory touchpoint technique

Group	Touchpoints
Pre-arrival Details the journey from the first mention of hospice care, through referral process	• Reaction to 'hospice' or 'palliative care; • worries, concerns, support; • advice, unanswered questions; • misconceptions and barriers; • referral process; • information sources (electronic, print, word of mouth).
Arrival Journey stage when palliative care services are first received	• Welcome process; • first impressions, feelings (or lack of) of trust, knowledge, staff attitude & skills; • signage; parking; ease of access (if a unit); • acts of kindness; • worries and concerns.
Clinical care and support Care provided by clinicians and other care staff	• Doctors, nurses, healthcare assistants; • medicine and pain management; • physiotherapy, counselling, social worker support; • advanced care planning.
Facilities Non-social dimensions of the servicescape	• Wards, rooms, equipment; • comfort and ambience; • food and drink; • cleanliness; • TVs, radios, Wi-Fi.

Table 1 Trajectory touchpoint technique (*continued*)

Group	Touchpoints
Shared spaces The social dimensions of the servicescape	• Family rooms; • shared kitchen and TV rooms for families; • gardens and outdoor spaces; • sound and impact of other users.
The little extras Non-clinical therapeutic services offered by hospices and palliative care providers	• Spirituality; • art/craft/music/pet therapy; • aromatherapy; • lending libraries (book, toy, film); • personal care services (spas, hairdressers).
Discharge and aftercare Journey pertaining to discharge (some patients) and aftercare (discharged patients and bereaved families)	• Help, assistance, support, guidance, advice; • discharge process and procedure; • caregiver and bereavement support; • dignity and respect; • wellbeing, quality of life, quality of death.

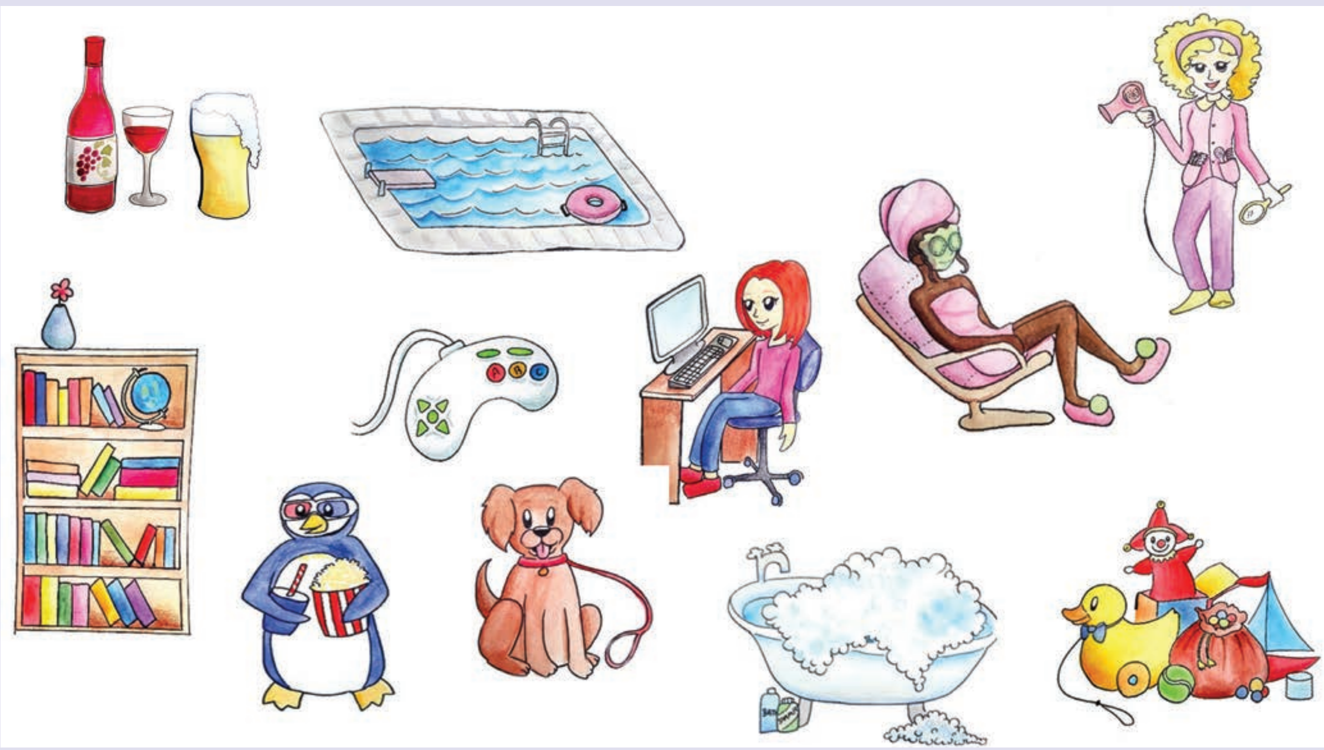


Figure 1 Trajectory touchpoint technique prompt card

Applying the TTT has helped Marie Curie to appreciate the range of misconceptions service users have about hospice care prior to arrival. It has helped them to better understand which hospice information is most useful, and at what point it is needed (communication). It has unearthed what service users value most about food and facilities (service design) and confirmed just how important continuity of care (service delivery) is at this life stage.

Not everybody who needs hospice care can access it however. In 2018, in the UK, an All-Party Parliamentary Group (APPG) Inquiry into improving access to hospice care was launched. The Inquiry tackled five questions:

1. What are the experiences of people and their families who have been unable to access hospice and palliative care, and what barriers did they face?
2. What are the factors that lead to unequal access to hospice and palliative care?
3. What actions are palliative care providers, commissioners and policy makers taking to improve access to hospice and palliative care?
4. What barriers do palliative care providers, commissioners and policy makers face in improving access to appropriate services?

5. What national, regional and local levers would support improving access to hospice and palliative care?

Research suggests that there are multiple barriers to accessing the palliative care services offered by Marie Curie and similar organisations. Table 2 provides examples of these barriers. Giving thought to these barriers will help organisations such as Marie Curie to usefully shape communication strategies, service design and service delivery as they strategically plan for future population needs.

Table 2 Barriers to accessing palliative care services

1	Misconceptions of the term hospice and associations only with 'death'
2	Misunderstandings regarding the term 'palliative care'
3	A lack of knowledge regarding services available e.g. inpatient, outpatient, day patient, hospice@home, and that services such as pain management, medicine management and symptom management are provided
4	Misperceptions that hospice care has to be paid for
5	Confusion over the referral process and a lack of standardisation to this process
6	Difficulties in attempting to understand when the 'right' time is to attempt hospice access
7	Poor integration and communication between the different stakeholders involved in the delivery of palliative and end-of-life care
8	Cultural and religious orientations

Questions for discussion

1 What do you think Marie Curie means to consumers? How might this influence their branding activities?

2 Hospices have been described as the 'Death House'. Design a communications strategy to more accurately reflect the work of a hospice.

3 Hospices are partially state funded, the remaining monies often generated through fundraising activities. Design such a fundraising strategy and evaluate the advantages and disadvantages of employing the fundraising activities suggested.

4 Who are the future service users and how might their service needs differ from the traditional hospice service user?

Sources: Department of Health (2008), *End of Life Care Strategy*, London: HMSO; Department of Health (2016), *Our Commitment to You for End of Life care. The Government Response to the Review of Choice in End of Life Care*, Department of Health, July; Hospice UK (2015), *Facts and figures: About Hospice Care*, https://www.hospiceuk.org/media-centre/facts-and-figures; National Palliative and End of Life Care Partnership (2015), *Ambitions for Palliative and End of Life Care: A National Framework for Local Action 2015–2020*, http://endoflifecareambitions.org.uk/; Parliamentary Health Service Ombudsman (2015), *Dying Without Dignity*. *Investigations by the Parliamentary and Health Service Ombudsman into Complaints About End of Life Care*, London: Parliamentary and Health Service Ombudsman; The Choice in End of Life Care Programme Board (2015), *What's Important to Me. A Review of Choice in End of Life Care*, The Choice in EOLC Programme Board, February; WHO (2015), *WHO Definition of Palliative Care*, http://www.who.int/cancer/palliative/definition/en/, accessed May 2019.

Chapter Fifteen

Advertising and public relations

Chapter preview

After an analysis of overall integrated marketing communications (IMC) planning, we dig more deeply into the specific marketing communication tools. In this chapter, we explore advertising and public relations (PR). Advertising involves communicating the company's or brand's value proposition by using paid media to inform, persuade and remind consumers. PR involves building good relations with various company publics – from consumers and the general public to the media, investor, donor and government publics. As with all the promotion mix tools, advertising and PR must be blended into the overall IMC programme. In Chapters 16 and 17, we will discuss the remaining promotion mix tools: personal selling, sales promotion and direct and digital marketing.

Let's start by looking at John Lewis's Christmas advertising campaigns. Since 2007, the leading British department store chain has successfully been associated with the festival of Christmas because of the success of its Christmas advertising. The message: good advertising really does matter.

Learning outcomes

- **Objective 1** You will be able to define the role of advertising in the promotion mix.
  Advertising (p. 450)
- **Objective 2** You will be able to describe the major decisions involved in developing an advertising programme.
  Major advertising decisions (pp. 450–469)
- **Objective 3** You will be able to define the role of public relations in the promotion mix.
  Public relations (pp. 469–471)
- **Objective 4** You will be able to explain how companies use PR to communicate with their publics.
  Major public relations tools (pp. 471–472)

John Lewis christmas advertising

John Lewis is an upmarket department store in the UK. The retail sector is highly competitive in the UK, where consumers can buy products from many different channels, such as online retailers, supermarkets, department stores and specialist stores. For the department store sector, John Lewis is facing strong competition from stores with a similar business model, such as Selfridges, Harvey Nichols, Debenhams, House of Fraser and others. In addition, like all major department store chains in the UK, it also faces serious threats from supermarkets (e.g., Marks & Spencer, Sainsbury's and Tesco) as well as online retailers, such as Amazon. According to some industry experts, the demand for old retailing models is diminishing, with a rising demand for online shopping due to fewer concerns about delivery and security, and the application of digital technologies in enhancing the online shopping experience. Recent research shows that no department store is among the UK's top 20 fastest growing retailers. Even for the traditional department stores, online sales have grown rapidly, in comparison to the poorer sales performance in their physical stores.

In order to stand out against the competition, building strong brand equity, such as top-of-mind brand awareness and unique brand differentiation, is particularly important. John Lewis has been successfully doing so by investing in advertising, particularly during the Christmas season.

UK christmas shopping

As the most important traditional religious festival in the UK and the rest of Europe, Christmas in the modern age has been celebrated by sharing food and gift giving between family and friends. The Christmas season includes the weeks leading up to Christmas, and afterwards until the New Year. People spend a lot of money on shopping during the Christmas season, buying presents and food. Therefore, it is no surprise that stores stock up and prepare for the season by investing heavily in marketing communications, such as sales promotions and advertising, hoping to take a bigger market share of the consumer spending. The Christmas season is such a critical time of year for most retailers that it is estimated by an industry body that brands spend about £6 billion on Christmas advertising. Although consumers often plan well when spending, research has shown that many people try to keep an open mind on Christmas shopping with over 40 per cent of people trying to not set a budget. More and more people have shifted to online shopping during the Christmas season with over 40 per cent doing some shopping online and nearly 10 per cent doing all online, as online shopping allows people to find the best deals more efficiently and conveniently. Nevertheless, department stores (physical or online) offer one-stop shopping convenience, so it makes a great deal of sense for them to invest in marketing communications during the Christmas season. After all, the Christmas season can account for about 20 per cent of annual sales and 40 per cent of annual profits for many retailers. Through these campaigns, John Lewis transformed its public perception of being reliable but dull to being one of the most loved brands in the UK.

The campaigns

John Lewis released their first Christmas advert in 2007 with an estimated budget at the time of £6 milllion. It has since become one of the signals of the start of the Christmas countdown in the UK, and an annual tradition in the UK's popular culture. The advertising campaigns since 2007 are: Shadow (2007), Clues (2008), The Feeling (2009), A Tribute to Givers (2010), The Long Wait (2011), The Journey (2012), The Bear and the Hare (2013), Monty the Penguin (2014), the Man on the Moon (2015), Buster the Boxer (2016), Moz the Monster (2017) and The Boy and the Piano (2018).

Shadow (2007) features John Lewis employees stacking a wide range of products carefully to create a shadow that looks like a woman walking her dog in the snow, with an ending that reads 'whoever you're looking for this Christmas' to convey a message that John Lewis can be the one-stop store for people's Christmas present shopping for their loved ones. Clues (2008), with a tag line 'If you know the person, you'll find the present', aimed to convey a message similar to the Shadow campaign: John Lewis can help you find the perfect gift for whomever that you know or care about: a sleepy guy, a geeky teenager or even a shaggy dog. The Feeling (2009) features children opening adults' presents and being delighted by them. The final scene shows the girl opening a present becoming an adult and ends with a tagline 'Remember how Christmas used to feel'. It encourages shoppers to imagine the emotional benefits they are giving to the recipients. Again, similar to those adverts of the previous two years, it features the notion of gift purchase, but it has a bit of additional emotional flavour.

A Tribute to Givers is the title of the 2010 campaign, which depicts the efforts of gift givers in preparing their presents to the ones they care about. The scenes include parents sneaking a rocking horse upstairs while their children watch television, a man struggling to wrap candlesticks, and a boy hanging a stocking on his dog's kennel. It ends with the tagline 'For those who care about showing they care'. Again, similar to previous ads, this features gift giving, but it is also different, turning its attention to the feelings and efforts of the givers, hence a 'tribute' to the givers. The Long Wait (2011) was a milestone in John Lewis's Christmas ad campaigns. It told a whole story, and turned away from featuring products. It tells the story of a boy waiting impatiently for Christmas, counting down the days, trying to use magic to make the time go faster and finishing his Christmas Eve dinner as quickly as possible so that he can go to bed early. The next morning, he runs straight to his wardrobe to take out a wrapped gift, goes to his parents' bedroom and presents the gift to his parents. It ends with a tagline 'For gifts you can't wait to give'. The notion is similar to A Tribute to Givers, but it features a whole story with a slow pace to build up viewers' anticipation.

The Journey (2012), again adopting a whole story line, tells the story of a snowman who travelled across fields, climbed mountains and crossed a river to find a perfect Christmas gift for Mrs Snowman. The Bear and the Hare (2013) features a bear and a hare in an animated woodland tale. It begins with 'There was once an animal who had never seen Christmas', then shows a bear and a hare walking through a wintry woodland. As the snowflakes start to fall, the bear goes to hibernate and the hare feels sad as his bear friend will miss Christmas. The hare finds a solution to the problem by giving the perfect Christmas present to the bear – an alarm clock. He places it beside the sleeping bear, who is woken up by the alarm clock on Christmas morning and joins the hare and other woodland animals for Christmas. It ends with 'Give someone a Christmas they'll never forget'. The ad features the use of hand-crafted animation, 'hoping to evoke nostalgia and build anticipation ahead of Christmas'.

Monty the Penguin (2014) tells a story of a friendship between a boy and a penguin called Monty (the boy's imaginary friend) who dreams of love during Christmas. It features the strapline 'Give someone the Christmas they've been wishing for'. Man on the Moon (2015) tells a tale of a young girl who spots an old man living alone on the Moon, and tries to contact him and catch his attention to no avail. She then sends him a telescope, delivered by balloon. With the telescope, the man is finally able to see Earth on Christmas night. It ends with a strapline of 'Show someone they're loved this Christmas'.

Buster the Boxer (2016) tells the story of a girl's parents buying her a trampoline for Christmas and building it in the garden to surprise her with on Christmas Day. In the evening, some wild animals, including two foxes, a badger, a squirrel and a hedgehog, discover it and have fun jumping on it, while the family's boxer dog Buster looks on enviously at the animals having fun. On Christmas morning, the girl runs downstairs to discover the trampoline and runs to it excitedly. However, Buster reaches it before her and bounces on it enthusiastically. It ends with the strapline 'Gifts that everyone will love'.

Moz the Monster (2017) tells the story of a little boy who is afraid of the dark. He befriends a monster (named Moz, who is living under his bed), through a mutual love of late-night Scalextric and piggyback games. On Christmas day, the boy finds a mystery gift (a nightlight) under the Christmas tree. In bed, when the boy turns the nightlight on, his monster friend disappears, but when he turns it off before he falls asleep, he hears the rumblings of his monster friend under the bed. It ends with a strapline: 'For gifts that brighten their world'.

The verdict

John Lewis's Christmas TV ad campaigns (2012–2015) helped its agencies to pick up the 2016 IPA (Institute of Practitioners in Advertising) Effectiveness Awards Grand Prix. The judges praised it, saying 'This is the most high-profile marketing campaign in the UK, at the most commercially important time of year. Each new John Lewis Christmas campaign is anticipated and talked about by pretty much everyone. But it isn't just 'nice to watch', it isn't just hot air; it halts the nation, it has become part of our culture, and most importantly, it drives business success.'

Analysts have claimed that the ads helped, driving up sales by 16 per cent on average during the Christmas period, which represents an £8 profit for every £1 spent. John Lewis itself was also very confident in the effectiveness of its advert campaigns. According to its head of marketing, 'Our TV campaigns at Christmas are our most profitable ROI, which demonstrates that when you invest in creativity and in creating memorable brand building campaigns you not only create short term commercial success, you build the brand over the long term.' The aim was to build brand fame and an emotional connection with consumers. And John Lewis indeed did this through its TV advert campaigns.

It was evident that John Lewis took a long-term approach to its advert campaigns, in that it didn't focus on short-term objectives such as click-through rates, likes or shares, but tried to 'entertain the nature, change people's behaviour and challenging their perceptions' so that it built brand resonance and emotional connection. Another key feature of the adverts is the songs used, which were, until 2018, covers of existing songs by popular artists. These songs become the narration of the stories in the adverts and help trigger emotional reactions from viewers. According to industry pundits, the success factors behind John Lewis's Christmas advert campaigns include their creativity, the intensity of emotional experience, entertaining so that people seek them out, telling a good story and creating a world for people to live in, and creating characters that have a life of their own. From a neuroscience perspective, it was commented that the Man on the Moon advert triggers a strong emotional response as it focuses on one story line, which provides 'a strong path for the brain to follow, and is likely to trigger high levels of memory encoding, as our brains usually find it easier to follow a single narrative than a sequence of vignettes'.

On John Lewis & Partnership's official YouTube channel, as of December 2018, Man on the Moon had over 30 million views, Monty the Penguin over 27 million views, The Bear and the Hare over 17 million views, The Long Wait over 8 million views, The Journey about 7 million views, and the latest ,The Boy and the Piano (2018) had over 11 million views within two weeks from its launch. Most of its adverts did not use rational messaging or mention any selling, apart from the earlier ones that hinted at it (Shadow and Clues). Instead, they all engaged in storytelling and invoked emotional reaction. For example, it was reported that in its first 24 hours online the Monty the Penguin advert (2014) was shared 202,953 times with 14,500 people mentioning on social media that the advert made them cry and 3,500 people admitting that they now want a pet penguin. A betting company, Ladbrokes, even opened a bet on whether views of Monty the Penguin would surpass the previous year's The Bear and the Hare, with odds of 1/10.[1]

John Lewis has been successfully building its brand equity by investing in advertising, particularly during the Christmas season.
Source: Matthew Chattle/Shutterstock

Companies must do more than simply create customer value. They must also engage target customers and clearly and persuasively communicate that value to them. In this chapter, we take a closer look at two marketing communications tools: *advertising* and *public relations*.

Advertising

Advertising Any paid form of non-personal presentation and promotion of ideas, goods or services by an identified sponsor.

Author comment

You already know a lot about advertising – you are exposed to it every day. But here we'll look behind the scenes at how companies make advertising decisions.

Advertising can be traced back to the very beginnings of recorded history. Archaeologists working in countries around the Mediterranean Sea have dug up signs announcing various events and offers. The Romans painted walls to announce gladiator fights and the Phoenicians painted pictures on large rocks to promote their wares along parade routes. During the golden age in Greece, town criers announced the sale of cattle, crafted items and even cosmetics. An early 'singing commercial' went as follows: 'For eyes that are shining, for cheeks like the dawn/For beauty that lasts after girlhood is gone/For prices in reason, the woman who knows/Will buy her cosmetics from Aesclyptos.'

Modern advertising, however, is a far cry from these early efforts. Global advertising expenditure in 2017 was estimated at around $553 billion. US advertisers alone now run up an estimated annual bill of more than $197 billion on measured advertising media, with the next largest advertising markets being: China ($80.4 billion), Japan ($42.9 billion), UK ($24.4 billion), Germany ($22.1 billion), Brazil ($13.2 billion), South Korea ($11.8 billion), France ($11.7 billion), Australia ($11.6 billion) and Canada ($9.7 billion). By 2020 global advertising expenditure is estimated to increase by US$77 billion in total with US (26 per cent contribution) and China (22 per cent contribution) being the leading contributors to the growth. It is also noted that seven of the top ten contributors are the rising markets (China, Indonesia, India, Philippines, Brazil, Russia and South Korea), and collectively they will contribute 40 per cent of the new advertising expenditure by 2020.[2]

Although advertising is used mostly by business firms, a wide range of not-for-profit organisations, professionals and social agencies also use advertising to promote their causes to various target publics. In fact, in most countries one of the largest advertising spenders is a not-for-profit organisation – the government. In the US, federal agency spending was $1.5 billion a year on advertising and public relations, with most of it going to advertising.[3] In the UK, government advertising spending in 2015 grew by 22 per cent on 2014 to nearly £300 million. Key campaigns were those explaining deficit reduction, the Scottish independence referendum and 'improving public confidence' in Britain's role in Afghanistan – their advertising has three themes: economic confidence, fairness and attribution and Britain in the world.[4] And in 2015, it was revealed that the advertising spending by the European Commission had reached £2.4 billion a year – more than the £2.13 billion Coca-Cola spent worldwide in advertising its brands.[5] Advertising is a good way to inform and persuade, whether the purpose is to sell soft drinks worldwide, help smokers kick the habit or educate people in developing nations on how to live healthier lives.

Marketing management must make four important decisions when developing an advertising programme (see Figure 15.1): *setting advertising objectives*, *setting the advertising budget*, *developing advertising strategy (message decisions and media decisions)*, and *evaluating advertising effectiveness.*

Setting advertising objectives

The first step is to set *advertising objectives*. These objectives should be based on past decisions about the target market, positioning and the marketing mix, which define the job that advertising must do in the total marketing programme. The overall advertising objective is to help engage customers and build customer relationships by communicating customer value. Here, we discuss specific advertising objectives.

Advertising objective A specific communication *task* to be accomplished with a specific *target* audience during a specific period of *time*.

An **advertising objective** is a specific communication *task* to be accomplished with a specific *target* audience during a specific period of *time*. Advertising objectives can be classified by their primary purpose – to *inform*, *persuade* or *remind*. Table 15.1 lists examples of each of these specific objectives.

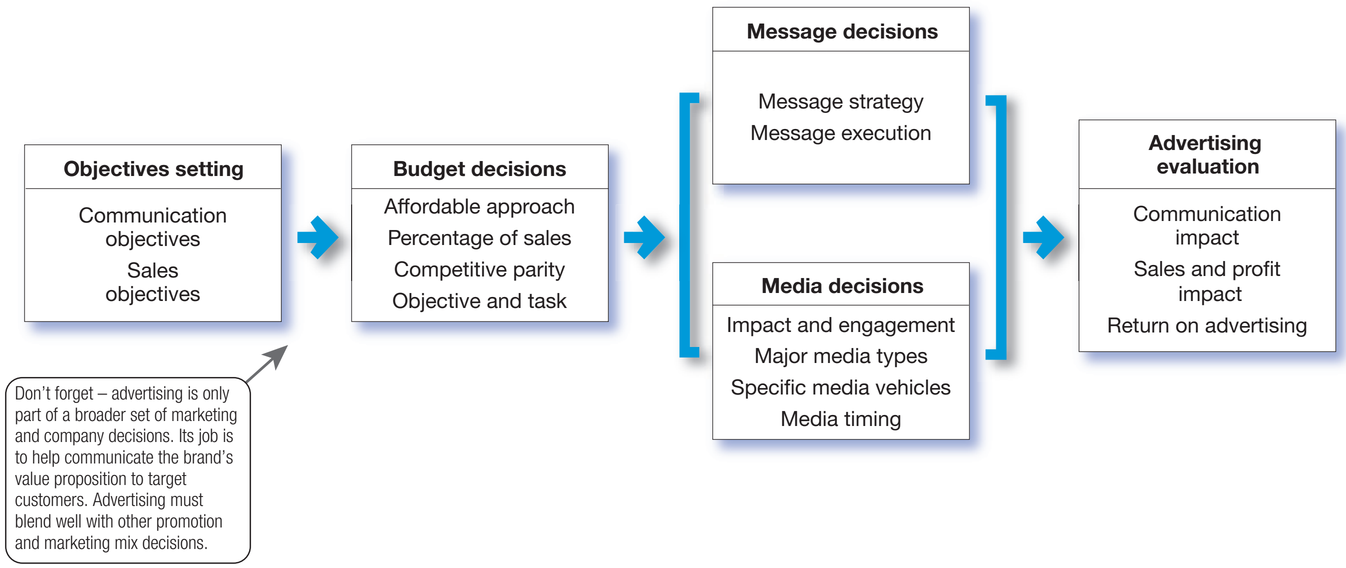


Figure 15.1 Major advertising decisions

Informative advertising is used heavily when introducing a new product category. In this case, the objective is to build primary demand. Thus, early producers of big-screen HDTVs first had to inform consumers of the image quality and size benefits of the new product. *Persuasive advertising* becomes more important as competition increases. Here, the company's objective is to build selective demand. For example, once HDTVs became established, Samsung began trying to persuade consumers that *its* brand offered the best quality for their money. Such advertising wants to engage customers and create brand community.

Some persuasive advertising has become *comparative advertising* (or *attack advertising*), in which a company directly or indirectly compares its brand with one or more other brands. You see examples of comparative advertising in almost every product category, ranging from soft drinks and fast food to car rentals, credit cards and wireless phone services. For example, Pepsi has long fielded comparative ads that take direct aim at rival Coca-Cola:[6]

Table 15.1 Possible advertising objectives

Informative advertising	
Communicating customer value	Suggesting new uses for a product
Building a brand and company image	Informing the market of a price change
Telling the market about a new product	Describing available services and support
Explaining how a product works	Correcting false impressions
Persuasive advertising	
Building brand preference	Persuading customers to purchase now
Encouraging switching to a brand	Creating customer engagement
Changing customer perceptions of product value	Building brand community
Reminder advertising	
Maintaining customer relationships	Reminding consumers where to buy the product
Reminding consumers that the product may be needed in the near future	Keeping the brand in a customer's mind during off-seasons

Comparative advertising: Pepsi has long taken direct aim at rival Coca-Cola with comparative ads.
Source: Neveshkin Nikolay/Shutterstock

It began years ago with the long-running 'Pepsi Challenge' campaign, where Pepsi ads showed blind taste tests in shopping malls and other public places in which consumers invariably preferred the taste of Pepsi to that of Coca-Cola. Since then, Pepsi has run regular comparative ads tweaking its larger competitor, ranging from an ad showing Santa Claus (long associated with Coca-Cola advertising) choosing a Pepsi over a Coke to one in which a Pepsi delivery driver snaps a candid photo of a Coke driver covertly draining a cold can of Pepsi. In another ad, a happy Pepsi drinker mocks a Coke buyer by telling him, 'You've still got the polar bear' (another Coca-Cola ad symbol). A scraggly polar bear then sadly pets the Coke drinker. Such comparison ads have been popular with Pepsi fans. 'There are few things that grab our fans' attention as much as seeing our beloved blue and that red next to each other', says Pepsi's brand marketing and digital director. 'It's done well for us in the past, and it's just something that we know works and that they love to see.'

Unilever ran into trouble in 2011 with the UK's Advertising Standards Authority for adverts promoting its Knorr gravy granules, which contained headlines that said 'unbeatable taste vs Bisto'. The ads contained further text that said Knorr's gravy had recorded 'unbeatable scores for taste, appearance, consistency and aroma' in testing. One of the adverts claimed Knorr gravy recorded 'unbeatable scores' over 'main competitors'. Premier Goods Group who owned Bisto took some exception to this advertising and argued that the comparisons made in the adverts had been misleading and could not be proven. The ASA agreed and ruled that the ads must not appear again in their current form. It said in the ruling, 'because the survey did not show that Knorr was unbeatable versus its main competitors and we were unable to ascertain whether it was unbeatable in the individual categories stated in both ads we concluded that [the] ads . . . were misleading.'[7]

Comparative advertising campaigns often create controversy. Many times, that's the point of using them. Whereas established market leaders want to exclude other brands from the consumer's choice set, challengers want to shake things up, inject their brands into the consumer conversation and put themselves on equal footing with the leader. For example, Microsoft has a long history of successful comparative advertising, both in initiating challenges against market-leading rivals and fending off attacks by challengers.[8]

It all started a decade ago when Apple set out to loosen Microsoft's iron grip on the personal computer market. Apple fired the first direct salvo at Microsoft by launching the now-classic 'Get a Mac' comparative campaign. 'Get a Mac' ads featured two characters – 'Mac' and 'PC' – sparring over the relative advantages of the Apple Mac versus Microsoft Windows-based PCs. The ads portrayed Mac as a young, hip, laid-back guy in a hoodie, whereas PC was a stodgy, befuddled, error-prone, middle-aged nerd in baggy khakis, a brown sport coat and unfashionable glasses. Not surprisingly, Mac always got the best of outdated and inflexible PC. Over the next few years, Apple unleashed a non-stop barrage of Mac versus PC ads that bashed Windows-based machines – and their owners – as outmoded and dysfunctional. Within two years, the Mac's share of the US personal computer market had doubled and consumer value perceptions of Apple computers skyrocketed. At one point, Apple scored a whopping 70 on the BrandIndex (which tracks consumer perceptions of brand value on a scale of −100 to + 100). Microsoft, meanwhile, floundered below zero.

Two years after the Apple 'Get a Mac' onslaught began, Microsoft counterpunched with its own cheeky 'I'm a PC' campaign, featuring a dead-on look-alike of Apple's PC character. In the first ad, dressed in PC's dorky outfit, Microsoft's character opened with 'I'm a PC. And I've been made into a stereotype.' He was followed by a parade of everyday PC users – from environmentalists, political bloggers, mixed martial arts fighters and mash-up DJs to budget-conscious laptop shoppers and remarkably tech-savvy preschoolers – each proclaiming, 'I'm a PC.' The Microsoft 'I'm a PC' campaign struck a chord with Windows users, who no longer had to sit back and take Apple's jibes. Microsoft quickly extended the 'I'm a PC' campaign with a new pitch, one more in tune with the then-troubled economy. Part advertising and part reality TV, the new comparative campaign – called 'Laptop Hunters' – tagged along with real consumers as they shopped for computers. The task? Find a laptop with everything a person could want for under $1,000. Shopper after shopper visited PC and Apple retailers, only to find that getting a decent Mac for that price was impossible, whereas fully loaded Windows-driven laptops came in well under the mark. The ads spoke volumes in a difficult economy, portraying Apple as too expensive, 'too cool' and out of touch with mainstream consumers. The provocative ads bumped Microsoft's BrandIndex score from less than zero to 46, while Apple's score dropped from its previous high of 70 to only 12. Apple struck back with one of its most negative comparative Mac versus PC ads yet. Called 'Broken Promises,' it featured a sceptical Mac attacking PC about whether the newest Windows version would eliminate problems associated with previous Windows versions. Many analysts thought that the biting tone of the ad suggested that Apple was feeling the heat and getting defensive. Uncharacteristically, Mac seemed to be losing his cool.

A few years later, however, when it introduced its Bing search engine, Microsoft once again turned to comparative advertising, this time as the attacker rather than the attacked. To get Bing – a distant also-ran to search leader Google – into consumers' choice sets, Microsoft launched an aggressive campaign called 'Bing It On.' The campaign challenged users to make direct side-by-side comparisons of Bing search results to Google search results without knowing which results were from which search engine. According to Microsoft, to the surprise of many people, those making the comparison chose Bing over Google by a two-to-one margin.

Microsoft pressed on against Google with an even more aggressive 'Scroogled' campaign, which attacked Google's search engine for 'Scroogling' users by exploiting their personal data with everything from invasive ads in Gmail to sharing data with app developers to maximise advertising profits. 'For an honest search engine,' said the Scroogled ads, 'try Bing.' Although controversial, the Scroogled campaign got many consumers to look at Bing and other Microsoft products in a new light versus Google. Research showed that following a visit to Scroogled.com, Google's favourability gap over Bing faded from 45 points to just 5. And after watching a Scroogled ad, the chance of a viewer recommending Bing to a friend rose by 7 per cent.

In a more recent comparative campaign, this one for Microsoft's Surface tablet, Microsoft once again turned its sights on Apple, which dominates the high-end tablet market. But rather than going after Apple's wildly successful iPad, the Surface campaign directly challenged Apple's MacBook Air laptop, positioning the Surface Pro as a laptop alternative rather than an iPad killer. For example, one online video ad made a direct and convincing side-by-side comparison of the Microsoft Surface Pro with the Apple MacBook Air, concluding that the Surface is 'the tablet that can replace your laptop'. A Surface Pro print ad proclaimed, 'Powerful as a laptop, lighter than Air.' And in a Surface Pro TV ad, reminiscent of the original Mac versus PC ads, a MacBook Air owner at first gloats over his Apple. But after watching one after another Surface Pro user, the dejected MacBook owner confesses, 'I like your Surface Pro. No, seriously, where can I get one?'

The comparative campaigns have created controversy along with heated debate about the relative merits of, say, Bing versus Google or the Surface Pro versus the MacBook Air. But that's the point. Whereas established market leaders want to maintain the status quo and monopolise the conversation, market challengers want to shake things up and put their products on equal footing with the leader. That's what a good comparative advertising campaign does. Comparative advertising must be working for Microsoft. New ads and videos for its Microsoft Surface Pro 4 and kick-off content for its new Microsoft Surface Book hybrid laptop/tablet – which features 'the power of touch' – have taken up where previous comparative campaigns left off. They take direct aim at competing Apple models, positioning the Surface line as equipment that 'does more. Just like you'. One online video shows a happy user working magic on her Microsoft Surface Pro touchscreen, concluding, 'I couldn't do that on my Mac.'

Still, advertisers should use comparative advertising with caution. All too often, such ads invite competitor responses, resulting in an advertising war that neither competitor can win. Upset competitors might also take more drastic action, such as filing complaints with the regulatory authorities (e.g., the Advertising Standards Authority in the UK and the National Advertising Division of the Council of Better Business Bureaus in the US) or even filing false-advertising lawsuits. Note that Unilever's Knorr advertising mentioned above was, for example, banned by the ASA.

Reminder advertising is important for mature products; it helps to maintain customer relationships and keep consumers thinking about the product. For example, Piriteze's advertisement during the spring and summer reminds consumers to take their hayfever medicine with its message 'hits hayfever hard so you can enjoy your summer'. Expensive Coca-Cola television ads primarily build and maintain the Coca-Cola brand relationship rather than inform consumers or persuade them to buy it in the short run.

Advertising's goal is to help move consumers through the buying process. Some advertising is designed to move people to immediate action. For example, a direct-response television ad by Weight Watchers urges consumers to go online and sign up right away, and a Currys PC World newspaper insert for a weekend sale encourages immediate store visits. However, many ads focus on building or strengthening long-term customer relationships. For example, a Nike television ad in which well-known athletes work through extreme challenges in their Nike gear never directly asks for a sale. Instead, the goal is to engage customers and somehow change the way they think or feel about the brand.

Setting the advertising budget

Advertising budget The euros and other resources allocated to a product or a company advertising programme.

After determining its advertising objectives, the company next sets its **advertising budget** for each product. Four commonly used methods for setting promotion budgets are discussed in Chapter 14. Here we discuss some specific factors that should be considered when setting the advertising budget.

A brand's advertising budget often depends on its stage in the product life cycle. For example, new products typically need relatively large advertising budgets to build awareness and to gain consumer trial. In contrast, mature brands usually require lower budgets as a ratio to sales. Also, brands in a market with many competitors and high advertising clutter must be advertised more heavily to be noticed above the noise in the marketplace. Undifferentiated brands – those that closely resemble other brands in their product class (soft drinks, laundry detergents) – may require heavy advertising to set them apart. When the product differs greatly from those of competitors, advertising can be used to point out the differences to consumers.

No matter what method is used, setting the advertising budget is no easy task. How does a company know if it is spending the right amount? Companies such as Coca-Cola and Unilever have built sophisticated statistical models to determine the relationship between promotional spending and brand sales and to help determine the 'optimal investment' across various media. Still, because so many factors affect advertising effectiveness, some controllable and others not, measuring the results of advertising spending remains an inexact science. In most cases, managers must rely on large doses of judgement along with more quantitative analysis when setting advertising budgets.

As a result of such thinking, advertising is one of the easiest budget items to cut when economic times get tough. Cuts in brand-building advertising appear to do little short-term harm to sales. In the long run, however, slashing ad spending may cause long-term damage to a brand's image and market share. In fact, companies that can maintain or even increase their advertising spending while competitors are decreasing theirs can gain competitive advantage.

For example, during the recent recession, while competitors were cutting back, car maker Audi actually increased its marketing and advertising spending. Audi 'kept its foot on the pedal while everyone else [was] pulling back', said an Audi ad executive. 'Why would we go backwards now when the industry is generally locking the brakes and cutting spending?' As a result, Audi's brand awareness and buyer consideration reached record levels during the recession, outstripping those of BMW, Mercedes and Lexus and positioning Audi strongly for the post-recession era. Audi is now one of the hottest auto brands on the market, neck and neck with BMW and Mercedes in global luxury car sales.[9]

Developing advertising strategy

Advertising strategy consists of two major elements: creating advertising *messages* and selecting advertising *media*. In the past, companies often viewed media planning as secondary to the message-creation process. After the creative department had created good advertisements, the media department then selected and purchased the best media for carrying those advertisements to the desired target audiences. This often caused friction between creatives and media planners.

Advertising strategy
The strategy by which the company accomplishes its advertising objectives. It consists of two major elements: creating advertising messages and selecting advertising media.

Today, however, soaring media costs, more-focused target marketing strategies and the blizzard of new online, mobile and social media have promoted the importance of the media-planning function. The decision about which media to use for an ad campaign – television, newspapers, magazines, video, a website, social media, mobile devices or email – is now sometimes more critical than the creative elements of the campaign. Also, brand content is now often co-created through interactions with and among consumers. As a result, more and more advertisers are orchestrating a closer harmony between their messages and the media that deliver them. As discussed in the previous chapter, the goal is to create and manage brand content across a full range of media, whether they are paid, owned, earned or shared.

Creating the advertising message and brand content

No matter how big the budget, advertising can succeed only if it engages consumers and communicates well. Good advertising messages and content are especially important in today's costly and cluttered advertising environment.

In the UK, with Freeview, a household can receive 70 TV channels, 15 HD channels and more than 30 radio stations, without a subscription.[10] There are about 2,800 consumer magazines in the UK.[11] The average US household receives about 190 TV channels and consumers have more than 7,200 magazines from which to choose.[12] Add in the countless radio stations and a continuous barrage of catalogues, direct mail, out-of-home media, email and online, mobile and social media exposures, and consumers are being bombarded with ads and brand content at home, work and all points in between.

Breaking through the clutter

If all this clutter bothers some consumers, it also causes huge headaches for marketers. Take the situation facing television advertisers in the UK and US. In the US, they pay an average of $342,000 to produce a single 30-second commercial. Then each time they show it, they pay an average of $112,100 for 30 seconds of advertising time during a popular primetime programme. They pay even more if it's an especially popular programme, such as *Sunday Night*

Advertising clutter: today's consumers, armed with an arsenal of weapons, can choose what they watch and don't watch. Increasingly they are choosing not to watch TV ads.
Source: Andrey_Kuzmin/Shutterstock

Football ($803,000), *Empire* ($497,000), *The Big Bang Theory* ($348,000), or a mega-event such as the Super Bowl (averaging $5 million per 30 seconds!). Media costs are lower outside the US, but European advertisers are experiencing exactly the same pressures as those in America to stand out from the crowd in busy and increasingly fragmented advertising media. In the UK, again the cost varies depending on the channels and programmes. For example, it costs about £3,000 to £4,000 every time to air a 30-second ad during TV's breakfast schedule and significantly higher (from £10,000 to £30,000) during peak period. It can be cheaper on Channel 4 and Channel 5:[13] their ads are sandwiched in with a clutter of other commercials, network promotions and other non-programme material totalling as much as 20 minutes per primetime hour, with long commercial breaks coming every six minutes on average. Such clutter in television and other ad media has created an increasingly hostile advertising environment.[14]

It used to be that television viewers were pretty much a captive audience for advertisers. But today's digital wizardry has given viewers a rich new set of information and entertainment options – the internet, video streaming, social and mobile media, tablets and smartphones, and others. Digital technology has also armed consumers with an arsenal of technologies for choosing what they watch or don't watch, and when. Increasingly, thanks to the growth of DVR systems and digital streaming, consumers are choosing *not* to watch ads.

Thus, advertisers can no longer force-feed the same old messages and content to captive consumers through traditional media. Simply interrupting or disrupting consumers no longer works. Unless ads provide content that is engaging, useful, or entertaining, many consumers will simply ignore or skip them.

Merging advertising and entertainment

Madison & Vine A term that has come to represent the merging of advertising and entertainment in an effort to break through the clutter and create new avenues for reaching customers with more engaging messages.

To break through the clutter, many marketers have subscribed to a new merging of advertising and entertainment, dubbed '**Madison & Vine**' in the US. You've probably heard of Madison Avenue, the New York City street that houses the headquarters of many of the nation's largest advertising agencies. You may also have heard of Hollywood & Vine, the intersection of Hollywood Avenue and Vine Street in Hollywood, California, long the symbolic heart of the US entertainment industry. Now, Madison Avenue and Hollywood & Vine have come together to form a new intersection – Madison & Vine – that represents the merging of advertising and entertainment in an effort to create new avenues for reaching consumers with more engaging messages.

This merging of advertising and entertainment takes one of two forms: advertainment or brand integrations. The aim of *advertainment* is to make ads and brand content themselves so entertaining or so useful that people *want* to watch them. There's no chance that you'd watch ads on purpose, you say? Think again. For example, as demonstrated at the beginning of this chapter, the John Lewis Christmas advert is one of the most anticipated TV events during the Christmas season in the UK. And ads and related content posted online before and after the big game draw tens of millions of views. These days, it's common to see an entertaining ad on YouTube long before you see it on TV.

Advertisers are also creating content forms that look less like ads and more like short films or shows. A range of brand messaging platforms – from webisodes and blogs to online videos and social media posts – now blur the line between ads and other consumer content. For example, as part of its long-running, highly successful Campaign for Real Beauty, Unilever's Dove brand has created numerous long-form ad videos about how women of all ages view themselves. Its 'Real Beauty Sketches' video compared images of women drawn by a sketch artist based on their self-descriptions versus strangers' descriptions of them. Side-by-side comparisons show that the stranger-described images are invariably more accurate and more flattering, creating strong reactions from the women. The tagline concludes, 'You're more beautiful than you think.' Although the award-winning video was never shown on TV, it drew more than 163 million global YouTube views within just two months, making it the most-watched video ever. Other blockbuster Dove Real Beauty videos – with titles such as 'Evolution' and 'Change One Thing' – have met with similar receptions.[15]

Marketers have tested all kinds of novel ways to break through today's clutter and engage consumers, including aiming for more novelty in creatives, being more targeting and focused, choosing the right media and timing, selecting the right channels and so on. Also, companies can capitalise on the opportunities that may arise from a crisis. For example, when KFC was forced to temporarily shut hundreds of its restaurants in the UK in 2018 when its supplier failed to deliver any chicken. It hoped to avoid long-term damage to its brand with a humorous full-page ad in a number of newspapers to apologise for the shutdown. The ad shows an empty KFC bucket with switched-round letters of 'FCK'. The ad says: 'A chicken restaurant without any chicken. It's not ideal. Huge apologies to our customers, especially those who travelled out of their way to find we were closed.' It also thanked its staff for 'working tirelessly to improve the situation' and ended with: 'It's been a hell of a week but we're making progress, and every day more and more fresh chicken is being delivered to our restaurants. Thank you for bearing with us.' KFC's move has been praised by industry analysts, who believed that it helped the company avoid potentially disastrous consequences and even generate positive outcomes, such as increased brand awareness and a boost in consumer demand for the brand.[16]

KFC hoped to avoid long-term damage to its brand with a humorous ad to apologise for the shutdown of hundreds of restaurants when it ran out of chicken.
Source: KFC

Brand integrations (or *branded entertainment*) involve making the brand an inseparable part of some other form of entertainment or content. The most common form of brand integration is product placement – embedding brands as props within other programming. It might be a brief glimpse of Starbucks coffee products on *Morning Joe* on MSNBC or of Microsoft's Surface tablet and Bing search engine in episodes of *Elementary* or *Arrow*. It could be scenes from *Avengers: Age of Ultron* in which Black Widow rides a Harley-Davidson Livewire.

Or the product placement might be scripted into a movie or an episode of a TV show. Product placement is particularly popular in the US. For example, a GoPro camera played a starring role opposite Matt Damon in the movie *The Martian*. And a three-episode story on the hit TV show *Empire* was built entirely around the making of a Pepsi commercial in which the character of Jamal, a rising singer, becomes the new face of Pepsi. Then Pepsi ran the actual ad during commercial breaks in subsequent episodes of the show. The *Empire* brand integration cost Pepsi an estimated $20 million.[17]

Similarly, a storyline in one episode of *Black-ish* was built around a Buick Enclave, which characters Dre and Bow purchased for their daughter, Zoey. Dre lists all of the great features of the Enclave. However, after his work colleagues remind him of the riskier things teenagers do to and in cars, Dre has second thoughts about whether Zoey is really ready for a car. Dre's mother, Ruby, feeds his concerns so that she can claim the car for her own. Ruby even posts a selfie with the car on her Facebook page, proclaiming, 'Praise Jesus. That son of mine finally got his mother a Buick.' By the end of the episode, Zoey gets the car. Other *Black-ish* episodes feature storylines built around brands ranging from State Farm to Chipotle.

Branded entertainment: the highly acclaimed film, *The LEGO Movie*, was pretty much a 100-minute product placement for iconic LEGO construction bricks, what one writer calls 'product-placement perfection'.

Source: PictureLux/The Hollywood Archive/Alamy Stock Photo

Originally created with TV in mind, brand integration has spread quickly into other sectors of the entertainment industry. If you look carefully, you'll see product placements in movies, video games, comic books, musicals and even pop music. For example, 2015's top 31 movies contained 430 identifiable brand placements.[18] The highly acclaimed film *The LEGO Movie* was pretty much a 100-minute product placement for iconic LEGO construction bricks. According to one writer, 'The audience happily sits through a cinematic sales pitch . . . that shows off the immense versatility of the product while placing it in a deeply personal context. The majority of the film is a breathtaking display of what LEGO bricks are capable of as creative tools, but the personal element is what really elevates this film to product-placement perfection.' *The LEGO Movie* boosted The LEGO Group's sales by 13 per cent in the year after it opened.[19]

Similarly, IKEA has produced several web-only series. One of the latest is the 'IKEA Home Tour', which follows five IKEA employees on a year-long road trip to provide families with home makeovers using merchandise from local IKEA stores. In keeping with the retailer's long-time practice of showing diversity in its ads and marketing, the employees visit many non-traditional families, such as a male couple in the Bronx planning to be married. 'Consumers no longer want just a 30-second commercial', says an IKEA marketer. 'They want to know who a company is, what it believes, and what its personality is.'[20]

While at its most developed and sophisticated in the US media, product placement and related communication activities are rapidly spreading to Europe. In France, Spain and Germany, companies have embraced product placement since the relaxation of strict European Union laws in 2007. The new EU rules bring Europe broadly into line with the US on product placement regulation. In the UK, explicit product placement on TV was only allowed for the first time by Ofcom (the communications regulator in the UK) in February 2011, with some stringent rules for advertisers and TV programmes to follow. The rules include restrictions on the types of products that can be placed; restrictions on the types of programmes in which products can be placed; and limits on the way in which products can be seen and referred to in programmes. An onscreen 'P' logo must be displayed at the start and end of programmes and between ad breaks to warn viewers when shows contain product placement. The following products cannot be placed in a UK TV show: cigarettes and other tobacco-based products; medicines (both prescription and non-prescription medicines); alcoholic drinks; gambling products; food and drink that is high in fat, salt or sugar; baby milk. It also prohibits the paid-for placement of products and services that cannot be advertised on television, such as weapons or escort agencies. In terms of the types of programmes, product placement is allowed in films (including dramas and documentaries), TV series (including soaps), entertainment shows and sports programmes, but is prohibited in all children's and news programmes and in UK-produced current affairs, consumer affairs and religious programmes. Finally, product placement must not impair broadcasters' editorial independence and must always be editorially justified. Programmes cannot be created or distorted to be vehicles for the purposes of featuring product placement.[21]

Native advertising
Advertising or other brand-produced online content that looks in form and function like the other natural content surrounding it on a web or social media platform.

A related form of brand integration is so-called **native advertising** (also called *sponsored content*), advertising or other brand-produced online content that appears to be 'native to' the web or social media site in which it is placed. That is, the brand content looks in form and function like the other natural content surrounding it on a web or social media platform. It might be an article on a website that is paid for, written by and placed by an advertiser but uses the same format as articles written by the editorial staff. Or it might be brand-prepared videos, pictures, posts or pages integrated into social media such as Facebook, YouTube, Instagram, Pinterest or Twitter that match the form and feel of native content on those media. Examples include Twitter's promoted tweets, Facebook's promoted stories, *The Guardian*'s paid content, or Snapchat's 'brand story' ads, branded posts that appear in the app's 'Stories' feed. Native advertising is an increasingly popular form of brand content. It lets advertisers create relevant associations between brand and consumer content. According to a recent study, 'given today's media landscape, where consumers can avoid ads more than ever, advertisers are looking for new ways to get their messages noticed and acted upon.'[22]

Thus, Madison & Vine is now the meeting place for advertising, brand content and entertainment. The goal is to make brand messages a part of the broader flow of consumer content and conversation rather than an intrusion or interruption of it. As advertising agency JWT puts it, 'We believe advertising needs to stop *interrupting* what people are interested in and *be* what people are interested in.' However, advertisers must be careful that the new intersection itself doesn't become too congested. With all the new brand content formats and integration, Madison & Vine threatens to create even more of the very clutter that it was designed to break through. At that point, consumers might decide to take yet a different route.

Message and content strategy

The first step in creating effective advertising content is to plan a *message strategy* – the general message that will be communicated to consumers. The purpose of advertising is to get consumers to engage with or react to the product or company in a certain way. People will engage and react only if they believe they will benefit from doing so. Thus, developing an effective message strategy begins with identifying customer *benefits* that can be used as advertising appeals. Ideally, the message strategy will follow directly from the company's broader positioning and customer value-creation strategies.

Message strategy statements tend to be plain, straightforward outlines of benefits and positioning points that the advertiser wants to stress. The advertiser must next develop a compelling **creative concept** – or *big idea* – that will bring the message strategy to life in a distinctive and memorable way. At this stage, simple message ideas become great ad campaigns. Usually, a copywriter and an art director will team up to generate many creative concepts, hoping that one of these concepts will turn out to be the big idea. The creative concept may emerge as a visualisation, a phrase or a combination of the two.

Creative concept The compelling 'big idea' that will bring an advertising message strategy to life in a distinctive and memorable way.

The creative concept will guide the choice of specific appeals to be used in an advertising campaign. *Advertising appeals* should have three characteristics. First, they should be *meaningful*, pointing out benefits that make the product more desirable or interesting to consumers. Second, appeals must be *believable*. Consumers must believe that the product or service will deliver the promised benefits. However, the most meaningful and believable benefits may not be the best ones to feature. Appeals should also be *distinctive*. They should tell how the product is better than competing brands. For example, the most meaningful benefit of a refrigerator is that it keeps foods cold. But GE sets its Café refrigerator apart as one that gives users an in-the-door filtered hot water dispenser and a Keurig K-Cup single-serve brewing system for making cups of coffee, tea and other hot beverages at the fridge. It's 'a new way to brew'. Similarly, the most meaningful benefit of owning a wristwatch is that it keeps accurate time, yet few watch ads feature this benefit. Instead, watch advertisers might select any of a number of advertising themes. For years, Timex has been the affordable watch that 'takes a licking and keeps on ticking'. In contrast, Rolex ads talk about the brand's 'obsession with perfection' and the fact that 'Rolex has been the preeminent symbol of performance and prestige for more than a century.'

For example, consider the massive impact of Cadbury's gorilla advertising in 2007 (you can see the ad at www.youtube.com/watch?v=TnzFRV1LwIo): [23]

> Publicis creative agency Fallow Worldwide designed an advertising campaign for Cadbury's Dairy Milk chocolate which started with an ad showing a man in a gorilla suit smiling while playing the drums to Phil Collins' 'In the Air Tonight', and showing the bar of chocolate only in the fade-out shot at the end with the slogan 'A glass and a half full of joy'. Fallow is renowned for persuading large advertisers to make unconventional ads. The ad was first shown during the final of the programme *Big Brother*, then a major hit. Importantly, after the 90-second ad appeared on British television it quickly became an internet hit and was downloaded 7 million times on YouTube as well as generating dozens of imitative spoofs and its own Wikipedia page.

Almost as soon as the ad aired the questions began. Did it feature a real or fake gorilla playing the drums? Was it Phil Collins, the rock drummer who wrote the original song, in a costume? How could this help a staid confectionery brand regain its traditional hold on Britain's chocoholic youth? The secret to its success was the benefit of free 'viral' distribution of the advert as consumers e-mailed, blogged, created and posted spoof versions. This, in turn, provided free editorial coverage in mainstream media, including an uninterrupted full showing of the ad on Australian TV news where the ad itself is not even on the air.

CEO, Todd Stitzer, went on record as saying that the campaign worked because it communicated the joy of eating a chocolate bar 'without being obvious about it'. Cadbury Dairy Milk chocolate sales rose 9 per cent in the two months after the ad was aired, stealing market share from rival Mars. Internal company emails refer to 'the gorilla phenomenon'. Cadbury has since been bought by Kraft Foods.

Nonetheless, sometimes creatives may go too far and shock audiences. In a light-hearted attempt to sell garden furniture, one IKEA campaign featured people destroying garden gnomes in increasingly violent ways – one scene showing a heartbroken gnome standing over a fallen friend, with a tear running down his cheek. The tagline was 'Make more of your garden. Say no to gnomes'. However, the humour backfired badly and the company found some viewers affronted at the violence and complaining that the images were distressing. The company reassured viewers that 'We can confirm that no gnomes were harmed in the making of the advert, thanks to some brave stunt doubles', but had to change the ads.[24]

Message execution

Execution style The approach, style, tone, words and format used for executing an advertising message.

The advertiser now must turn the big idea into an actual ad execution that will capture the target market's attention and interest. The creative team must find the best approach, style, tone, words and format for executing the message. The message can be presented in various **execution styles**, such as the following:

- *Slice of life:* This style shows one or more 'typical' people using a particular product in a normal setting. Dairylea cheese triangles are shown being consumed by children in various settings to underline the taste and healthy qualities of the product.
- *Lifestyle:* This style shows how a product fits in with a particular lifestyle. For example, an ad for Gap's Athleta womens' active wear shows a woman in a complex yoga pose and states: 'If your body is your temple, build it one piece at a time'.
- *Fantasy:* This style creates a fantasy around the product or its use. For example, Dreamies luxury cat biscuits shows a cat repeatedly diving through a wall and leaving an endearing cat-sized hole, in response to the rattle of the biscuits. And giant M&Ms talk to people and play out unreal situations varying from a petrol station hostage drama to a nightclub pick-up scene.
- *Mood or image:* This style builds a mood or image around the product or service, such as beauty, love, intrigue or serenity. Few claims are made about the product or service except through suggestion. For example, staple British bread brand Hovis advertising showcases over 100 years of British history through a boy's eyes to celebrate the 122 years since Hovis was established.
- *Musical:* This style shows people or cartoon characters singing about the product. For example, many advertisers have recently chosen to use iconic rock songs as the background to their ads.
- *Personality symbol:* This style creates a character that represents the product. The character might be animated (e.g., Aleksandr Orlov the meerkat, Michelin Man, Mr. Clean or Tony the Tiger) or real (e.g., Ronald McDonald or the fox from Foxy Bingo).
- *Technical expertise:* This style shows the company's expertise in making the product. Thus, Kenco Coffee shows the care with which coffee beans are selected for its brands.

- *Scientific evidence:* This style presents survey or scientific evidence that the brand is better or better liked than one or more other brands. For years, P&G's Crest toothpaste (Blend-A-Med in some European markets) has used scientific evidence to convince buyers that the brand is better than others at fighting tooth decay.
- *Testimonial evidence or endorsement:* This style features a highly believable or likeable source endorsing the product. It could be ordinary people saying how much they like a given product.

The advertiser also must choose a *tone* for the ad. For example, P&G always uses a positive tone: its ads say something very positive about its products. Other advertisers now use edgy humour to break through the commercial clutter. Doritos commercials are famous for this.

The advertiser must use memorable and attention-getting *words* in the ad. For example, rather than just saying that its prescription sunglass lenses protect your eyes and look good at the same time, a Specsavers ad announces, 'should've gone to Specsavers'. Rather than claiming that 'a BMW is a well-engineered automobile', BMW uses more creative and higher-impact phrasing: 'The ultimate driving machine.'

Finally, *format* elements make a difference in an ad's impact as well as in its cost. A small change in an ad's design can make a big difference in its effect. In a print or display ad, the *illustration* is the first thing the reader notices – it must be strong enough to draw attention. Next, the *headline* must effectively entice the right people to read the copy. Finally, the *copy* – the main block of text in the ad – must be simple but strong and convincing. Moreover, these three elements must effectively work *together* to engage customers and persuasively present customer value. However, novel formats can help an ad stand out from the clutter.

For example, in one striking print ad from Volkswagen, the illustration does most of the work in catching relevant attention for the car maker's precision parking assist feature. It shows a porcupine 'parked' in a tight space between goldfish in water-filled plastic bags. The small-print headline says only 'Precision parking. Park assist by Volkswagen'. Enough said!

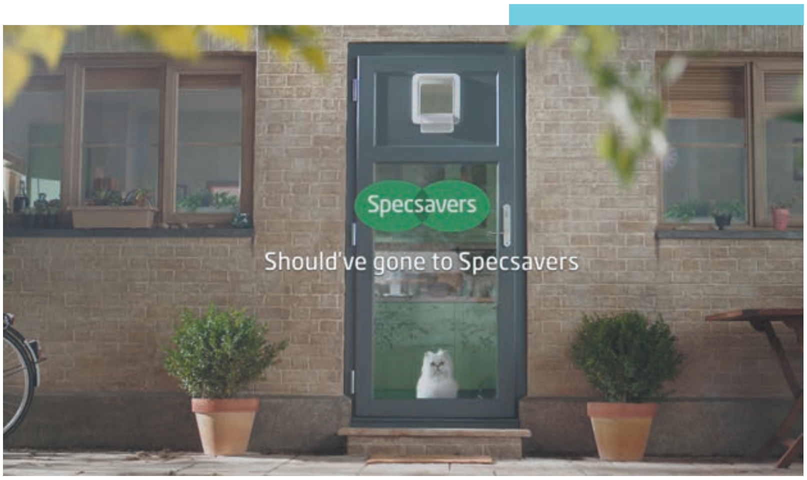
Consumer-generated content

Taking advantage of today's digital and social media technologies, many companies are now tapping consumers for marketing content, message ideas, or even actual ads and videos. Sometimes the results are outstanding; sometimes they are forgettable. If done well, however, user-generated content can incorporate the voice of the customer into brand messages and generate greater customer engagement.

Perhaps the best-known consumer-generated content effort is the former 'Crash the Super Bowl Challenge' held annually by the US PepsiCo's Doritos brand. For more than a decade, Doritos invited consumers to create their own 30-second video ads, with winners receiving cash awards and having their ads run during the Super Bowl. Based on the success of the 'Crash the Super Bowl' contest, Doritos now runs new campaigns that create fun fan-made ads and other content throughout the year.[25]

Brands across a wide range of industries – from car makers and fast-food chains to home furnishings brands and pet food marketers – now routinely incorporate user-generated social media content into their own traditional and social media marketing campaigns. Footwear brand TOMS is a good example. TOMS built on its 'One for One' mission of donating one pair of shoes for every pair purchased. In 2015, rather than splashing out millions on celebrity endorsements or lavish campaigns, TOMS started an annual One Day Without

Execution style: Specsavers have used memorable and attention-getting taglines in its adverts.
Source: Specsavers



Engaging customers with user-generated content: TOMS challenge Instagrammers to post a photo of their bare feet as part of the #OneDayWithoutShoes campaign.
Source: TOMS

Shoes initiative, which challenged Instagrammers to post a photo of their bare feet. And for each photo tagged on Instagram, TOMS donated a pair of shoes to a child in need. The initiative provided a vehicle for Instagrammers to get behind a common cause and express their values; at the same time it allowed the brand to increase consumer support, consumer engagement and profitability. According to TOMS' UK marketing manager, 'ODWS is a real moment in the TOMS calendar . . . it's primarily an engagement campaign to drive awareness and create longer-term connections with customers. When people know what we stand for, they become advocates for life, so being a company founded with a social purpose really resonates.' In 2016, the initiative helped TOMS to donate 27,435 shoes to children worldwide, engage more than 3.5 million people on all social media channels, and produce 17 million impressions across TOMS' own social platforms and 62 million impressions in total.[26] Since 2015, the company has continued to evolve its giving back programmes to include local impact projects around the world, in addition to its shoe, sight and water giving programmes.

Consumer-generated content can make customers an everyday part of the brand. For example, rather than relying on high-powered advertising, shoe brand Converse steps aside and lets customers themselves co-create the brand and co-author the brand story.[27]

Converse discovered that, despite its dwindling market share, the brand had acquired a small but fiercely loyal following. And despite the fact that Converse had never promoted the brand as anything but basketball shoes, avid brand fans were defining Converse in an entirely different way. During the 1990s, street kids had begun wearing affordable Converse shoes as an expression of individuality. Soon to follow were emerging artists, designers and musicians who wore Chucks because of their simplicity and classic looks. Converse became a favourite of the anti-establishment, anti-corporate crowd, those tired of trendy fashions. Individualistic Converse fans would take a pair of cheap but comfy All Stars, trash them, scribble on them and customise them as a canvas for personal expression.

Converse recognised that today's young consumers don't want a brand that's neatly defined, packaged and handed to them; they want to experience a brand, help shape it and share it with other like-minded people. At the heart of the rekindled Converse brand is the philosophy that, these days, customers control brands, not companies. In the eyes of consumers, Converse today is less about the shoes and more about self-expression. Converse sees its role simply as making great products that customers want to wear. Beyond that, it participates in the brand story rather than dictating it. Thus, today's Converse is built less on big-budget marketing campaigns and more on consumer-generated content by which customers express themselves and share their brand experiences. Converse has fully embraced social media, an ideal forum for engaging young consumers and letting them share content that helps to define the brand. Converse now spends more than 90 per cent of its marketing dollars on digital media. Consider this: Converse has become the most popular sneaker brand on Facebook, with more than 37 million Facebook fans, 50 per cent more than parent company and market leader Nike. Converse also has more than a million Twitter followers and 3.6 million followers on Instagram. That's amazing social sharing for a niche brand that still captures only 3 per cent of the US market.

The latest example of how Converse inspires consumer-generated content is its 'Made By You' campaign. The campaign celebrates individuality and self-expression by inviting people to share photos of their uniquely customised Converse All Stars along with backstories on their

Converse experiences. 'Made By You' was inspired by the reality that consumers by the thousands are already sharing pictures, videos and other content of themselves in their Chucks via social media. The 'Made By You' campaign helps inspire and organise the consumer-generated content process. It assembles photos of customised Converse sneakers submitted by fans from around the world and makes them available in a curated online collection, all presented and signed by the people who created them.

'Made By You' also uses real exhibitions designed to both showcase fans' creations and encourage them to share their Chuck experiences. For example, Converse took over window and store displays in retail locations of partners. Some locations provided portable portrait studios that let people become part of the campaign on the spot. And at a Converse location in New York's Flatiron district and through a mobile app, a 'Made By You' virtual reality experience let consumers walk in the shoes of artist Ron English, actress Joanna DeLane, musician King Tuff, and urban explorer Thomas Midlane. The 'Made By You' campaign is part and parcel of Converse's philosophy of letting consumers define the brand and share brand experiences. This approach has paid off handsomely for Converse. Since Nike acquired Converse, the brand's sales have soared 10-fold, from $200 million to almost $2 billion. Whereas Nike's sales have grown in recent years at an impressive 10 per cent annually, Converse's sales have grown at twice that rate. And all that success comes despite the fact that Converse spends less than 1 per cent of its revenues on promotion versus Nike's 10 per cent. That's just one more benefit of letting customers do the talking.

And action-camera maker GoPro has long featured consumer-made videos on its web and social media sites as a means of letting customers share their high-octane experiences with others. Such videos have attracted a huge following, creating an engaged GoPro customer community that helps shape and share GoPro usage and lore. The collection of high-quality user-made GoPro content contains truly spellbinding scenes captured by adventure-seeking amateurs and professionals. Some of content is so good that the company has set up a GoPro Licensing division that licenses the best user-generated GoPro content to other brands for use in their own promotional campaigns, inviting them to 'use the best of GoPro to tell your story'.[28]

Not all consumer-generated content efforts, however, are so successful. As many big companies have learned, ads and other content made by amateurs can be . . . well, pretty amateurish. If done well, however, consumer-generated content efforts can produce new creative ideas and fresh perspectives on the brand from consumers who actually experience it. Such campaigns can boost consumer engagement and get customers talking and thinking about a brand and its value to them.

Selecting advertising media

The major steps in **advertising media** selection are (1) determining *reach*, *frequency*, *impact* and *engagement*; (2) choosing among major *media types*; (3) selecting specific *media vehicles*; and (4) choosing *media timing*.

Advertising media The vehicles through which advertising messages are delivered to their intended audiences.

Determining reach, frequency, impact and engagement

To select media, the advertiser must determine the reach and frequency needed to achieve the advertising objectives. *Reach* is a measure of the *percentage* of people in the target market who are exposed to an ad campaign during a given period of time. For example, the advertiser might try to reach 70 per cent of the target market during the first three months of a campaign. *Frequency* is a measure of how many *times* the average person in the target market is exposed to a message. For example, the advertiser might want an average exposure frequency of three.

But advertisers want to do more than just reach a given number of consumers a specific number of times. The advertiser also must determine the desired *media impact* – the *qualitative* *value* of message exposure through a given medium. For example, the same message in one magazine (say, *The Economist*) may be more believable than in another (say, *Hello!*). For products that need to be demonstrated, television ads or online videos may have more impact than radio messages because they use sight, motion *and* sound. Products for which consumers provide input on design or features might be better promoted at an interactive website or social media page than in a direct mailing.

More generally, an advertiser wants to choose media that will engage consumers rather than simply reach them. Using any medium, the relevance of ad content for its audience is often much more important than how many people it reaches. For example, when Mazda wanted to pre-announce the sale of 100 25th anniversary models of its iconic Mazda MX-5 Miata car at the New York International Auto show, it didn't use big-budget, high-reach media. Instead, it began churning out Facebook, Twitter and Google+ posts directly to its large MX-5 Miata fan base, directing them to a microsite where they could pre-order the sporty little car. Engaging the right audience in the right media worked well for Mazda. The microsite opened a month later to a flood of responses, and the limited-edition Miata model sold out within only 10 minutes.[29]

Although Nielsen (a research agency) is beginning to measure *media engagement* levels for some television, radio and social media, such measures are still hard to find in most cases. Current media measures are things such as ratings, readership, listenership and click-through rates. However, engagement happens inside the head of the consumer. It's hard enough to measure how many people are exposed to a given television ad, video or social media post, let alone measure the depth of engagement with that content. Still, marketers need to know how customers connect with an ad and brand idea as a part of the broader brand relationship.

Engaged consumers are more likely to act upon brand messages and even share them with others. Thus, rather than simply tracking *consumer impressions* for a media placement – how many people see, hear or read an ad – Coca-Cola now also tracks the *consumer expressions* that result, such as a comment, a 'Like,' uploading a photo or video, or sharing brand content on social networks. Today's empowered consumers often generate more messages about a brand than a company can.

For example, Coca-Cola estimates that of the hundreds of millions of views of Coca-Cola-related content on YouTube each year, only about 18 per cent are of content created by Coca-Cola. The other 82 per cent are of content created by engaged consumers. So, many Coca-Cola marketing campaigns are aimed at sparking brand-related consumer expressions rather than just impressions. For instance, the brand's recent 'Share a Coke' summer campaign – in which it swapped out the company's iconic logo on 500ml Coke bottles for one of more than 1,000 of the nation's most popular names – encouraged Coca-Cola fans to share the bottles with friends and family. Consumers could also share their Coca-Cola photos, stories and experiences online using the hashtag #ShareaCoke, with selected posts featured on the brand's website and across company billboards. The 'Share a Coke' campaign resulted in more than 500,000 photos and 6 million virtual Coke bottles shared online along with a boost of almost 25 million Coca-Cola Facebook followers.[30]

Choosing among major media types

As summarised in Table 15.2, the major media types are television; digital, mobile and social media; newspapers; direct mail; magazines; radio; and outdoor. Each medium has its advantages and its limitations. Media planners want to choose a mix of media that will effectively and efficiently present the advertising message to target customers. Thus, they must consider each medium's impact, message effectiveness and cost.

As discussed earlier in the chapter, traditional mass media still make up a majority of today's media mixes. However, as mass-media costs rise and audiences shrink, companies have now added digital, mobile and social media that cost less, target more effectively and engage consumers more fully. Today's marketers are assembling a full mix of *paid*, *owned*, *earned* and *shared media* that create and deliver engaging brand content to target consumers.

Table 15.2 Profiles of major media types

Medium	Advantages	Limitations
Television	Good mass-marketing coverage; low cost per exposure; combines sight, sound and motion; appealing to the senses	High absolute costs; high clutter; fleeting exposure; less audience selectivity
Digital, mobile and social media	High selectivity; low cost; immediacy; engagement capabilities	Potentially low impact; high audience control of content and exposure
Newspapers	Flexibility; timeliness; good local market coverage; broad acceptability; high believability	Short life; poor reproduction quality; small pass-along audience
Direct mail	High audience selectivity; flexibility; no ad competition within the same medium; allows personalisation	Relatively high cost per exposure; 'junk mail' image
Magazines	High geographic and demographic selectivity; credibility and prestige; high-quality reproduction; long life and good pass-along readership	Long ad purchase lead time; high cost; no guarantee of position
Radio	Good local acceptance; high geographic and demographic selectivity; low cost	Audio only; fleeting exposure; low attention ('the half-heard' medium); fragmented audiences
Outdoor	Flexibility; high repeat exposure; low cost; low message competition; good positional selectivity	Little audience selectivity; creative limitations

In addition to the explosion of online, mobile and social media, cable and satellite television systems are thriving. Such systems allow narrow programming formats, such as all sports, all news, nutrition, arts, home improvement and gardening, cooking, travel, history, finance and others that target select groups. Some cable operators are even testing systems that will let them target specific types of ads to TVs in specific neighbourhoods or individually to specific types of customers.

Finally, in their efforts to find less costly and more highly targeted ways to reach consumers, advertisers have discovered a dazzling collection of *alternative media*. These days, no matter where you go or what you do, you will probably run into some new form of advertising:

> Tiny billboards attached to shopping carts urge you to buy Pampers while ads roll by on the store's checkout conveyor touting your local car dealer.
>
> Step outside and there goes a local authority rubbish truck sporting an ad for rubbish bags or a local bus for schools displaying a Domino's pizza ad. A nearby bus shelter is emblazoned with advertising for KFC's 'fiery' chicken wings. You escape to the football ground, only to find giant video screens running beer ads while a hot air balloon with an electronic message board circles lazily overhead. In midwinter, you wait in a bus shelter that looks like an oven – with heat coming from the coils – shouting out the local coffee shop's line-up of hot breakfasts.
>
> These days, you're likely to find ads – well – anywhere. Taxi cabs sport electronic messaging signs tied to GPS location sensors that can pitch local stores and restaurants wherever they roam. Ad space is being sold on car park lot tickets, airline boarding passes, Underground turnstiles, ATMs, litter bins, and even police cars, doctors' examining tables and church bulletins. One company even sells space on toilet paper furnished free to restaurants, football grounds and shopping centres – the paper carries advertiser logos, coupons and codes you can scan with your smartphone to download digital coupons or link to advertisers' social media pages. Now that's a captive audience.

Such alternative media seem a bit far-fetched, and they sometimes irritate consumers who resent it all as 'ad nauseam.' But for many marketers, these media can save money and provide a way to hit selected consumers where they live, shop, work and play.

Another important trend affecting media selection is the rapid growth in the number of *media multitaskers*, people who absorb more than one medium at a time. For example, it's not uncommon to find someone watching TV with a smartphone in hand, tweeting, Snapchatting with friends and chasing down product information on Google. One recent survey found that 90 per cent of consumers now multitask while watching TV and that Millennials and Gen X consumers engage in an average of three additional media activities while watching television, including internet browsing, text messaging and reading email. Although some of this multitasking is related to TV viewing – such as looking up related product and programme information – most multitasking involves tasks unrelated to the shows or ads being watched. Marketers need to take such media interactions into account when selecting the types of media they will use.[31]

Selecting specific media vehicles

Media planners must also choose the best media vehicles – specific media within each general media type, for example, particular television programmes, specific special interest magazines or online and mobile vehicles like Twitter, Facebook, Instagram and YouTube.

Media planners must compute the cost per 1,000 persons reached by a vehicle. For example, if a full-page, four-colour advertisement in a national business magazine costs £163,413 and its readership is 900,000 people, the cost of reaching each group of 1,000 persons is about £181. The same advertisement in a regional magazine may cost only £48,100 but reach only 155,000 people – at a cost per 1,000 of about £310. The media planner ranks each magazine by cost per 1,000 and favours those magazines with the lower cost per 1,000 for reaching target consumers. In the previous case, if a marketer is targeting business managers in a certain region, a regional business magazine might be the more cost-effective buy, even at a higher cost per thousand.

Media planners must also consider the costs of producing ads for different media. Whereas newspaper ads may cost very little to produce, flashy television ads can be very costly. Many online and social media ads cost little to produce, but costs can climb when producing made-for-the-web video and ad series.

In selecting specific media vehicles, media planners must balance media costs against several media effectiveness factors. First, the planner should evaluate the media vehicle's *audience quality*. For a Huggies disposable nappies advertisement, for example, *Mother & Baby* magazine would have a high exposure value; *GQ* magazine would have a low exposure value. Second, the media planner should consider *audience engagement*. Readers of *Vogue*, for example, typically pay more attention to ads than do *Economist* readers. Third, the planner should assess the vehicle's *editorial quality*. The *Economist* and the *Financial Times* are more believable and prestigious than the *Sun* or the *National Enquirer*.

Deciding on media timing

An advertiser must also decide how to schedule the advertising over time. Suppose sales of a product peak in December and drop in March (for winter outdoor gear, for instance). The firm can vary its advertising to follow the seasonal pattern, oppose the seasonal pattern or be the same all year. Most firms do some seasonal advertising. For example, weight-loss product and service marketers tend to advertise more heavily after the first of the year, targeting consumers who let their appetites get the better of them over the holiday season. Weight Watchers, for instance, spends more than a quarter of its annual advertising budget in January. Confectionery manufacturers run special ads for their sweets for almost every holiday and 'season', from Christmas to Easter to Halloween. Moonpig.com, the online customised greetings card producer, is likely to advertise more heavily before major holidays or special days, such as Christmas, Easter, Mother's Day, Father's Day and Valentine's Day. Some marketers do *only* seasonal advertising: for instance, P&G advertises its cold remedies only during the annual cold and flu season.

Finally, the advertiser must choose the pattern of the ads. *Continuity* means scheduling ads evenly within a given period. *Pulsing* means scheduling ads unevenly over a given time period.

Thus, 52 ads could either be scheduled at one per week during the year or pulsed in several bursts. The idea behind pulsing is to advertise heavily for a short period to build awareness that carries over to the next advertising period. Those who favour pulsing feel that it can be used to achieve the same impact as a steady schedule but at a much lower cost. However, some media planners believe that although pulsing achieves minimal awareness, it sacrifices depth of advertising communications.

Today's online and social media let advertisers create ads that respond to events in real time. For example, Lexus recently introduced a new model through live streaming from the North American International Auto Show via Facebook's News Feed. Some 100,000 people watched the introduction live in only the first 10 minutes; another 600,000 viewed it online within the next few days. The fast-reaction ad was re-tweeted and Favourited thousands of times in only 15 minutes. Similarly, Arby's (an American quick-service fast-food sandwich restaurant chain) created big buzz during a Grammy Awards show with a real-time tweet responding to Pharrell Williams's infamous Vivienne Westwood hat, which looks a bit like the hat in the familiar Arby's logo. The tweet 'Hey @Pharrell, can we have our hat back?' earned more than 80,000 re-tweets and 45,000 Favourites.[32]

Evaluating advertising effectiveness and the return on advertising investment

Measuring advertising effectiveness and the **return on advertising investment** has become a hot issue for most companies. Top management at many companies is asking marketing managers, 'How do we know that we're spending the right amount on advertising?' and 'What return are we getting on our advertising investment?'

Return on advertising investment The net return on advertising investment divided by the costs of the advertising investment.

Advertisers should regularly evaluate two types of advertising results: the communication effects and the sales and profit effects. Measuring the *communication effects* of an ad or ad campaign tells whether the ads and media are communicating the ad message well. Individual ads can be tested before or after they are run. Before an ad is placed, the advertiser can show it to consumers, ask how they like it, and measure message recall or attitude changes resulting from it. After an ad is run, the advertiser can measure how the ad affected consumer recall or product awareness, engagement, knowledge and preference. Pre- and post-evaluations of communication effects can be made for entire advertising campaigns as well.

Advertisers have become pretty good at measuring the communication effects of their ads and ad campaigns. However, *sales and profit* effects of advertising and other content are often much harder to measure. For example, what sales and profits are produced by an ad campaign that increases brand awareness by 20 per cent and brand preference by 10 per cent? Sales and profits are affected by many factors other than advertising – such as product features, price and availability.

One way to measure the sales and profit effects of advertising is to compare past sales and profits with past advertising expenditures. Another way is through experiments. For example, to test the effects of different advertising spending levels, Coca-Cola could vary the amount it spends on advertising in different market areas and measure the differences in the resulting sales and profit levels. More complex experiments could be designed to include other variables, such as differences in the ads or media used.

However, because so many factors affect advertising effectiveness, some controllable and others not, pre-testing ads and measuring the results of advertising spending remains an inexact science. Managers often must rely on large doses of judgement along with quantitative analysis when assessing content and advertising performance. That's especially true in this content-hungry digital age, where large quantities of ads and other content are produced and run on a virtual real-time basis. Thus, whereas companies tend to carefully pre-test traditional big-budget media ads before running them, digital marketing content usually goes untested. For digital and social media campaigns, says one chief marketing officer, 'it's very tough to test [and measure] just because of the volume [and timing] of the content we are putting out'.[33]

Other advertising considerations

In developing advertising strategies and programmes, the company must address two additional questions. First, how will the company organise its advertising and content function – who will perform which advertising tasks? Second, how will the company adapt its advertising strategies and programmes to the complexities of international markets?

Organising for advertising

Different companies organise in different ways to handle advertising. In small companies, advertising might be handled by someone in the sales department. Large companies have advertising departments whose job it is to set the advertising budget, work with ad agencies and handle other advertising not done by an agency. However, most large companies use outside advertising agencies because they offer several advantages.

Advertising agency A marketing services firm that assists companies in planning, preparing, implementing and evaluating all or portions of their advertising programmes.

How does an **advertising agency** work? Advertising agencies originated in the mid to late 1800s, from salespeople and brokers who worked for the media and received a commission for selling advertising space to companies. As time passed, the salespeople began to help customers prepare their ads. Eventually, they formed agencies and grew closer to the advertisers than to the media.

Today's agencies employ specialists who can often perform advertising and brand content tasks better than the company's own staff can. Agencies also bring an outside point of view to solving the company's problems along with lots of experience from working with different clients and situations. So, today, even companies with strong advertising departments of their own use advertising agencies.

Some ad agencies are huge. In recent years, many agencies have grown by gobbling up other agencies, thus creating huge agency holding companies. The largest of these 'mega-groups' in the world is London-based WPP, employing around 130,000 people in 112 countries. WPP includes several large advertising, PR and promotion agencies – among them Millward Brown, Grey, Burson-Marsteller, Hill & Knowlton, JWT, Ogilvy & Mather, TNS, Young & Rubicam and Cohn & White – with combined worldwide revenues of £15.6 billion and billings of £55.8 billion. WPP is closely followed by the Paris-based Publicis Groupe, which had global revenues of €9.69 billion in 2017 from: its global network including Saatchi & Saatchi and Leo Burnett Worldwide, its creative agencies including Fallon Worldwide and Bartle Bogle Hegarty, and its digital and media businesses including Sapient Corporation, Rosetta and ZenithOptiMedia. Around half Publicis' revenues come from digital activities and high-growth emerging countries.

Most large advertising agencies have the staff and resources to handle all phases of an advertising campaign for their clients, from creating a marketing plan to developing ad and content campaigns and preparing, placing, and evaluating ads and content. Large brands commonly employ several agencies that handle everything from mass-media advertising campaigns to shopper marketing to social media content.

International advertising decisions

International advertisers face many complexities not encountered by domestic advertisers. The most basic issue concerns the degree to which global advertising should be adapted to the unique characteristics of various country markets.

Some advertisers have attempted to support their global brands with highly standardised worldwide advertising, with campaigns that work as well in Bangkok as they do in London. For example, Oreo's latest 'Open Up with Oreo' runs in 50 global markets with a simple universal message – 'Open your heart to people who are different and you will discover similarities.'[34] And Snickers runs similar versions of its ads in 80 different countries, from the United States and the United Kingdom to Mexico, Australia and even Russia. No matter what the country, the ads strike a common human emotion that everyone can relate to – people get out of sorts and do uncharacteristic things when they need nutrition. A Snickers bar can help them get back to being their real selves. Snickers lets local markets make adjustments for local languages and personalities. Otherwise, the ads are similar worldwide.

In recent years, the increased popularity of online marketing and social media sharing has boosted the need for advertising standardisation for global brands. Most big marketing and advertising campaigns include a large online presence. Connected consumers can now zip easily across borders via the internet and social media, making it difficult for advertisers to roll out adapted campaigns in a controlled, orderly fashion. As a result, at the very least, most global consumer brands coordinate their digital sites internationally. For example, Coca-Cola web and social media sites around the world, from Australia and Argentina to France, Romania and Russia, are surprisingly uniform. All feature splashes of familiar Coke red, iconic Coke bottle shapes, and Coca-Cola's music and 'Taste the Feeling' themes.

Standardisation produces many benefits – lower advertising costs, greater global advertising coordination and a more consistent worldwide image. But it also has drawbacks. Most importantly, it ignores the fact that country markets differ greatly in their cultures, demographics and economic conditions. Thus, most international advertisers 'think globally but act locally'. They develop global advertising *strategies* that make their worldwide efforts more efficient and consistent. Then they adapt their advertising *programmes* to make them more responsive to consumer needs and expectations within local markets. For example, although Visa employs its 'Everywhere you want to be' theme globally, ads in specific locales employ local language and inspiring local imagery that make the theme relevant to the local markets in which they appear.

Global advertisers face several special problems. For instance, advertising media costs and availability differ vastly from country to country. Countries also differ in the extent to which they regulate advertising practices. Many countries have extensive systems of laws restricting how much a company can spend on advertising, the media used, the nature of advertising claims and other aspects of the advertising programme. Such restrictions often require advertisers to adapt their campaigns from country to country.

Thus, although advertisers may develop global strategies to guide their overall advertising efforts, specific advertising programmes must usually be adapted to meet local cultures and customs, media characteristics and regulations.

Public relations

Public relations (PR) Building good relations with the company's various publics by obtaining favourable publicity, building up a good corporate image, and handling or heading off unfavourable rumours, stories and events.

Another major promotion tool, **public relations (PR)**, consists of activities designed to engage and build good relations with the company's various publics. PR may include any or all of the following functions:[35]

- *Press relations or press agency.* Creating and placing newsworthy information in the news media to attract attention to a person, product or service.
- *Product and brand publicity.* Publicising specific products and brands.
- *Public affairs.* Building and maintaining national or local community relationships.
- *Lobbying.* Building and maintaining relationships with law-makers and government officials to influence legislation and regulation.
- *Investor relations.* Maintaining relationships with shareholders and others in the financial community.
- *Development.* Working with donors or members of non-profit organisations to gain financial or volunteer support.

Author comment

Not long ago, public relations was considered a marketing stepchild because of its limited marketing use. That situation is changing fast, however, as more marketers recognise PR's brand building, customer engagement and social power.

PR is used to promote products, people, places, ideas, activities, organisations and even nations. Companies use PR to build good relations with consumers, investors, the media and their communities. PR is often used to build support for newsworthy company events and actions. For example, Cancer Research UK has been praised for its move of using virtual reality to create a personalised experience of a virtual field (a Life Garden of 100,000 virtual flowers each

Cancer Research UK designed a virtual-reality garden at the RHS Hampton Court Palace Flower Show to thank people who left a gift in their will to the charity.
Source: Jacek Wac/Alamy Stock Photo

bearing the name of a benefactor) to show gratitude to and recognise the 100,000 people who have donated money to the charity in their wills. It invited the benefactors' friends and family to the RHS Hampton Court Palace Flower Show between 4 and 10 July 2016 to experience the Life Garden. The Garden came to life when viewed through the virtual-reality headset. When visitors typed their names into an iPad, the virtual garden was personalised to show a flower bearing the name of the right benefactor. To extend the experience, Cancer Research UK took the Life Garden on the road to tribute events nationwide. And in those events, visitors were able to meet Cancer Research scientists to gain a better understanding of the charity.[36]

Another example is CVS Health, an American retail pharmacy and health care company. A few years ago, CVS Health announced its bold decision to stop selling cigarettes and tobacco products in its stores. Even though it meant sacrificing $2 billion in tobacco-related revenues, it knew that the decision would make headlines. But it left little to chance about how the full story would be told. Instead, CVS crafted a comprehensive 'CVS Quits for Good' public relations campaign to tell consumers, Wall Street and the health-care community that the decision would benefit both customers and the company:[37]

The 'CVS Quits' PR campaign kicked off with full-page ads in *The New York Times*, *The Wall Street Journal*, the *Boston Globe* and other major newspapers along with multimedia news releases featuring video announcements from CVS's president and other company leaders. The ads and releases explained that dropping tobacco products 'is simply the right thing to do for the good of our customers and our company', consistent 'with our purpose – helping people on their path to better health'. CVS also created an information-packed cvsquits.com microsite along with a #cvsquits hashtag and banners announcing the decision on the company's many web and social media sites. The 'CVS Quits' story was snapped up by major print and broadcast media, creating some 2,557 broadcast mentions and more than 218 million total media impressions. The news also went viral online, becoming a top trending topic on both Facebook and Twitter and generating 200,000 social media mentions and 152,000 shares.

On the day the decision was activated, CVS's CEO rang the New York Stock Exchange bell and CVS Health executives snuffed out a 50-foot-high cigarette at an event in New York City's Bryant Park. Both events received substantial media coverage. Finally, at the same time that it nixed tobacco products, CVS launched a nationwide campaign to help smokers kick the habit, cementing the company's message of 'helping people on their path to better health' and generating even more positive news.

The 'CVS Quits' PR campaign achieved impressive results. On Capitol Hill, eight US senators, 12 House members and other influential leaders released statements urging other retailers to follow in CVS's footsteps. CVS's share price jumped 9.2 per cent in the three weeks following the announcement. And a survey showed that one in four consumers not currently shopping at CVS pharmacies said they would switch their prescriptions there after it quit tobacco. 'CVS Quits' was named *PR Week*'s campaign of the year. 'This is a new standard in PR', said one judge. 'Great business decision that led to amazing PR results [that had] a real business impact on stock value, consumer behaviour, and brand reputation.'

The role and impact of PR

Like other promotional forms, public relations has the power to engage consumers and make a brand part of their lives and conversations. However, public relations can have a strong impact at a much lower cost than advertising can. Interesting brand stories, events, videos or other content can be picked up by different media or shared virally by consumers, giving it the same or even greater impact than advertising that would cost millions of dollars.

In a clever PR move, Burger King recently issued an invitation to rival McDonald's to call a cease-fire on Peace Day. In a full slate of online content, as well as full-page ads in *The New York Times* and the *Chicago Tribune*, Burger King publicly proposed that the chains jointly develop and sell a McWhopper, containing 'all the tastiest bits of your Big Mac and our Whopper, united in one delicious, peace-loving burger', with all the proceeds benefiting the Peace One Day organisation. McDonald's refused, but the gesture generated hugely positive PR for Burger King. Through these and other PR moves, Burger King has found a way to inject itself into daily social media conversations. 'Burger King has really found a way to get attention by doing the unexpected and somewhat irreverent', says one expert. 'They're generating an enormous amount of publicity at a very modest cost.' Says another expert, 'If you have the right spark, it will generate more buzz than paid media.'

Despite its potential strengths, PR is occasionally described as a marketing stepchild because of its sometimes limited and scattered use. The PR department is often located at corporate headquarters or handled by a third-party agency. Its staff is so busy dealing with various publics – stockholders, employees, legislators and the press – that PR programmes to support product marketing objectives may be ignored. Moreover, marketing managers and PR practitioners do not always speak the same language. Whereas many PR practitioners see their jobs as simply communicating, marketing managers tend to be much more interested in how advertising and PR affect brand building, sales and profits, and customer engagement and relationships.

This situation is changing, however. Although public relations still captures only a modest portion of the overall marketing budgets of many firms, PR can be a powerful brand-building tool. Especially in this digital age, the lines between advertising, PR and other content are becoming more and more blurred. For example, are brand websites, blogs, brand videos and social media activities advertising, PR, or something else? All are marketing content. And as the use of earned and shared digital content grows rapidly, PR is playing a bigger role in marketing content management.

More than any other department, PR has always been responsible for creating relevant marketing content that draws consumers to a brand rather than pushing messages out. 'PR pros are an organisation's master storytellers. In a word, they *do* content', says one expert. 'The rise of social media [is] moving public relations professionals from the backroom, crafting press releases and organising events, to the forefront of brand development and customer engagement', says another.[38] The point is that PR should work hand in hand with advertising within an integrated marketing communications programme to help build customer engagement and relationships.

Red Bull has successfully engaged customers with its stunts, which generates widespread publicity in the traditional media and particularly in the social media.
Source: Red Bull/Shutterstock

Major public relations tools

Public relations uses several tools. One of the major tools is *news*. PR professionals find or create favourable news about the company and its products or people. Sometimes news stories occur naturally; sometimes the PR person can suggest events or activities that would create news. Another common PR tool is *special events*, ranging from news conferences and speeches, brand tours and sponsorships to multimedia presentations or educational programmes designed to reach and interest target publics.

Public relations people also prepare *written materials* to reach and influence their target markets. These materials include annual reports, brochures, articles, and company newsletters and magazines. *Audiovisual materials*, such as videos, are being used increasingly as communication tools. *Corporate identity materials* can also help create a corporate identity that the public immediately recognises. Logos, stationery, brochures, signs, business forms, business cards, buildings, uniforms, and company cars and trucks all become marketing tools when they are attractive, distinctive and memorable. Finally, companies can improve public goodwill by contributing money and time to *public service activities*.

As previously discussed, the web and social media are also important PR channels. Websites, blogs and social media such as YouTube, Facebook, Instagram, Snapchat, Pinterest and Twitter are providing new ways to reach and engage people. As noted, storytelling and engagement are core PR strengths, and that plays well into the use of online, mobile and social media.

As with the other promotion tools, in considering when and how to use product public relations, management should set PR objectives, choose the PR messages and vehicles, implement the PR plan and evaluate the results. The firm's PR should be blended smoothly with other promotion activities within the company's overall integrated marketing communications effort.

Learning outcomes review

Companies must do more than make good products; they have to engage consumers, inform them persuasively about product benefits and carefully position products in consumers' minds. To do this, they must master *advertising* and *public relations*.

Objective 1 Define the role of advertising in the promotion mix (p. 450)

Advertising – the use of paid media by a seller to inform, persuade and remind buyers about its products or its organisation – is an important promotion tool for engaging customers and communicating the value that marketers create for customers. American marketers spend more than $190 billion each year on advertising; worldwide spending exceeds $545 billion. Advertising takes many forms and has many uses. Although advertising is employed mostly by business firms, a wide range of not-for-profit organisations, professionals and social agencies also employ advertising to promote their causes to various target publics. *Public relations* – gaining favourable publicity and creating a favourable company image – is the least used of the major promotion tools, although it has great potential for building consumer awareness and preference.

Objective 2 Describe the major decisions involved in developing an advertising programme (pp. 450–469)

Advertising decision making involves making decisions about the advertising objectives, budget, messages and media, and evaluation of the results. Advertisers should set clear target, task and timing *objectives*, whether the aim is to inform, engage, persuade or remind buyers. Advertising's goal is to move consumers through the buyer-readiness stages discussed in Chapter 14. Some advertising is designed to move people to immediate action. However, many of the ads you see today focus on building or strengthening long-term customer engagement and relationships. The advertising *budget* depends on many factors. No matter what method is used, setting the advertising budget is no easy task.

Advertising strategy consists of two major elements: creating advertising *messages and content* and selecting advertising *media*. The *message decision* calls for planning a message strategy and executing it effectively. Good messages and other content are especially important in today's costly and cluttered advertising environment. Just to gain and hold attention, today's messages must be better planned, more imaginative, more entertaining and more rewarding to consumers. In fact, many marketers are now subscribing to a new merging of advertising and entertainment, dubbed *Madison & Vine*. The *media decision* involves defining reach, frequency, impact and engagement goals; choosing major media types; selecting media vehicles; and choosing media timing. Message and media decisions must be closely coordinated for maximum campaign effectiveness.

Finally, *evaluation* calls for evaluating the communication and sales effects of advertising before, during and after ads are placed. Advertising accountability has become a hot issue for most companies. Increasingly, top management is asking: 'What return are we getting on our advertising investment?' and 'How do we know that we're spending the right amount?' Other important advertising issues involve *organising* for advertising and dealing with the complexities of international advertising.

Objective 3 Define the role of public relations in the promotion mix (pp. 469–471)

Public relations, or *PR*, is used to promote products, people, places, ideas, activities, organisations and even nations. Companies use PR to build good relationships with consumers, investors, the media and their communities. PR can have a strong impact on public awareness at a much lower cost than advertising can, and PR results can sometimes be spectacular. Although PR still captures only a modest portion of the overall marketing budgets of many firms, it is playing an increasingly important brand-building role. In the digital, mobile and social media age, the lines between advertising and PR are becoming more and more blurred.

Objective 4 Explain how companies use PR to communicate with their publics (p. 471–472)

Companies use PR to communicate with their publics by setting PR objectives, choosing PR messages and vehicles, implementing the PR plan and evaluating PR results. To accomplish these goals, PR professionals use several tools, such as news and special events. They also prepare written, audiovisual and corporate identity materials, and contribute money and time to public service activities. The internet has also become an increasingly important PR channel, as websites, blogs and social media are providing interesting new ways to reach more people.

Navigating the key terms

Objective 1
Advertising (p. 450)

Objective 2
Advertising objective (p. 450)
Advertising budget (p. 454)
Advertising strategy (p. 455)
Madison & Vine (p. 456)
Native advertising (p. 458)
Creative concept (p. 459)
Execution style (p. 460)
Advertising media (p. 463)
Return on advertising investment (p. 467)
Advertising agency (p. 468)

Objective 3
Public relations (PR) (p. 469)

Discussion and critical thinking

Discussing the concepts

15.1 Explain the decisions marketing managers make when developing an advertising programme. (AACSB: Communication)

15.2 By what primary purposes are advertising objectives classified? Explain. Provide two examples of each. (AASCB: Communication; Reflective thinking)

15.3 Discuss how marketers can break through the cluttered advertising environment. (AACSB: Communication)

15.4 What is an advertising agency? Discuss the changes in advertising agencies today compared with how they operated in the past. (AACSB: Communication)

15.5 Define *public relations* and explain the many public relations functions. (AACSB: Communication)

Critical-thinking exercises

15.6 Search YouTube for three of your favourite television commercials, each using a different execution style. For each ad, identify the execution style used and the audience targeted. Is it a good ad? Be prepared to present the commercials and support your conclusions. (AACSB: Communication; Use of IT; Reflective thinking)

15.7 Advertising objectives can be classified by their primary purpose – to *inform*, *persuade* or *remind*. In a small group, locate one advertisement that primarily informs, one that persuades and one that reminds. Explain how each ad meets the desired objective. (AACSB: Communication; Use of IT; Reflective thinking)

15.8 In early 2016, the Wounded Warrior Project suffered a major blow to its fundraising when reports surfaced suggesting that the non-profit organisation spent too much of its money on travel, conferences and high-end events rather than direct assistance to wounded veterans. Research this case. Was the Wounded Warrior Project's public relations response to the alleged misspending accusations effective in reaching out to its donors and other audiences? Why or why not? How is social media changing the public relations process? (AACSB: Communication; Use of IT; Reflective thinking)

Mini-cases and applications

Online, mobile and social media marketing: Facebook audience network

Facebook has 1.44 billion monthly users and a large proportion of users typically visit the site daily on a mobile device. What started as an online social network that let people connect with each other has transformed into a behemoth media platform that promises to be a game-changer in mobile advertising. Facebook announced its mobile ad platform called Audience Network to deliver targeted mobile ads for advertisers. While there are other mobile ad platforms (Google is the dominant player), Facebook has a treasure trove of data that is useful for advertisers. Google is strong in search data, but Facebook is part of our lives. Facebook has been placing ads on its site for advertisers, but now Facebook will be pushing those ads to third-party apps. This is a win–win situation for advertisers, app developers and Facebook because advertisers get their mobile ads to people based on very personal information, app developers get ad revenue, and Facebook gets a cut of the ad revenue for placing the ad. And it's no small cut – in just the last quarter of 2017, Facebook earned $12.78 billion in total ad revenue. Mobile ad revenue accounted for 89 per cent of Facebook's overall ad revenue.

15.9 Compare and contrast Facebook's, Google's,and Twitter's ad networks. Which is most effective for advertisers? (AACSB: Communication; Reflective thinking)

15.10 Mobile advertising is one of the fastest-growing sectors of digital advertising, but how is mobile advertising effectiveness measured? Research this issue and create a report of your findings. (AACSB: Communication; Reflective thinking)

Marketing ethics: native advertising

Native advertising – articles paid for and/or written by a brand that appear on a publisher's site – has emerged as a powerful and popular new marketing content tool over the past few years. Media companies such as *BuzzFeed*, *The New York Times*, *The Wall Street Journal* and *The Atlantic* have all invested heavily in the creation and distribution of native advertisements (also called *sponsored content*) on behalf of brands, with many charging more than $100,000 for a native advertising campaign.

Such sponsored content is designed to blend with the look and feel of the other content on a site, and written disclosures such as 'Sponsored' or 'Advertisement' are often hard to see even if consumers are looking for them. So it's no surprise that consumers often can't tell the difference between paid brand content and regular articles. Marketing content agency Contently recently surveyed adult consumers, showing them one brand-sponsored online content piece from *The New York Times*, *The Wall Street Journal*, *The Atlantic*, *The Onion*, *BuzzFeed* or *Forbes* or an actual article on Whole Foods in *Fortune*. In four out of the six groups shown a native advertisement, a strong majority said they thought the ad was an article.

15.11 Search the internet to find examples of native advertising or other sponsored content. Could such content mislead consumers? Are companies responsible for ensuring consumers understand can distinguish between sponsored content and other content? Explain. (AACSB: Reflective thinking; Communication; Use of IT)

15.12 Are the current regulations and guidelines regarding online advertising adequate for regulating native advertising and sponsored content? Is it likely that new guidelines or regulations will be introduced? Explain. (AACSB: Communication; Reflective thinking)

Marketing by numbers: C3, CPM and CPP

Nielsen ratings are very important to both advertisers and television programmers because the cost of television advertising time is based on these ratings. A show's *rating* is the number of households in Nielsen's sample that are tuned to that show divided by the number of television-owning households – 115.6 million in the United States. One rating point represents 1 per cent of the households (HHS) in the TV market. Nielsen's TV ratings are referred to as C3 and measure viewers who watch commercials live or watch recorded commercials up to three days later. A common measure of advertising efficiency is cost per thousand (CPM), which is the ad cost per thousand potential audience contacts. Advertisers also assess the cost per rating point by dividing the ad cost by the rating. These numbers are used to assess the efficiency of a media buy. Use the following average price and rating information for programmes that are shown at the 8 pm hour on television to answer the questions:

Programme	Cost per 30-second spot	C3 Rating
Sunday Night Football	$594,000	7.9
The Big Bang Theory	$317,000	5.1
The Voice	$264,575	3.9
How I Met Your Mother	$168,435	3.2
Agents of S.H.I.E.L.D.	$169,730	3.1

15.13 How many households are expected to watch each programme? (AACSB: Communication; Analytical reasoning)

15.14 Calculate the cost per thousand (CPM) and cost per point (CPP) for each programme. How should advertisers use these measures when planning a television media buy? (AACSB: Communication; Analytical reasoning; Reflective thinking)

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Company case

ASICS Advertising and PR in the era of social media

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It was raining outside and ASICS' director of integrated marketing communication was thinking about what it would be like to go for a run as he looked out from his office on the 10th floor; after all, those committed to the sport would not let a little rain stop them. Running was on his mind as the company needed to meet the goals of its five-year strategic plan after a drop of 70 per cent in its second quarter earnings. More specifically, America's sales had dropped 22 per cent, while Europe grew 4 per cent. He knew that a focus on the performance running market had to be one of the priorities to reach the company's strategic goals, but how? The brand had a reputation for producing high-quality technical gear, but it had not done a good job in creating an emotional connection with the consumers.

Running in the UK and USA

Let's not fool ourselves, running is tough and it hurts. At the same time, more than 2 million people run at least once a week in the UK and 10.5 million run frequently in the USA. Why do people do it? One reason is practical in nature. Running is relatively easy to fit into modern life, as all you need is a good pair of shoes and you can do it in any environment. In other words, it is easier to fit into one's schedule. In fact, running has been growing in popularity since the 1960s. However, convenience is only part of the story; a closer look at the sport reveals a richer set of reasons behind running's increased popularity in recent years. Runners run to stay healthy, get fit or lose weight – this is true particularly when they start to run. For many the reason is deeper rooted – it has to do with performance, such as running faster or further. For many people performance sports are a personal goal and relief from everyday stresses.

So who are runners? Let's start with the term 'runner', because it is important. The majority of the runners will define themselves as 'runners' rather than 'recreational joggers' (who run less) or 'competitive runners' (who are elite athletes). In the committed running community, to be referred to as a jogger is a bit of an insult, 'I run, I don't jog' is a common answer to those that refer to a runner as a jogger. Runners will run regularly, all year round, regardless of the weather. Something makes them want to run. An article from *Runners World*, a leading running magazine, can in fact recall 52 reasons to run a marathon. In the table below, the top seven on this list are shown, and they are not just about fitness.

Table 1 The top 7 reasons to run a marathon

1. Exuberance – The marathon is mythical. While you can get an amazing high from tackling any race distance, conquering the mother of all races gives you a high which is hard to duplicate.
2. Inspire others – Doesn't matter if you are speeding to a PR, crawling to the finish, or anything in between, someone on the sidelines is going to start running soon because of seeing you pushing through this distance.
3. Self-confidence – That whole conquering the beast thing above? Yeah, with that slayed, daily tasks will seem simple by comparison. If you could bottle the self-confidence you have after finishing a marathon and sell it, you'd be a billionaire.
4. Be a superhero – Ever seen those Heatsheets blankets you get when you are done? Go ahead and try not to feel like Superman when they put those around your neck.
5. Travel – We always find excuses not to spend money to see the world. But throw in a marathon and you have given yourself a reason to check out small pockets you never would have allowed yourself to go to before.
6. Learn the most of an area – Once you are on the course, even if it is in a small town in the middle of nowhere, there is no better way to learn an area than on foot. Seeing 26.2 miles of it without worrying about turn signals is the best way possible.
7. Make new friends – As we get older, the places and chances to meet new people become less and less. On a marathon course, you don't have to think of small talk or a way to break the ice. You know you are both going through this together.

Source: *Runners World*

Runners are well off: 75 per cent of runners earn more than $50,000 a year. They are educated with a white-collar job. They enter races of various distances, such as 10Ks (10 km), half-marathons (13.1 miles), marathons (26.2 miles) and ultras (anything above 26.2 miles). Runners come in all shapes and sizes. It is not just a young person's sport; the number of runners over 40 years of age is indeed growing; the male to female ratio in races is about 50/50.

Table 2 Running preferences

Where do people run?	Run on trails Run on roads	37% 64%
Will bad weather stop a runner?	Run outside during harsher weather Run inside during harsher weather	57% 43%
How many runners run listening to music?	Run with music Run without music	60% 40%

Source: Running USA

Running, as it turns out, is not a cheap sport either. Footwear and performance clothing, sport watches, nutrition, race fees, etc. all soon add up. Running is mainly a solitary activity, however it doesn't have to be always so. Some will also join running clubs, including virtual running clubs. Races, both those with thousands of participants and smaller local ones, are very much a social affair. Online, the connection continues. Runners follow brands and race organisers in social media as well as bloggers and elite runners. Four in ten share running-related experiences in social media. Technology is part of the running experience, as the majority of runners will track their mileage via an app and/or GPS watches.

All in all, the running market looks attractive, competitive and complex. ASICS has to find a way to break through the clutter and find a way to connect, also emotionally, with their current and potential customers.

'I Move Me' campaign

ASICS is an acronym for 'Anima Sana in Corpore Sano', an old Latin phrase for 'a sound mind in a sound body'. A message that seems to reflect perfectly the meaning of modern running, particularly distance running. However, the brand has been struggling of late and in an effort to inject new life into the brand, the 'I Move Me' global rebrand campaign by Saatchi & Saatchi LA was launched in 2017. This has been the most significant for the ASICS brand since 1992.

The campaign ran (pun intended) across 13 markets in EMEA with over 1,000 items of curated content created to reach over 400 million people; similar to the creative activities that ran in the USA market. In this geography, the content was developed by brand communications agency SUPERLARGE, in line with the global 'I Move Me' campaign. The 'I Move Me' campaign spans across all areas of the business in true integrated fashion, in fact, it is brought to life by a newly established Integrated Marketing Communications team at ASICS. Their remit sounds simple, but it is complex in its implementation. The aim is to provide a seamless brand experience across all touchpoints. The campaign brings together the products and the brand in a unifying message from the brand, which celebrates high-quality products matching personal movement and achievements.

The campaign puts inspirational characters at its core with a series of videos and related content that tell the human stories of athletes. These athletes come from a cross-section of society and each one has his or her inspirational running story to tell. They talk about how movement has affected their lives, helped them overcome challenges or societal judgement; it further talks about what running has given them in terms of happier and healthier lives. For example, ASICS Europe presents a video featuring Food and Lycra, online influencers who challenge Instagram retouched visions of beauty and unhealthy relationships with food. Their video tagline is 'I don't move for beauty norms. I Move Me'. Another video features Susie Chan, an endurance runner who has taken part in some of the toughest ultra-marathons; she talks about how running changed her life and made her a better parent as well as helping her become mentally strong. ASICS America features a video with the DJ Steve Aoki, who talks about the changing nature of life and the need to follow his inspiration.

Digital is at the heart of this campaign but it develops via multimedia, such as advertising on Eurosport, print, outdoor advertising, ASICS events and ASICS frontrunners brand ambassadors. Print includes ads and features in running magazines such as *Runners World*. ASICS continues to sponsor key marathons. In the UK, for example, these include the Manchester marathon, which attracts over 9,000 runners of all abilities, many hoping for a personal best time given the flat and fast course. ASICS also sponsors the Windermere marathon; this race has a challenging hilly course and a smaller number of runners tackling the challenge. Last year ASICS acquired RunKeeper, a fitness tracking app to support the effort of runners. The ASICS brand ambassadors, called ASICS Frontrunners, are carefully selected runners from among thousands of applicants, that embody the spirit of the brand and share it in their social media activities. Again, runners of different abilities and overcoming various challenges through running are selected, not only the fast ones. Finally, retail is another key brand communication channel. More flagship stores have been opened or are planned to open in London, New York and Tokyo. Throughout all these different expressions, the brand message is consistent and almost seamless in execution.

The railway issue

With such a sophisticated global branding campaign, all seemed to move in the right direction and the attention to detail was noted in leading marketing magazines such as *Marketing Week*, *PR Week*, etc. However, on the evening of 4 November 2018 something unexpected happened on Twitter. One of ASICS UK's campaigns featured people running down a disused train track. The images are beautiful and the runners in them appear strong. The pictures are indeed compositionally appealing: the track lines framed the runner nicely and communicated the idea of the distance/going far. However, runners on Twitter took a very different view 'This ad is wrong on so many levels (. . .) it is irresponsible (. . .)'; 'This ad shows total disrespect for safety' were some of the comments that appeared. Users tagged ASICS UK and also Rail Safety Week, and the British Transport Police were alerted to the ads. Runners thought that these types of ads were irresponsible, given the dangerous location and the recent trend of taking selfies on train tracks with at times fatal consequences. Furthermore, some even commented that running on the tracks simply isn't realistic; of all the surfaces one may wish to run on, a train track seems quite an unlikely one and at best a trip hazard.

Initially ASICS' Twitter account was quite defensive on the matter, responding that the featured train track was indeed disused so no safety regulations were breached. Screenshots also circulated, which showed that ASICS had updated its profile to show photos with images involving said train tracks in response to the (arguably uncalled-for) criticism. Since then, however, the railway track posts and marketing material have been removed from the official ASICS presence, due to the rising criticism, which continued for several days. The removal of the material helped somehow to deal with the problem, even if in the eyes of the influencers and runners online who witnessed this exchange the brand is still suffering from the initial mistake and the way it was dealt with.

Questions for discussion

1. What were the objectives of the 'I Move Me' campaign? And how do you critically evaluate these objectives?
2. Describe the creative concept developed by Saatchi & Saatchi LA for ASICS and discuss the execution styles applied to the creative concepts in the videos and related print ads. You can search for them online and/or follow the links in the sources below.
3. Do you agree with the media choices made by ASICS to deliver the campaign? Why? What are the advantages and disadvantages of each?
4. Research 'ASICS FrontRunners' on social media such as Twitter or Facebook. How can they help generate UGC about the ASICS brand? Critically discuss the positive and negative influences that social media can have on a brand's PR efforts.
5. To what extent did the railway video/images incident cause problems for the ASICS brand? Do you think ASICS should have anticipated the issue, and why?

Source: 'National Runner Survey 2017', *Running USA*, http://cdn.trustedpartner.com/docs/library/RunningUSA2012/RunningUSA_NRS_2017.pdf; 'Children "taking selfies" on rail tracks as trespassing doubles', BBC News, 18 July 2018, https://www.bbc.co.uk/news/uk-wales-44863173; ASICS, 'Campaign "I MOVE ME"', *PR Newswire*, 21 March 2018; Jim Avila, Gitika Kaul and Serena Marshall, 'The dangers of taking photos on train tracks', ABC News, 17 October 2015, https://abcnews.go.com/US/dangers-taking-photos-train-tracks/story?id=34533140; Vybarr Cregan-Reid 'Why running is fast becoming the most popular way to exercise', *Independent*, 30 May 2016, https://www.independent.co.uk/life-style/health-and-families/why-running-is-fast-becoming-the-most-popular-way-to-exercise-a7056481.html; Larry Eder, 'Asics launches "I Move Me" a global rebrand, most significant since 1992', *RunBlogRun*, 2 August 2017, http://www.runblogrun.com/2017/08/asics-launches-move-me-a-global-rebrand-most-significant-since-1992.html; Adharanand Finn, 'Why we love to run', *Guardian*, 5 February 2013, https://www.theguardian.com/lifeandstyle/the-running-blog/2013/feb/05/why-we-love-to-run; https://www.asics.com/gb/en-gb/frontrunner/how-to-apply; https://www.brathaychallenges.com/events/running/marathon; https://www.foodandlycra.com/; https://www.runnersworld.com/women/a20799856/52-reasons-to-run-a-marathon/; https://youtu.be/kPG8IOX5bO8; https://youtu.be/p6jfBOdH4HU; https://youtu.be/rgsG5fjAR64 and https://youtu.be/wC20K6ol8Lc; Andrew Papworth, 'ASICS advert showing people doing star jumps on railway removed after police criticism', *East Anglian Daily Times*, 8 November 2018, https://www.eadt.co.uk/news/british-transport-police-east-anglia-criticises-asics-uk-advertising-campaign-1-5770279; Brad Stulberg, 'Why do rich people love endurance sports?' *Outside*, 3 August 2017, https://www.outsideonline.com/2229791/why-are-most-endurance-athletes-rich; 'Long distance running – the state of the sport', *USA Track & Field*, 2018, http://www.usatf.org/news/specialreports/2003ldrstateofthesport.asp; Sarah Visard, 'Asics in biggest brand shakeup in 25 years as it looks to broaden appeal', *Marketing Week*, 7 August 2017, https://www.marketingweek.com/2017/08/04/asics-biggest-brand-shakeup-25-years-looks-broaden-appeal/; Beth Wright, 'Asics unveils new action plan as Q2 profit slumps 70%', *Just-style*, Research News, Analyst Report, 7 August 2018, https://www.just-style.com/news/asics-unveils-new-action-plan-as-q2-profit-slumps-70_id134187.aspx, accessed May 2019.

Chapter Sixteen

Personal selling and sales promotion

Chapter preview

In the previous two chapters, you learned about engaging customers and communicating customer value through integrated marketing communications (IMC) and two elements of the promotion mix: advertising and public relations. In this chapter, we examine two more IMC elements: personal selling and sales promotion. Personal selling is the interpersonal arm of marketing communications, in which the sales force engages customers and prospects to build relationships and make sales. Sales promotion consists of short-term incentives to encourage the purchase or sale of a product or service. Although this chapter presents personal selling and sales promotion as separate tools, they must be carefully integrated with the other elements of the promotion mix.

First, let's look at a real-life sales force. When you think of salespeople, perhaps you think of pushy retail sales clerks, 'yell and sell' television advertising or the stereotypical smarmy 'used-car salesman'. But such stereotypes don't fit the reality of most of today's salespeople – sales professionals who succeed not by taking advantage of customers but by listening to their needs and helping to forge solutions. Consider Salesforce – the industry leader in customer relationship management solutions. Salesforce not only produces market-leading sales management software, it also excels at practising what it preaches – effective personal selling.

Learning outcomes

- **Objective 1** You will be able to discuss the role of a company's salespeople in creating value for customers and building customer relationships.
  Personal selling (pp. 482–485)
- **Objective 2** You will be able to identify and explain the six major sales force management steps.
  Managing the sales force (pp. 485–492)
- **Objective 3** You will be able to discuss the personal selling process, distinguishing between transaction-oriented marketing and relationship marketing.
  The personal selling process (pp. 495–499)
- **Objective 4** You will be able to explain how sales promotion campaigns are developed and implemented.
  Sales promotion (pp. 499–505)

Salesforce: you need a great sales force to sell Salesforce

Salesforce is way out in front of the market for customer relationship management (CRM) solutions. The Salesforce logo, set inside the image of a puffy cloud, underscores Salesforce's highly successful cloud-based computing model (no software to install or own). Cloud-based systems are common today, but they were state-of-the-art when Salesforce pioneered the concept more than 15 years ago. Since then, the company has established itself as a leading innovator, constantly finding new ways to help client companies connect with customers and achieve greater sales force effectiveness using the latest online, mobile, social and cloud technologies.

Salesforce helps businesses to 'supercharge their sales'. It supplies what it calls a 'Customer Success Platform', a wide array of cloud-based sales force automation and customer relationship management tools that gather, organise, analyse and disseminate in-depth data about a company's customers, sales, and individual sales rep and overall sales force performance. From its home in the cloud, Salesforce makes all these data and analyses readily available anytime, from anywhere, on any device with online access – desktops, laptops, tablets or smartphones. Salesforce also integrates with major social media, providing tools for social media monitoring and real-time customer engagement and collaboration on its Salesforce Chatter platform, a kind of Facebook for enterprises.

Salesforce's innovative products have made it the world's number-one and fastest-growing CRM platform, ahead of blue-chip competitors such as Microsoft, Oracle, SAP and IBM. The company's revenues hit $6.2 billion last year, up an impressive 24 per cent over the previous year and more than four times what they were just five years ago. Salesforce has placed first or second on *Forbes* World's Most Innovative Company in any industry list for six straight years.

Innovative products and platforms have played a major role in Salesforce's stunning success. But even the best products don't sell themselves. You need a great sales force to sell Salesforce, and the company excels at practising what it preaches – effective personal selling. Like the companies that buy its services, Salesforce has its own army of experienced, well-trained, highly motivated sales reps who take the company's products to customers. In many respects, Salesforce's own sales force serves as a model for the products and services it sells – not just for using the Salesforce cloud but more generally for achieving the 'supercharged' sales force results that the company promises its clients.

At Salesforce, developing an outstanding sales force starts with recruiting and hiring top-notch salespeople. Salesforce's aggressive but highly selective recruiting programme skims the cream off the top of the global sales rep candidate pool. Each year on average, Salesforce hires only 4.5 per cent of the more than 100,000 candidates who apply. Experience counts. Salesforce expects a minimum of two years of prior sales experience for small-business sales reps and up to two decades of experience for sales execs assigned to major accounts. To find such experienced candidates, Salesforce freely raids rival companies for new hires, counting on its high-energy culture and strong compensation packages to lure successful salespeople into the Salesforce fold.

Once hired, as you might expect, Salesforce salespeople have access to all the latest high-tech selling tools. In fact, the first major assignment of new hires is to study 20 hours of at home video that teaches them the ins and outs of the Salesforce technologies that they won't be just selling but also using. But Salesforce would be the first to tell you that, although its cloud wizardry can help to optimise customer contact and the selling process, it doesn't take the place of good personal selling skills. So in training and fine-tuning its own sales force, the company starts by preaching tried-and-true selling fundamentals, tempered by its own modern twists.

The first fundamental of good selling at Salesforce is to *listen and learn*. As new recruits go through Salesforce's week-long selling boot camp, they learn that they should begin building customer relationships by asking probing questions and getting customers to talk, seeking to understand everything they can about a customer's situation and needs. 'Eighty-five percent of salespeople don't slow down enough to really understand their customer's business', says a senior Salesforce sales executive.

Salesforce's cloud-based 'Customer Success Platform' provides a wide array of customer relationship management tools that help its customers 'supercharge their sales'.
Source: SDym Photography/Alamy Stock Photo

Understanding the customer leads to a second selling fundamental: *empathise* – let customers know that you understand their issues and feel their pain. Empathy builds rapport and trust, an important step toward closing sales and building long-term customer relationships. Listening, learning and empathising are important first steps, but more is needed. 'If all you are is responsive and helpful, then all you are is an administrative assistant', says the Salesforce sales executive.

So the next important step is to *offer solutions* – to show how Salesforce's cloud-based solutions will help clients make their sales forces more effective and productive in connecting with and selling to customers. Salesforce believes that the best way to offer solutions is by telling good stories that highlight other customers' successes with its products. 'Storytelling is very, very important,' says Salesforce's sales productivity manager. 'It can be the foundation of things like the corporate pitch and your interactions with your customers and prospects.' When it comes to handling objections – such as 'I don't trust putting our data in the cloud', 'My current system is working fine', or 'It costs too much' – Salesforce tells its salespeople that stories can be the most powerful tools they have. 'When faced with objections, we always relate it back to a customer story', says a Salesforce marketing manager. 'We're not the hero in our customer's stories', says another manager. 'It's how the customer succeeded, not how we saved them.'

When it comes to competitors, Salesforce's salespeople are ferocious. But Salesforce reps are trained to take the high road – to sell Salesforce's strengths, not competitors' weaknesses. 'Internally, we have these posters: Crush Microsoft and Obliterate Oracle,' says the Salesforce marketing manager. But, he adds, 'when you go out to your customers, you have to be careful that you're guiding them and not just stepping on Microsoft. Even though we all want to'.

Thus, effective professional selling is about much more than warm greetings and back-slapping on the one hand or plying high-tech CRM tools and data analytics on the other. Even though Salesforce boasts the best sales and customer connection tools in the business, backed by big data and combined with plenty of new-school techniques, its sales reps stay focused on old-school selling principles. At Salesforce – or anywhere else – good selling starts with the fundamentals of engaging and listening to customers, understanding and empathising with their problems, and building relationships by offering meaningful solutions for mutual gain. That's how you build an incredibly successful sales force and Salesforce.[1]

In this chapter, we examine two more promotion mix tools: *personal selling* and *sales promotion*. Personal selling consists of interpersonal interactions with customers and prospects to make sales and maintain customer relationships. Sales promotion involves using short-term incentives to encourage customer purchasing, reseller support and sales force efforts.

Author comment
Personal selling is the interpersonal arm of the promotion mix. A company's sales force creates and communicates customer value by personally engaging customers and building customer relationships.

Personal selling

Robert Louis Stevenson once noted, 'Everyone lives by selling something'. Companies around the world use sales forces to sell products and services to business customers and final consumers. But sales forces are also found in many other kinds of organisations. For example, universities use recruiters to attract new students. Museums and fine arts organisations use fundraisers to contact donors and raise money. Even governments use sales forces. Even public sector organisations use sales forces to sell commercial services, for example, to corporate customers. In the first part of this chapter, we examine personal selling's role in the organisation, sales force management decisions and the personal selling process.

The nature of personal selling

Personal selling Personal presentations by the firm's sales force for the purpose of engaging customers, making sales and building customer relationships.

Personal selling is one of the oldest professions in the world. The people who do the selling go by many names, including salespeople, sales representatives, agents, district managers, account executives, sales consultants and sales engineers.

People hold many stereotypes of salespeople – including some unfavourable ones. *Salesman* may bring to mind the image of Arthur Miller's pitiable Willy Loman in *Death of a Salesman* or Chris Finch, the brashly confident, openly sexist, rasping-voiced, bullying Wernham Hogg paper salesman from the TV comedy programme *The Office*. And then there are the real-life 'yell-and-sell' 'pitchmen', who hawk everything from 'buy one, get one free' Safestyle replacement windows to Cillit Bang cleaning products in TV commercials, and the irritating cold-callers on the telephone trying to sell financial services or house maintenance products. However, the majority of salespeople are a far cry from these unfortunate stereotypes. Even so, cold-callers and 'yell-and-sell' selling is mainly annoying when they reach the wrong target at the wrong time. When they reach the right target at the right time, they sell products.

As the opening Salesforce story shows, most salespeople are well-educated and well-trained professionals who add value for customers and maintain long-term customer relationships. They listen to their customers, assess customer needs and organise the company's efforts to solve customer problems. The best salespeople are the ones who work closely with customers for mutual gain. Consider Boeing and Airbus, the aerospace giants competing head-to-head in the rough-and-tumble worldwide commercial aircraft market. It takes more than fast talk and a warm smile to sell expensive aircraft. Selling high-tech aircraft at $150 million or more per aircraft is complex and challenging. A single big sale to an airline, airfreight carrier, government or military customer can easily run into billions of dollars. In this type of selling, salespeople head up an extensive team of company specialists – sales and service technicians, financial analysts, planners, engineers – all dedicated to finding ways to satisfy a large customer's needs.

> Some assumptions about what makes someone a good salesperson are dead wrong. There's this idea that the classic sales personality is overbearing, pushy and outgoing – the kind of people who walk in and suck all the air out of the room. But the best salespeople are good at one-to-one contact. They create loyalty and customers because people trust them and want to work with them. It's a matter of putting the client's interests first, which is the antithesis of how most people view salespeople. The most successful salespeople are successful for one simple reason: they know how to build relationships. You can go in with a big personality and convince people to do what you want them to do, but that really isn't selling; it's manipulation, and it only works in the short term. A good salesperson can read customer emotions without exploiting them because the bottom line is that he or she wants what's best for the customer.

Consider GE's diesel locomotive business. A batch of high-tech locomotives may have a price tag of £2 million or more per locomotive. A single big sale can easily run into the hundreds of millions of dollars. GE salespeople head up an extensive team of company specialists. The selling process can take years from the first sales presentation to the day the sale is announced. The real challenge is to win a buyer's business by building

Professional selling: it takes more than fast talk and a warm smile to sell expensive aeroplanes. Boeing's real challenge is to win business by building partnerships – day-in, day-out, year-in, year-out – with its airline customers.
Source: vaalaa/Shutterstock

partnerships with them – day-in, day-out, year-in, year-out – based on superior products and close collaboration.

Salesperson An individual who represents a company to customers by performing one or more of the following activities: prospecting, communicating, selling, servicing, information gathering and relationship building.

The term **salesperson** covers a wide range of positions. At one extreme, a salesperson might be largely an *order taker*, such as the department store salesperson standing behind the counter. At the other extreme are *order getters*, whose positions demand *creative selling*, *social selling* and *relationship building* for products and services ranging from appliances, industrial equipment and aeroplanes to insurance and IT services. In this chapter, we focus on the more creative types of selling and the process of building and managing an effective sales force.

The role of the sales force

Personal selling is the interpersonal arm of the promotion mix. It involves interpersonal interactions and engagement between salespeople and individual customers – whether face-to-face, by phone, via email or social media, through video or online conferences, or by other means. Personal selling can be very effective in complex selling situations. Salespeople can probe customers to learn more about their problems and then adjust the marketing offer and presentation to fit each customer's special needs.

The role of personal selling varies from company to company. Some firms have no salespeople at all – for example, companies that sell only online or companies that sell through manufacturers' reps, sales agents or brokers. In most firms, however, the sales force plays a major role. In companies that sell business products and services, such as IBM, BP or Airbus, salespeople work directly with customers. In consumer product companies such as Unilever and Nestlé, the sales force plays an important behind-the-scenes role. It works with wholesalers and retailers to gain their support and help them be more effective in selling the company's products to final buyers.

Linking the company with its customers

The sales force serves as a critical link between a company and its customers. In many cases, salespeople serve two masters – the seller and the buyer. First, they *represent the company to customers*. They find and develop new customers and communicate information about the company's products and services. They sell products by engaging customers and learning about their needs, presenting solutions, answering objections, negotiating prices and terms, closing sales, servicing accounts and maintaining account relationships.

At the same time, salespeople *represent customers to the company*, acting inside the firm as 'champions' of customers' interests and managing the buyer–seller relationship. Salespeople relay customer concerns about company products and actions back inside to those who can handle them. They learn about customer needs and work with other marketing and non-marketing people in the company to develop greater customer value.

Salespeople link the company with its customers. To many customers, the salesperson is the company.
Source: Nestor Rizhniak/Shutterstock

In fact, to many customers, the salesperson *is* the company – the only tangible manifestation of the company that they see. Hence, customers may become loyal to salespeople as well as to the companies and products they represent. This concept of *salesperson-owned loyalty* lends even more importance to the salesperson's customer-relationship-building abilities. Strong relationships with the salesperson will result in strong relationships with the company and its products. Conversely, poor salesperson relationships will probably result in poor company and product relationships.

Coordinating marketing and sales

Ideally, the sales force and other marketing functions (marketing planners, brand managers, marketing content managers and researchers) should work together closely to jointly create value for customers. Unfortunately, however, some companies still treat sales and marketing as separate functions. When this happens, the separate sales and marketing groups may not get along well. When things go wrong, marketers blame the sales force for its poor execution of what they see as an otherwise splendid strategy. In turn, the sales team blames the marketers for being out of touch with what's really going on with customers. Neither group fully values the other's contributions. However, if not repaired, such disconnects between marketing and sales can damage customer relationships and company performance.

A company can take several actions to help bring its marketing and sales functions closer together. At the most basic level, it can increase communications between the two groups by arranging joint meetings and spelling out communication channels. It can create opportunities for salespeople and marketers to work together. Brand managers and researchers can tag along on sales calls or sit in on sales planning sessions. In turn, salespeople can sit in on marketing planning sessions and share their first-hand customer knowledge.

A company can also create joint objectives and reward systems for sales and marketing teams or appoint marketing–sales liaisons – people from marketing who 'live with the sales force' and help coordinate marketing and sales force programmes and efforts. Finally, it can appoint a high-level marketing executive to oversee both marketing and sales. Such a person can help infuse marketing and sales with the common goal of creating value for customers to capture value in return.[2]

Managing the sales force

We define **sales force management** as analysing, planning, implementing and controlling sales force activities. It includes designing sales force strategy and structure as well as recruiting, selecting, training, compensating, supervising and evaluating the firm's salespeople. These major sales force management decisions are shown in Figure 16.1 and discussed in the following sections.

Author comment

Here's another definition of sales force management: 'planning, organising, leading and controlling personal contact programmes designed to achieve profitable customer relationships'. Once again, the goal of every marketing activity is to create customer value, engage customers and build profitable customer relationships.

Designing the sales force strategy and structure

Marketing managers face several sales force strategy and design questions. How should salespeople and their tasks be structured? How big should the sales force be? Should salespeople sell alone or work in teams with other people in the company? Should they sell in the field, by phone or using online and social media? We address these issues next.

The sales force structure

A company can divide sales responsibilities along any of several lines. The structure decision is simple if the company sells only one product line to one industry with customers in many

Sales force management
Analysing, planning, implementing and controlling sales force activities.

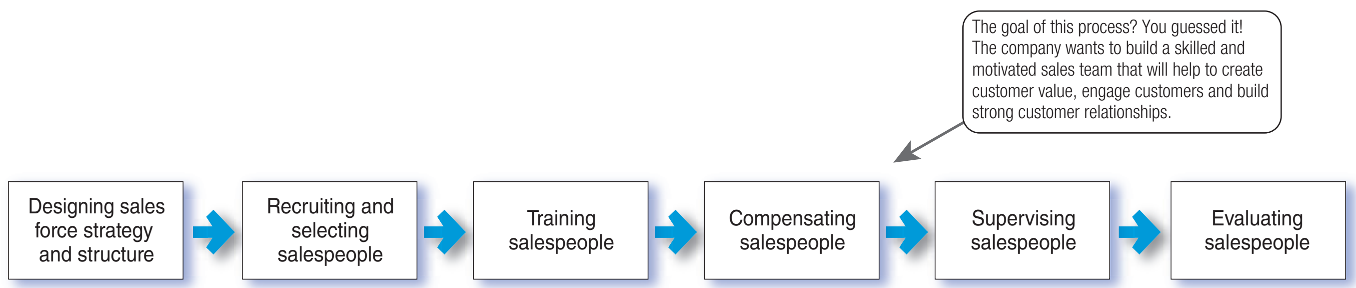


Figure 16.1 Major steps in sales force management

locations. In that case the company would use a *territorial sales force structure*. However, if the company sells many products to many types of customers, it might need a *product sales force structure*, a *customer sales force structure* or a combination of the two.

Territorial sales force structure A sales force organisation that assigns each salesperson to an exclusive geographic territory in which that salesperson sells the company's full line.

In the **territorial sales force structure**, each salesperson is assigned to an exclusive geographic area and sells the company's full line of products or services to all customers in that territory. This organisation clearly defines each salesperson's job and fixes accountability. It also increases the salesperson's desire to build local customer relationships that, in turn, improve selling effectiveness. Finally, because each salesperson travels within a limited geographic area, travel expenses are relatively small. A territorial sales organisation is often supported by many levels of sales management positions. For example, individual territory sales reps may report to area managers, who in turn report to regional managers who report to a director of sales.

Product sales force structure A sales force organisation in which salespeople specialise in selling only a portion of the company's products or lines.

If a company has numerous and complex products, it can adopt a **product sales force structure**, in which the sales force specialises along product lines. For example, GE employs different sales forces within different product and service divisions of its major businesses. Within GE Infrastructure, for instance, the company has separate sales forces for aviation, energy, transportation, and water processing products and technologies. No single salesperson can become expert in all of these product categories, so product specialisation is required. Similarly, GE Healthcare employs different sales forces for diagnostic imaging, life sciences, and integrated IT products and services. In all, a company as large and complex as GE might have dozens of separate sales forces serving its diverse product and service portfolio.

Customer (or market) sales force structure A sales force organisation in which salespeople specialise in selling only to certain customers or industries.

Using a **customer (or market) sales force structure**, a company organises its sales force along customer or industry lines. Separate sales forces may be set up for different industries, serving current customers versus finding new ones, and serving major accounts versus regular accounts. Organising the sales force around customers can help a company build closer relationships with important customers. Many companies even have special sales forces to handle the needs of individual large customers. For example, Rolls Royce civil aerospace division has a special sales team to supply aircraft engines to Airbus. Even for typical consumer goods companies such as FMCG (fast-moving consumer goods) giants (Unilever and P&G), they need special sales teams or key account teams to sell their products to major retailers, such as the mainstream national supermarket chains, and build strategic partnership with them.

When a company sells a wide variety of products to many types of customers over a broad geographic area, it often employs a *complex sales force structure*, which combines several types of organisation. Salespeople can be specialised by customer and territory; product and territory; product and customer; or territory, product and customer. For example, a FMCG company can specialise its sales force by customer (with different sales teams for different types of retailers and different retailing companies) *and* by territory for each key customer group (territory representatives, territory managers, regional managers and so on). No single structure is best for all companies and situations. Each company should select a sales force structure that best serves the needs of its customers and fits its overall marketing strategy.

Sales force size

Once the company has set its structure, it is ready to consider *sales force size*. Sales forces may range in size from only a few salespeople to tens of thousands. Some sales forces are huge – for example, in the United States, PepsiCo employs 36,000 salespeople; American Express, 23,400; GE, 16,400; and Cisco Systems, 14,000.[3] Salespeople constitute one of the company's most productive – and most expensive – assets. Therefore, increasing their numbers will increase both sales and costs.

A company might use some form of *workload approach* to set sales force size. Using this approach, a company first groups accounts into different classes according to size, account status or other factors related to the amount of effort required to maintain the account. It then determines the number of salespeople needed to call on each class of accounts the desired number of times.

The company might think as follows: Suppose we have 1,000 A-level accounts and 2,000 B-level accounts. A-level accounts require 36 calls per year, and B-level accounts require 12 calls per year. In this case, the sales force's *workload* – the number of calls it must make per year – is 60,000 calls. Suppose our average salesperson can make 1,000 calls a year. Thus, we need 60 salespeople

Other sales force strategy and structure issues

Sales management must also determine who will be involved in the selling effort and how various sales and sales-support people will work together.

Outside and inside sales forces

A company may have an **outside sales force (or field sales force)**, an **inside sales force**, or both. Outside salespeople travel to call on customers in the field. In contrast, inside salespeople conduct business from their offices via telephone, online and social media interactions, or visits from buyers. The use of inside sales has grown in recent years as a result of increased outside selling costs and the surge in online, mobile and social media technologies.

Outside sales force (or field sales force) Salespeople who travel to call on customers in the field.

Inside sales force Salespeople who conduct business from their offices via telephone, online and social media interactions, or visits from prospective buyers.

Some inside salespeople provide support for the outside sales force, freeing them to spend more time selling to major accounts and finding new prospects. For example, *technical sales-support people* provide technical information and answers to customers' questions. *Sales assistants* provide research and administrative backup for outside salespeople. They track down sales leads, call ahead and confirm appointments, follow up on deliveries and answer customers' questions when outside salespeople cannot be reached. Using such combinations of inside and outside salespeople can help serve important customers better. The inside rep provides daily access and support, whereas the outside rep provides face-to-face collaboration and relationship building.

Other inside salespeople do more than just provide support. *Telemarketers* and *online sellers* use the phone, internet and social media to find new leads, learn about customers and their business, or sell and service accounts directly. Telemarketing and online selling can be very effective, less costly ways to sell to smaller, harder-to-reach customers. Depending on the complexity of the product and customer, for example, a telemarketer can make from 20 to 33 decision-maker contacts a day compared with the average of four that an outside salesperson can make. And whereas an average B-to-B field sales call can cost £250 or more, a routine industrial telemarketing call costs only about £3–5 and a complex call about £15.[4]

Although the government regulators in many countries have developed 'opt-out' schemes, which have put a dent in telephone sales to consumers, telemarketing remains a vital tool for many B-to-B marketers. For some smaller companies, telephone and online selling may be the primary sales approaches. However, larger companies also use these tactics, either to sell directly to small and mid-size customers or to assist the sales force in selling to larger ones. Especially in the leaner times following the recession, many companies have reduced their in-person customer visits in favour of more telephone, e-mail and online selling.

Inside salespeople conduct business from their offices, via telephone, the internet or visits from buyers.
Source: Bojan Milinkov/ Shutterstock

In addition to costs savings, in today's digital, mobile and social media environments, many buyers are more receptive to – or even prefer – phone and online contact versus the high level of face-to-face contact once required. Today's customers are more inclined to gather their own information online – one study showed that a typical buyer reports contacting a sales rep only after independently completing about 60 per cent of the buying process. Then buyers routinely use the phone, online meetings and social media interactions to engage sellers and close deals. 'With virtual meeting software such as GoToMeeting.com and WebEx, communications tools such as Skype, and social media sites such as Twitter, Facebook and LinkedIn, it's become easier to sell with few if any face-to-face meetings', says an inside sales consultant.[5]

As a result of these trends, telephone and online selling are growing much faster than in-person selling. One recent study found that inside sales positions are growing 300 times faster than outside sales positions. Another study also notes the emergence of the 'hybrid sales rep', a modern cross between a field sales rep and an inside rep who often works from a remote location. Some 41 per cent of outside sales activity is now done over the phone or a mobile device, from a home office or a company office or on the go.[6] For many types of products and selling situations, phone or online selling can be as effective as a personal sales call.

Team selling

Team selling Using teams of people from sales, marketing, engineering, finance, technical support and even upper management to service large, complex accounts.

As products become more complex and as customers grow larger and more demanding, a single salesperson simply can't handle all of a large customer's needs. Instead, most companies now use **team selling** to service large, complex accounts. Sales teams can unearth problems, solutions and sales opportunities that no individual salesperson could. Such teams might include experts from any area or level of the selling firm – sales, marketing, technical and support services, research and development, engineering, operations, finance and others.

In many cases, the move to team selling mirrors similar changes in customers' buying organisations. Many large customer companies have implemented team-based purchasing, requiring marketers to employ equivalent team-based selling. When dealing with large, complex accounts, one salesperson can't be an expert in everything the customer needs. Instead, selling is done by strategic account teams, supported by senior account managers or customer business managers.

Some companies, such as IBM, Xerox and P&G, have used teams for a long time. P&G sales reps are organised into customer business development (CBD) teams. Each CBD team is assigned to a major P&G retailer customer. The CBD organisation places the focus on serving the complete needs of each major customer. It lets P&G 'grow business by working as a "strategic partner" with our accounts', not just as a supplier.[7] Indeed, major retailer Walmart in the United States has some 450 suppliers locating account teams at its headquarters, and the same process is happening with Tesco in the UK.

Team selling does have some pitfalls, however. For example, salespeople are by nature competitive and have often been trained and rewarded for outstanding individual performance. Salespeople who are used to having customers all to themselves may have trouble learning to work with and trust others on a team. In addition, selling teams can confuse or overwhelm customers who are used to working with only one salesperson. Finally, difficulties in evaluating individual contributions to the team-selling effort can create some sticky compensation issues.

Recruiting and selecting salespeople

At the heart of any successful sales force operation is the recruitment and selection of good salespeople. The performance difference between an average salesperson and a top salesperson can be substantial. In a typical sales force, the top 30 per cent of the salespeople might bring in 60 per cent of the sales. Thus, careful salesperson selection can greatly increase overall sales force performance.

Beyond the differences in sales performance, poor selection results in costly turnover. When a salesperson quits, the costs of finding and training a new salesperson – plus the costs of lost sales – can be very high. One sales consulting firm calculates the total costs of a bad sales hire at a whopping £471,000.[8] Also, a sales force with many new people is less productive, and turnover disrupts important customer relationships and sales team morale.

What sets great salespeople apart from all the rest? Research suggests that the best salespeople possess four key talents: intrinsic motivation, a disciplined work style, the ability to close a sale and, perhaps most important, the ability to build relationships with customers.[9] Super salespeople are motivated from within – they have an unrelenting drive to excel. Some salespeople are driven by money, a desire for recognition, or the satisfaction of competing and winning. Others are driven by the desire to provide service and build relationships. The best salespeople possess some of each of these motivations. However, another analysis found that the best salespeople are driven by a strong sense of purpose: 'The salespeople who sold with noble purpose, who truly want to make a difference to customers, consistently outsold the salespeople focused on sales goals and money.' Selling with such a sense of customer-related purpose is not only more successful, it's also more profitable and more satisfying to salespeople.[10]

Great salespeople: the best salespeople possess intrinsic motivation, a disciplined work style, the ability to close a sale and, perhaps most important, the ability to build relationships with customers.

Source: Juice Images/Alamy Stock Photo

Super salespeople also have a disciplined work style. They lay out detailed, organised plans and then follow through in a timely way. But motivation and discipline mean little unless they result in closing more sales and building better customer relationships. Super salespeople build the skills and knowledge they need to get the job done. Perhaps most important, top salespeople are excellent customer problem solvers and relationship builders. They understand their customers' needs. Talk to sales executives and they'll describe top performers in these terms: good listeners, empathetic, patient, caring and responsive. Top performers can put themselves on the buyer's side of the desk and see the world through their customers' eyes. They don't want just to be liked; they want to add value for their customers.

That said, there is no one right way to sell. Each successful salesperson uses a different approach, one that best applies his or her unique strengths and talents. For example, some salespeople enjoy the thrill of a harder sell in confronting challenges and winning people over. Others might apply 'softer' talents to reach the same goal. 'The truth is, no two great sales reps are alike', says one sales consultant. 'You might thrive on fierce competition, while a colleague wins by being a super-analytical problem solver. Or maybe you have a tremendous talent for building relationships, while your fellow top performer is a brilliant strategist. What's most important is that you win business your way.'[11]

When recruiting, a company should analyse the sales job itself and the characteristics of its most successful salespeople to identify the traits needed by a successful salesperson in its industry. Then it must recruit the right salespeople. The human resources department looks for applicants by getting names from current salespeople, using employment agencies, searching the internet and online social media, posting ads and notices on its website and industry media, and working through college placement services. Another source is to attract top salespeople from other companies. Proven salespeople need less training and can be productive immediately.

Recruiting will attract many applicants from which the company must select the best. The selection procedure can vary from a single informal interview to lengthy testing and interviewing. Many companies give formal tests to sales applicants. Tests typically measure sales aptitude, analytical and organisational skills, personality traits and other characteristics. But test scores provide only one piece of information in a set that includes personal characteristics, references, past employment history and interviewer reactions.

Training salespeople

New salespeople may spend anywhere from a few weeks or months to a year or more in training. After the initial training ends, most companies provide continuing sales training via seminars, sales meetings and online learning throughout the salesperson's career. According to one source, American firms spend approximately $20 billion on sales training each year. In the UK, organisations spend over £45 billion on employee training in total with a large proportion going to sales and sales-related training.[12] Although training can be expensive, it can also yield dramatic returns.[13]

Training programmes have several goals. First, salespeople need to know about customers and how to build relationships with them. Therefore, the training programme must teach them about different types of customers and their needs, buying motives and buying habits. It must also teach them how to sell effectively and train them in the basics of the selling process. Salespeople also need to know and identify with the company, its products and its competitors. Therefore, an effective training programme teaches them about the company's objectives, organisation, products and the strategies of major competitors.

Today, many companies are adding digital e-learning components to their sales training programmes. Online training may range from simple self-paced text- and video-based product training and internet-based sales exercises that build sales skills to sophisticated simulations that recreate the dynamics of real-life sales calls. One of the most basic forms is virtual instructor-led training (VILT). Using this method, a small group of salespeople at remote locations log on to an online conferencing site, where a sales instructor leads training sessions using online video, audio and interactive learning tools.[14]

Training online instead of on-site can cut travel and other training costs, and it takes up less of a salesperson's selling time. It also makes on-demand training available to salespeople, letting them train as little or as much as needed, whenever and wherever needed. Although most e-learning is web based, companies can offer on-demand training from anywhere via almost any mobile device.

Many companies are now using imaginative new e-learning techniques to make sales training more efficient and effective — and sometimes even more fun. For example, a learning solutions company can apply a digital game-based sales training tool to help salespeople learn and remember key product, company, and customer facts as well as selling skills and processes.[15]

Compensating salespeople

To attract good salespeople, a company must have an appealing compensation plan. Compensation consists of four elements: a fixed amount, a variable amount, expenses and fringe benefits. The fixed amount, usually a salary, gives the salesperson some stable income. The variable amount, which might be commissions or bonuses based on sales performance, rewards the salesperson for greater effort and success.

A sales force compensation plan can both motivate salespeople and direct their activities. Compensation should direct salespeople toward activities that are consistent with the overall sales force and marketing objectives.[16] For example, if the strategy is to acquire new business, grow rapidly and gain market share, the compensation plan might include a larger commission component, coupled with a new account bonus to encourage high sales performance and new account development. In contrast, if the goal is to maximise current account profitability, the compensation plan might contain a larger base-salary component with additional incentives for current account sales or customer satisfaction.

In fact, more and more companies are moving away from high-commission plans that may drive salespeople to make short-term grabs for business. They worry that a salesperson who is pushing too hard to close a deal may ruin the customer relationship. Instead, companies are designing compensation plans that reward salespeople for building customer relationships and growing the long-run value of each customer.

When times get tough economically, some companies are tempted to cut costs by reducing sales compensation. However, although some cost-cutting measures make sense when business is sluggish, cutting sales force compensation across the board is usually an action of last resort. Top salespeople are always in demand, and paying them less might mean losing them at a time when they are needed most. Thus, short-changing key salespeople can result in short-changing important customer relationships. If the company must reduce its compensation expenses, rather than making across-the-board cuts, companies should continue to pay top performers well while turning low performers loose.

Supervising and motivating salespeople

New salespeople need more than a territory, compensation and training – they need supervision and motivation. The goal of *supervision* is to help salespeople 'work smart' by doing the right things in the right ways. The goal of *motivation* is to encourage salespeople to 'work hard' and energetically toward sales force goals. If salespeople work smart and work hard, they will realise their full potential – to their own and the company's benefit.

Supervising salespeople

Companies vary in how closely they supervise their salespeople. Many help salespeople identify target customers and set call objectives. Some may also specify how much time the sales force should spend prospecting for new accounts and set other time management priorities. One tool is the weekly, monthly or annual *call plan* that shows which customers and prospects to call on and which activities to carry out. Another tool is *time-and-duty analysis*. In addition to time spent selling, the salesperson spends time travelling, waiting, taking breaks and doing administrative chores.

Figure 16.2 shows how salespeople spend their time. On average, active selling time accounts for only 37 per cent of total working time.[17] Companies are always looking for ways to save time – simplifying administrative duties, developing better sales-call and routing plans, supplying more and better customer information, and using phone, email, online, or mobile conferencing instead of traveling.

Many firms have adopted *sales force automation systems*: computerised, digitised sales force operations that let salespeople work more effectively anytime, anywhere. Companies now routinely equip their salespeople with laptops or tablets, smartphones, wireless connections, videoconferencing technologies, and customer-contact and relationship management software. Armed with these technologies, salespeople can more effectively and efficiently profile customers and prospects, analyse and forecast sales, engage customers, make presentations,

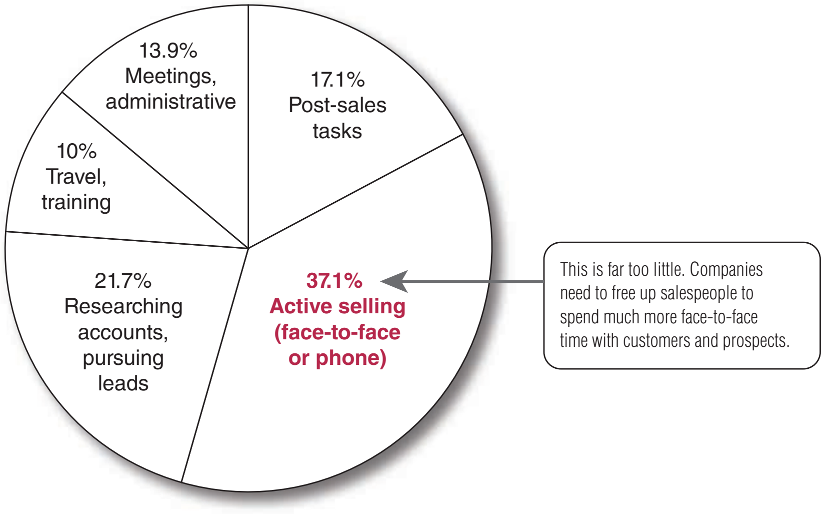


Figure 16.2 How salespeople spend their time

Source: '2014 Performance Optimization Study', CSO Insights, www.csoinsights.com.

prepare sales and expense reports, and manage account relationships. The result is better time management, improved customer service, lower sales costs and higher sales performance. In all, technology has reshaped the ways in which salespeople carry out their duties and engage customers.

Motivating salespeople

Beyond directing salespeople, sales managers must also motivate them. Some salespeople will do their best without any special urging from management. To them, selling may be the most fascinating job in the world. But selling can also be frustrating. Salespeople often work alone, and they must sometimes travel away from home. They may also face aggressive competing salespeople and difficult customers. Therefore, salespeople often need special encouragement to do their best.

Management can boost sales force morale and performance through its organisational climate, sales quotas and positive incentives. *Organisational climate* describes the feeling that salespeople have about their opportunities, value and rewards for a good performance. Some companies treat salespeople as if they are not very important, so performance suffers accordingly. Other companies treat their salespeople as valued contributors and allow virtually unlimited opportunity for income and promotion. Not surprisingly, these companies enjoy higher sales force performance and less personnel turnover.

Sales quota A standard that states the amount a salesperson should sell and how sales should be divided among the company's products.

Many companies motivate their salespeople by setting **sales quotas** – standards stating the amount they should sell and how sales should be divided among the company's products. Compensation is often related to how well salespeople meet their quotas. Companies also use various *positive incentives* to increase the sales force effort. *Sales meetings* provide social occasions, breaks from the routine, chances to meet and talk with 'company brass', and opportunities to air feelings and identify with a larger group. Companies also sponsor *sales contests* to spur the sales force to make a selling effort above and beyond what is normally expected. Other incentives include honours, merchandise and cash awards, trips and profit-sharing plans.

Evaluating salespeople and sales force performance

We have thus far described how management communicates what salespeople should be doing and how it motivates them to do it. This process requires good feedback, which means getting regular information about salespeople to evaluate their performance.

Management gets information about its salespeople in several ways. The most important source is *sales reports*, including weekly or monthly work plans and longer-term territory marketing plans. Salespeople also write up their completed activities on *call reports* and turn in *expense reports* for which they are partly or wholly reimbursed. The company can also monitor the sales and profit performance data in the salesperson's territory. Additional information comes from personal observation, customer surveys and talks with other salespeople.

Using various sales force reports and other information, sales management evaluates the members of the sales force. It evaluates salespeople on their ability to 'plan their work and work their plan'. Formal evaluation forces management to develop and communicate clear standards for judging performance. It also provides salespeople with constructive feedback and motivates them to perform well.

On a broader level, management should evaluate the performance of the sales force as a whole. Is the sales force accomplishing its customer relationship, sales and profit objectives? Is it working well with other areas of the marketing and company organisation? Are sales force costs in line with outcomes? As with other marketing activities, the company wants to measure its *return on sales investment*.

Social selling: online, mobile and social media tools

The fastest-growing sales trend is the explosion in **social selling** – the use of online, mobile and social media to engage customers, build stronger customer relationships and augment sales performance. Digital sales force technologies are creating exciting new avenues for connecting with and engaging customers in the digital and social media age. Some analysts even predict that the internet will mean the death of person-to-person selling, as salespeople are ultimately replaced by websites, online social media, mobile apps, video and conferencing technologies, and other tools that allow direct customer contact. 'Don't believe it', says one sales expert. 'There may be less face-to-face selling', says another. 'But on the seller's side, there needs to be some-one in charge of that (customer) interaction. That will remain the role of the salesperson'. Online and social media technologies won't make salespeople obsolete. Used properly, however, they will make salespeople more productive and effective.[18]

Author comment

Like just about everything else these days, digital technologies have affected selling big time. Today's sales forces are mastering the use of online, mobile and social media tools to engage business customers, build relationships and make sales.

Social selling Using online, mobile and social media to engage customers, build stronger customer relationships and augment sales performance.

SellingPower magazine called together a panel of sales experts and asked them to weigh in on the future of B-to-B sales. The panel members agreed that technology is radically transforming the selling profession. Today's revolutionary changes in how people communicate are affecting every aspect of business, and selling is no exception.

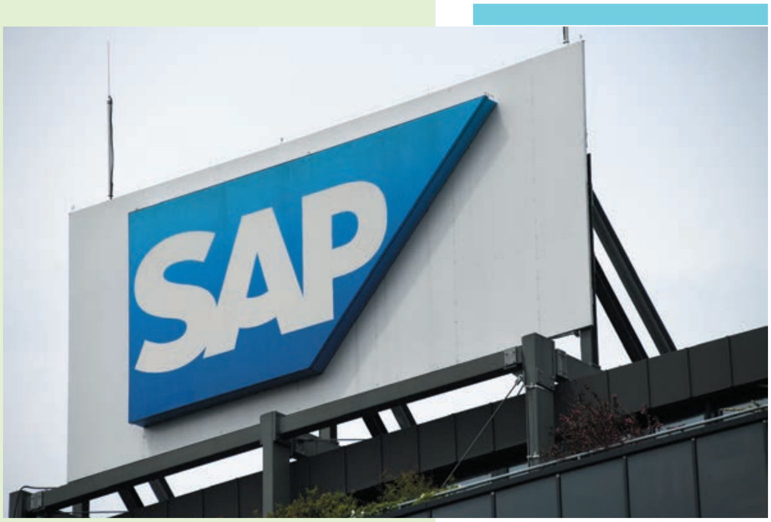
'The internet can take orders and disseminate content, but what it can't do is discover customer needs'. 'Someone must define the company's value proposition and unique message and communicate it to the market, and that person is the sales rep'. What is dying, however, is what one panellist calls the account-maintenance role – the order taker who stops by the customer's office on Friday and says, 'Hey, got anything for me?' Likewise, there's not much of a future for explainers, reps who simply convey product and service information that can be obtained more quickly and easily online. Such salespeople are not creating value and can easily be replaced by automation. However, salespeople who excel at new customer acquisition, relationship management, problem solving and account growth with existing customers will always be in high demand. 'People who do that kind of selling are only going to get more valuable', says another sales force expert. 'That's not going to go away.'

Many customers now start the sales process online and do their homework about problems, competing products and suppliers before the first sales meeting ever takes place. They don't need basic information or product education; they need solutions and new insights. According to one survey, business buyers are at least 57 per cent of the way through the buying process by the time they reach out to a vendor. So today's salespeople need 'to move into the discovery and relationship-building phase, uncovering pain points and focusing on the prospect's business', says a panelist. In fact, jobs for such consultant-type sales reps are expected to grow at a healthy clip during the next five years.

Rather than replacing salespeople, technology is augmenting them. For example, many companies have moved rapidly into online-community-based selling. Case in point: enterprise-software company SAP, which set up EcoHub, its own online, community-powered social media and mobile marketplace consisting of customers, SAP software experts, partners and almost anyone else who wanted to join. The EcoHub community grew quickly to more than 2 million users in 200 countries, extending across a broad online spectrum – a dedicated website, mobile apps, Twitter channels, LinkedIn groups, Facebook and Google+ pages, YouTube channels and more. EcoHub grew to more than

Online selling tools, such as SAP's EcoHub and SAP Store online community-based marketplaces, can help to build customer engagement and generate buying interest and sales. But rather than replacing salespeople, such efforts extend their reach and effectiveness.

Source: nitpicker/Shutterstock



600 'solution storefronts', where visitors could 'discover, evaluate, and buy' software solutions and services from SAP and its partners. EcoHub also let users rate and share the solutions and advice they got from other community members. EcoHub has now evolved into SAP Store, a gigantic SAP marketplace where customers can engage with SAP, its partners and each other to share information, post comments and reviews, discover problems, and evaluate and buy SAP solutions. However, although the SAP Store draws in new potential customers and takes them through many of the initial stages of product discovery and evaluation, it doesn't replace SAP's or its partners' salespeople. Instead, it extends their reach and effectiveness. Its real value is the flood of sales leads it creates for the SAP and partner sales forces. Once prospective customers have discovered, discussed and evaluated SAP solutions online, SAP invites them to initiate contact, request a proposal or start the negotiation process. That's where the person-to-person selling begins.

The new digital technologies are providing salespeople with powerful tools for identifying and learning about prospects, engaging customers, creating customer value, closing sales and nurturing customer relationships. Social selling technologies can produce big organisational benefits for sales forces. They help conserve salespeople's valuable time, save travel euros, and give salespeople new vehicles for selling and servicing accounts.

Social selling hasn't really changed the fundamentals of selling. Sales forces have always taken the primary responsibility for reaching out to and engaging customers and managing customer relationships. Now, more of that is being done digitally. However, online and social media are dramatically changing the customer buying process. As a result, they are also changing the selling process. In today's digital world, many customers no longer rely as much as they once did on information and assistance provided by salespeople. Instead, they carry out more of the buying process on their own – especially the early stages. Increasingly, they use online and social media resources to analyse their own problems, research solutions, get advice from colleagues and rank buying options before ever speaking to a salesperson. One study of business buyers found that 92 per cent of buyers start their searches online and that, on average, buyers completed nearly 60 per cent of the buying process before contacting a supplier.[19]

Thus, today's customers have much more control over the sales process than they had in the days when brochures, pricing and product advice were available only from a sales rep. Customers can now browse corporate websites, blogs and YouTube videos to identify and qualify sellers. They can hobnob with other buyers on social media such as LinkedIn, Google+, Twitter or Facebook to share experiences, identify solutions and evaluate products they are considering. As a result, if and when salespeople do enter the buying process, customers often know almost as much about a company's products as the salespeople do. And when customers do call in salespeople, they are more often doing it digitally, with the expectation of real-time engagement.

In response to this new digital buying environment, sellers are reorienting their selling processes around the new customer buying process. They are 'going where customers are' – social media, web forums, online communities, blogs – in order to engage customers earlier. They are engaging customers not just where and when they are buying, but also where and when they are learning about and evaluating what they will buy.

Salespeople now routinely use digital tools that monitor customer social media exchanges to spot trends, identify prospects and learn what customers would like to buy, how they feel about a vendor and what it would take to make a sale. They generate lists of prospective customers from online databases and social networking sites, such as InsideView, Hoovers and LinkedIn. They create dialogues when prospective customers visit their web and social media sites through live chats with the sales team. They use internet conferencing tools such as WebEx, Zoom, GoToMeeting or TelePresence to talk live with customers about products and services. They provide videos and other information on their YouTube channels and Facebook pages.

Today's sales forces are also ramping up their own use of digital content and social media to engage customers throughout the buying process. A recent survey of business-to-business marketers found that, although they have recently cut back on traditional media and event spending, they are investing more in social media, ranging from proprietary online customer communities to webinars and social media and mobile applications. Consider Makino, a leading manufacturer of metal cutting and machining technology:[20]

> There's a hot new video on YouTube these days, featured at the Makino Machine Tools YouTube channel. It shows a Makino five-axis vertical machining centre in action, with metal chips flying as the machinery mills a new industrial part. Sound exciting? Probably not to you. But to the right industrial customer, the video is downright spellbinding. YouTube is just one of a wide variety of social media initiatives that Makino uses to complement its salespeople in their efforts to engage and inform customers and enhance customer relationships. For example, Makino hosts an ongoing series of industry-specific webinars that position the company as an industry thought leader. Makino produced and archived hundreds of webinars on topics ranging from how to get the most out of your machine tools to how metal-cutting processes are done. Webinar content is tailored to specific industries, such as aerospace or medical, and is promoted through carefully targeted online ads and email invitations. The webinars help to build Makino's customer database, generate sales leads, build customer relationships and prepare the way for salespeople by serving up relevant information and educating customers online. Makino also uses Facebook, YouTube and Twitter to inform customers and prospects about the latest Makino innovations and events and to demonstrate the company's machines in action. Such digital content and social media don't replace salespeople. Instead, they help salespeople build even more fruitful customer relationships. When it comes to B-to-B selling these days, Makino has learned, social marketing is the space to be.

Ultimately, social selling technologies are helping to make sales forces more efficient, cost-effective and productive. The technologies help salespeople do what good salespeople have always done – build customer relationships by solving customer problems – but do it better, faster, and cheaper.

However, social selling also has some drawbacks. For a start, it's not cheap. But even more, there are some things you just can't present or teach via the internet – things that require personal engagement and interaction. For these reasons, some high-tech experts recommend that sales executives use online and social media technologies to spot opportunities, provide information, maintain customer contact and make preliminary client sales presentations but resort to old-fashioned, face-to-face meetings when the time draws near to close a big deal.

Author comment

So far, we've examined how sales management develops and implements overall sales force strategies and programmes. In this section, we'll look at how individual salespeople and sales teams sell to customers and build relationships with them.

The personal selling process

We now turn from designing and managing a sales force to the personal selling process. The **selling process** consists of several steps that salespeople must master. These steps focus on the goal of getting new customers and obtaining orders from them. However, most salespeople spend much of their time maintaining existing accounts and building long-term customer relationships. We will discuss the relationship aspect of the personal selling process in a later section.

Selling process The steps that salespeople follow when selling, which include prospecting and qualifying, pre-approach, approach, presentation and demonstration, handling objections, closing and follow-up.

Steps in the selling process

As shown in Figure 16.3, the selling process consists of seven steps: prospecting and qualifying, pre-approach, approach, presentation and demonstration, handling objections, closing and follow-up.

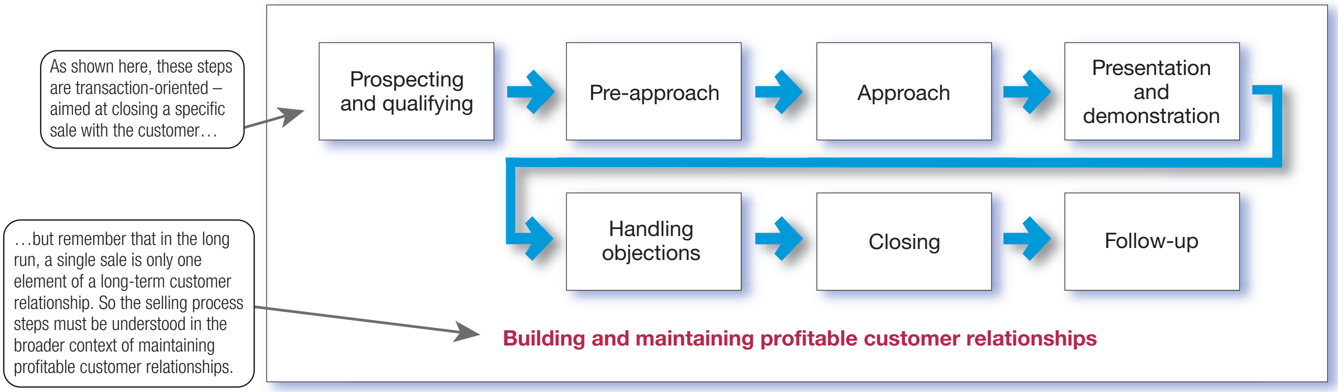


Figure 16.3 Steps in the selling process

Prospecting and qualifying

Prospecting The sales step in which a salesperson or company identifies qualified potential customers.

The first step in the selling process is **prospecting** – identifying qualified potential customers. Approaching the right customers is crucial to selling success. Salespeople don't want to call on just any potential customers. They want to call on those who are most likely to appreciate and respond to the company's value proposition – those the company can serve well and profitably.

A salesperson must often approach many prospects to get only a few sales. Although the company supplies some leads, salespeople need skill in finding their own. The best source is referrals. Salespeople can ask current customers for referrals and cultivate other referral sources, such as suppliers, dealers, non-competing salespeople and online or social media contacts. They can also search for prospects in directories or on the internet and track down leads using the telephone, email and social media. Or, as a last resort, they can drop in unannounced on various offices (a practice known as *cold calling*).

Salespeople also need to know how to *qualify* leads – that is, how to identify the good ones and screen out the poor ones. Prospects can be qualified by looking at their financial ability, volume of business, special needs, location and possibilities for growth.

Pre-approach

Pre-approach The sales step in which a salesperson learns as much as possible about a prospective customer before making a sales call.

Before calling on a prospect, the salesperson should learn as much as possible about the organisation (what it needs, who is involved in the buying) and its buyers (their characteristics and buying styles). This step is known as **pre-approach**. A successful sale begins long before the salesperson makes initial contact with a prospect. Pre-approach begins with good research and preparation. The salesperson can consult standard industry and online sources, acquaintances and others to learn about the company. He or she can scour the prospect's web and social media sites for information about its products, buyers and buying processes. Then the salesperson must apply the research gathered to develop a customer strategy.

The salesperson should set *call objectives*, which may be to qualify the prospect, gather information or make an immediate sale. Another task is to determine the best approach, which might be a personal visit, a phone call, an email, or a text or tweet. The ideal timing should be considered carefully because many prospects are busiest at certain times of the day or week. Finally, the salesperson should give thought to an overall sales strategy for the account.

Approach

Approach The sales step in which a salesperson meets the customer for the first time.

During the **approach** step, the salesperson should know how to meet and greet the buyer and get the relationship off to a good start. The approach might take place offline or online, in person or via digital conferencing or social media. This step involves the salesperson's appearance, opening lines and follow-up remarks. The opening lines should be positive to build goodwill from the outset. This opening might be followed by some key questions to learn more about the customer's needs or by showing a display or sample to attract the buyer's attention and curiosity. As in all stages of the selling process, listening to the customer is crucial.

Presentation and demonstration

During the **presentation** step of the selling process, the salesperson tells the 'value story' to the buyer, showing how the company's offer solves the customer's problems. The *customer-solution approach* fits better with today's relationship marketing focus than does a hard sell or glad-handing approach.

Presentation The sales step in which a salesperson tells the 'value story' to the buyer, showing how the company's offer solves the customer's problems.

The goal should be to show how the company's products and services fit the customer's needs. Buyers today want insights and solutions, not smiles; results, not razzle-dazzle. Moreover, buyers don't want just products; they want to know how those products will add value to their businesses. They want salespeople who listen to their concerns, understand their needs, and respond with the right products and services.

But before salespeople can *present* customer solutions, they must *develop* solutions to present. The solutions approach calls for good listening and problem-solving skills. The qualities that buyers *dislike most* in salespeople include being pushy, late, deceitful, unprepared, disorganised or overly talkative. The qualities they *value most* include good listening, empathy, honesty, dependability, thoroughness and follow-through. Great salespeople know how to sell, but more important, they know how to listen and build strong customer relationships. According to an old sales adage, 'You have two ears and one mouth. Use them proportionally.' A classic ad from office products maker Boise Cascade makes the listening point. It shows a Boise salesperson with huge ears drawn on. 'With Boise, you'll notice a difference right away, especially with our sales force', says the ad. 'At Boise. . . our account representatives have the unique ability to listen to your needs.'

Finally, salespeople must also plan their presentation methods. Good interpersonal communication skills count when it comes to engaging customers and making effective sales presentations. However, the current media-rich and cluttered communications environment presents many new challenges for sales presenters. Today's information-overloaded customers demand richer presentation experiences. For their part, presenters now face multiple distractions during presentations from mobile phones, text messages and other digital competition. As a result, salespeople must deliver their messages in more engaging and compelling ways.

Thus, today's salespeople are employing advanced presentation technologies that allow for full multimedia presentations to only one or a few people. The venerable old sales presentation flip chart has been replaced with tablets, sophisticated presentation software, online presentation technologies, interactive whiteboards and digital projectors.

Handling objections

Customers almost always have objections during the presentation or when asked to place an order. The objections can be either logical or psychological, and they are often unspoken. In **handling objections**, the salesperson should use a positive approach, seek out hidden objections, ask the buyer to clarify any objections, take objections as opportunities to provide more information and turn the objections into reasons for buying. Every salesperson needs training in the skills of handling objections.

Handling objections The sales step in which a salesperson seeks out, clarifies and overcomes any customer objections to buying.

Closing

After handling the prospect's objections, the salesperson next tries to close the sale. However, some salespeople do not get around to **closing** or don't handle it well. They may lack confidence, feel guilty about asking for the order, or fail to recognise the right moment to close the sale.

Closing The sales step in which a salesperson asks the customer for an order.

Salespeople should know how to recognise closing signals from the buyer, including physical actions, comments and questions. For example, the customer might sit forward and nod approvingly or ask about prices and credit terms.

Salespeople can use any of several closing techniques. They can ask for the order, review points of agreement, offer to help write up the order, ask whether the buyer wants this model or that one, or note that the buyer will lose out if the order is not placed now. The salesperson may offer the buyer special reasons to close, such as a lower price, an extra quantity at no charge or additional services.

Follow-up

Follow-up The sales step in which a salesperson follows up after the sale to ensure customer satisfaction and repeat business.

The last step in the selling process – **follow-up** – is necessary if the salesperson wants to ensure customer satisfaction and repeat business. Right after closing, the salesperson should complete any details on delivery time, purchase terms and other matters. The salesperson then should schedule a follow-up call after the buyer receives the initial order to make sure proper installation, instruction and servicing occur. This visit would reveal any problems, assure the buyer of the salesperson's interest and reduce any buyer concerns that might have arisen since the sale.

Personal selling and managing customer relationships

The steps in the selling process as just described are *transaction oriented* – their aim is to help salespeople close a specific sale with a customer. But in most cases, the company is not simply seeking a sale. Rather, it wants to engage the customer over the long term in a mutually profitable *relationship*. The sales force usually plays an important role in customer relationship building. Thus, as shown in Figure 16.3, the selling process must be understood in the context of building and maintaining profitable customer relationships. Moreover, as discussed in a previous section, today's buyers are increasingly moving through the early stages of the buying process themselves, before ever engaging sellers. Salespeople must adapt their selling process to match the new buying process. That means discovering and engaging customers on a relationship basis rather than a transaction basis.

Successful sales organisations recognise that winning and keeping accounts requires more than making good products and directing the sales force to close lots of sales. If the company wishes only to close sales and capture short-term business, it can do this by simply slashing its prices to meet or beat those of competitors. Instead, most companies want their salespeople to practice *value selling* – demonstrating and delivering superior customer value and capturing a return on that value that is fair for both the customer and the company.

Unfortunately, in the heat of closing sales, salespeople too often take the easy way out by cutting prices rather than selling value. Sales management's challenge is to transform salespeople from customer advocates for price cuts into company advocates for value.

Here's how Rockwell Automation – a global provider of industrial automation, power, control and information solutions and regularly named One of World's Most Ethical Companies – sells value and relationships rather than price:[21]

> Facing pressure . . . to lower its prices, a condiment producer hastily summoned several competing supplier representatives – including Rockwell Automation sales rep Jeff Policicchio – who were given full access to the plant for one day and asked to find ways to dramatically reduce the customer's operating costs. Policicchio quickly learned that a major problem stemmed from lost production and down time due to poorly performing pumps on 32 huge condiment tanks. Policicchio gathered relevant cost and usage data and then used a Rockwell Automation laptop value-assessment tool to construct the best pump solution for the customer.

The next day, Policicchio and the competing reps presented their solutions to plant management. Policicchio's value proposition was as follows: 'With this Rockwell Automation pump solution, through less down time, reduced administrative costs in procurement, and lower spending on repair parts, your company will save at least $16,268 per pump – on up to 32 pumps – relative to our best competitor's solution'. It turns out the Policicchio was the only rep to demonstrate tangible cost savings for his proposed solution. Everyone else made fuzzy promises about possible benefits or offered to save the customer money by simply shaving their prices.

The plant managers were so impressed with Policicchio's value proposition that – despite its higher initial price – they immediately purchased one Rockwell Automation pump solution for a trial. When the actual savings were even better than predicted, they placed orders for the remaining pumps. Thus, Policicchio's value-selling approach rather than price-cutting approach not only landed the initial sale but also provided the basis for a profitable long-term relationship with the customer.

Value selling requires listening to customers, understanding their needs and carefully coordinating the whole company's efforts to create lasting relationships based on customer value.

Sales promotion

Personal selling and advertising often work closely with another promotion tool: sales promotion. **Sales promotion** consists of short-term incentives to encourage the purchase or sales of a product or service. Whereas advertising offers reasons to buy a product or service, sales promotion offers reasons to buy *now*.

Examples of sales promotions are found everywhere. A freestanding insert in the local newspaper or posted through the letterbox contains a coupon offering 50p off new Dreamies treats for your cat. A Marks & Spencer ad in your favourite magazine offers 20 per cent off your next purchase of clothing. The health food store offers 'buy one, get one free' on vitamins and remedies. The end-of-the-aisle display in the local supermarket tempts impulse buyers with a wall of Coca-Cola Zero – four eight-packs for £10. An executive buys a new HP laptop and gets a free memory upgrade. A hardware store receives a 10 per cent discount on selected Stihl power lawn and garden tools if it agrees to advertise them in local newspapers. Sales promotion includes a wide variety of promotion tools designed to stimulate earlier or stronger market response.

Author comment

Sales promotion is the most short-term of the promotion mix tools. Whereas advertising or personal selling says 'buy', sales promotions say 'buy now'.

Sales promotion Short-term incentives to encourage the purchase or sale of a product or a service.

The rapid growth of sales promotion

Sales promotion tools are used by most organisations, including manufacturers, distributors, retailers and not-for-profit institutions. They are targeted toward final buyers (*consumer promotions*), retailers and wholesalers (*trade promotions*), business customers (*business promotions*) and members of the sales force (*sales force promotions*). Today, in the average consumer packaged-goods company, sales promotion accounts for 60 per cent of all marketing budgets.[22] In Europe, overall, companies probably spend at least as much on sales promotion as they do on higher-profile media advertising.

Several factors have contributed to the rapid growth of sales promotion, particularly in consumer markets. First, inside the company, product managers face greater pressures to increase current sales and they view promotion as an effective short-run sales tool. Second, externally, the company faces more competition and competing brands are less differentiated. Increasingly, competitors are using sales promotion to help differentiate their offers. Third, advertising efficiency has declined because of rising costs, media clutter and legal restraints. Finally, consumers have become more deal oriented. In the current economy, consumers are demanding lower prices and better deals. Sales promotions can help attract today's more thrift-oriented consumers.

The growing use of sales promotion has resulted in *promotion clutter*, which is similar to advertising clutter. With so many products being sold on deal these days, a given promotion runs the risk of being lost in a sea of other promotions, weakening its ability to trigger an immediate purchase. Manufacturers are now searching for ways to rise above the clutter, such as offering larger coupon values, creating more dramatic point-of-purchase displays, or delivering promotions through new digital media – such as the internet or mobile phones. According to one study, 90 per cent of the top 100 retailers use digital promotions – such as mobile coupons. Digital promotions can help drive both in-store and online sales.[23]

In developing a sales promotion programme, a company must first set sales promotion objectives and then select the best tools for accomplishing these objectives.

Sales promotion objectives

Sales promotion objectives vary widely. Sellers may use *consumer promotions* to urge short-term customer buying or boost customer-brand engagement. Objectives for *trade promotions* include getting retailers to carry new items and more inventory, buy ahead, or promote the company's products and give them more shelf space. *Business promotions* are used to generate business leads, stimulate purchases, reward customers and motivate salespeople. For the sales force, objectives include getting more sales force support for current or new products and getting salespeople to sign up new accounts.

Sales promotions are usually used together with advertising, personal selling, direct and digital marketing, or other promotion mix tools. Consumer promotions must usually be advertised and can add excitement and pulling power to ads and other marketing content. Trade and business sales promotions support the firm's personal selling process.

When the economy tightens and sales lag, it's tempting to offer deep promotional discounts to spur consumer spending. In general, however, rather than creating only short-term sales or temporary brand switching, sales promotions should help to reinforce the product's position and build long-term customer relationships. If properly designed, every sales promotion tool has the potential to build both short-term excitement and long-term consumer engagement and relationships. Marketers should avoid 'quick fix', price-only promotions in favour of promotions that are designed to build brand equity. Examples include the various *frequency marketing programmes* and loyalty cards. Most hotels, supermarkets and airlines offer frequent-guest/buyer/flyer programmes that give rewards to regular customers to keep them coming back. Such promotional programmes can build loyalty through added value rather than discounted prices. For example, Boots offers Advantage Card to its customers and allows them to collect points on their purchases. Traditionally these points were translated to paper coupons. More recently it digitised the loyalty scheme with the introduction of an app that offers customers tailored offers based on their shopping habits. The app has a 'My Offers' section that allows customers to browse their personalised deals, which are regularly refreshed and updated. These deals can be added to the Advantage Card for immediate use in store without the need for a paper coupon.[24]

Major sales promotion tools

Many tools can be used to accomplish sales promotion objectives. Descriptions of the main consumer, trade and business promotion tools follow.

Consumer promotions

Consumer promotions
Sales promotion tools used to boost short-term customer buying and engagement or enhance long-term customer relationships.

Consumer promotions include a wide range of tools – from samples, coupons, refunds, premiums and point-of-purchase displays to contests, sweepstakes and event sponsorships.

Samples are offers of a trial amount of a product. Sampling is the most effective – but most expensive – way to introduce a new product or create new excitement for an existing one. Some samples are free; for others, the company charges a small amount to offset its cost. The sample might be sent by mail, handed out in a store or at a kiosk, attached to another product, or featured in an ad, email or mobile offer. Samples are sometimes combined into sample packs, which can then be used to promote other products and services. Sampling can be a powerful promotional tool. For example, for the past 37 years, Ben & Jerry's has set aside one day each year as Free Cone Day, on which it invites customers to stop by its scoop shops to sample any of a variety of the brand's classic ice cream flavours for free. The unique sampling promotion is a huge success, with queues stretching out the doors and down the street at most shops. Officially, Ben & Jerry's uses Free Cone Day to thank its customers for being 'so uniquely awesome'. But the sampling programme also generates tons of buzz and draws new customers into its shops, something that Ben & Jerrys hopes will turn into a habit. As with social selling examined earlier, companies are increasingly combining new technology with the conventional tool of free samples. Nestlé points to social media to show the success of its GPS-tracked cash giveaway. Chocolate bar KitKat gained 150,000 Facebook fans over the period of the campaign. Nestlé's 'We will find you' campaign involved hiding GPS chips in six chocolate bars including KitKat, Aero and Yorkie. When opened, the wrapper sent a signal of the location to Nestle, who then sent a representative to hand over £10,000 in cash. Offers to claim smaller prizes not involving GPS were included in further wrappers.[25]

Coupons are certificates that save buyers money when they purchase specified products. Many consumers love coupons, although it is a tradition better established in the US than Europe. In Europe, couponing is more frequently associated with the rewards paid out by retailer loyalty cards like Tesco Clubcard and Marks & Spencer's credit card. For example, Nielsen research reports that while 38 per cent of European consumers they surveyed indicate they use coupons to save, there is wide variation within the continent. At least half of consumers reported coupon use in several estern and southern European countries, such as Belgium and Portugal (63 per cent each), Greece (55 per cent), France (53 per cent) and Spain (50 per cent), yet in other markets, particularly in Northern and Eastern Europe, reported coupon use is much less prevalent. In countries such as Germany and the Netherlands, coupon use is very marginal. Reported coupon use is also less common as a saving strategy in Latin America (25 per cent) and the Middle East/Africa (18 per cent).

Nonetheless, US consumer packaged goods companies distributed 321 billion coupons with an average face value of $1.68 in 2016. Consumers redeemed more than 2.5 billion of them for a total savings of more than $3 billion.[26] While European retailers are frequently reluctant to use coupons, coupons can promote early trial of a new brand or stimulate sales of a mature brand. However, in the US as a result of coupon clutter, redemption rates have been declining in recent years. Thus, most major consumer-goods companies are issuing fewer coupons and targeting them more carefully.

Marketers are also cultivating new outlets for distributing coupons, such as supermarket shelf dispensers, electronic point-of-sale coupon printers, and online and mobile coupon programmes. Digital coupons represent today's fastest-growing coupon segment. Digital coupons can be individually targeted and personalised in ways that print coupons can't. Whether printed at home or redeemed via smartphone or other mobile devices, digital coupon redemptions are growing much more rapidly the traditional coupon redemptions. According to one study, an estimate 40 per cent of smartphone users will redeem a mobile coupon this year.[27]

As mobile phones become appendages that many people can't live without, businesses are increasingly eyeing them as prime real estate for coupons, offers and other marketing messages. For example, Greggs, one of the biggest food-on-the-go retailers in the UK with about 1,800 shops, launched the Greggs Rewards mobile app, a fully-digital loyalty scheme, to drive customer loyalty and encourage new traffic into its shops. The app had over a million app download, with over 35 per cent promotion redemption rate. Customers can top up their accounts with any amount from £5 to £50, and use the app to pay securely in store with their smartphone. With the app customers can access and use promotions, exclusive treats and rewards. The app enabled Greggs to collect valuable customer behaviour data, hence to create targeted and relevant rewards and promotions, which ultimately enhanced customer engagement, basket spend and shop footfall.[28]

Rebates (or *cash refunds*) are like coupons except that the price reduction occurs after the purchase rather than at the retail outlet. The customer sends proof of purchase to the manufacturer, which then refunds part of the purchase price by mail. For example, US company Toro ran a clever pre-season promotion on some of its snowblower models, offering a rebate if the snowfall in the buyer's market area turned out to be below average. Competitors were not able to match this offer on such short notice, and the promotion was very successful.

Price packs (also called *money-off deals*) offer consumers savings off the regular price of a product. The producer marks the reduced prices directly on the label or package. Price packs can be single packages sold at a reduced price (such as two for the price of one) or two related products banded together (such as a toothbrush and toothpaste). Price packs are very effective – even more so than coupons – in stimulating short-term sales.

Premiums are goods offered either free or at low cost as an incentive to buy a product, ranging from toys included with kids' products to phone cards and DVDs. A premium may come inside the package (in-pack), outside the package (on-pack) or through the mail. For example, over the years, McDonald's has offered a variety of premiums in its Happy Meals – from *My Little Pony* characters to Beanie Boos and LEGO hologram drink cups. Customers can visit www.happymeal.com to play games, read e-books and watch commercials associated with the current Happy Meal sponsor.[29]

Advertising specialities, also called *promotional products*, are useful articles imprinted with an advertiser's name, logo or message that are given as gifts to consumers. Typical items include T-shirts and other apparel, pens, coffee mugs, calendars, key rings, tote bags, coolers, golf balls and baseball caps. US marketers spent more than $20 billion on advertising specialities last year. Such items can be very effective. The 'best of them stick around for months, subtly burning a brand name into a user's brain', notes a promotional products expert.[30]

Point-of-purchase (POP) promotions include displays and demonstrations that take place at the point of sale. Think of your last visit to the local Costco, Tesco or other supermarket. Chances are good that you were tripping over aisle displays, promotional signs, 'shelf talkers' or demonstrators offering free tastes of featured food products. Unfortunately, many retailers do not like to handle the hundreds of displays, signs and posters they receive from manufacturers each year. Manufacturers have therefore responded by offering better POP materials, offering to set them up and tying them in with television, print or online messages.

Event marketing (or event sponsorships) Creating a brand-marketing event or serving as a sole or participating sponsor of events created by others.

Contests, *sweepstakes* and *games* give consumers the chance to win something, such as cash, trips or goods, by luck or through extra effort. A *contest* calls for consumers to submit an entry – a jingle, guess or suggestion – to be judged by a panel that will select the best entries. A *sweepstake* calls for consumers to submit their names for a drawing. A *game* presents consumers with something – for example, bingo numbers or missing letters – every time they buy, which may or may not help them win a prize.

All kinds of companies use sweepstakes and contests to create brand attention and boost consumer involvement. For example, Google's 'Doodle 4 Google' contest invited kids to design a Google logo based on the theme 'If I could invent one thing to make the world a better place. . . ', with prizes ranging from T-shirts and tablets to a college scholarship. Kellogg's Eggo brand hosted a Great Eggo Waffle Off! contest on Facebook, with entrants submitting their best recipes for waffles – winners received about £3,800. And Dove ran a 'Real Beauty Should Be Shared' contest, asking its Facebook fans to name a friend and say why that friend 'represents Real Beauty'. The winners became the next faces of Dove.

Event marketing: Red Bull hosts hundreds of events each year in dozens of sports around the world, designed to bring the high-octane world of Red Bull to its community of enthusiasts.
Source: Homydesign/Shutterstock

Finally, marketers can promote their brands through **event marketing (or event sponsorships)**. They can create their own brand-marketing events, or serve as sole or participating sponsors of events created by others. The events might include anything from mobile brand tours to festivals, reunions, marathons, concerts or other sponsored gatherings. Event marketing is huge, and it may be the fastest-growing area of promotion. Effective event marketing links events and sponsorships to a brand's value proposition. And with the social sharing power of today's digital media, even local events can have far-reaching impact.

Event marketing can provide a less costly alternative to expensive TV commercials. When it comes to event marketing, sports are in a league of their own. Marketers spend large sums to associate their brands with sporting events and clubs. For example, Manchester United football club attracts multiple corporate sponsorships, including: AON (insurance and outsourcing) as official sponsor; DHL as official logistics partner; Betfair as official betting partner; Casillero del Diablo as official wine partner; Hublot as official time-keeper; Smirnoff as official responsible drinking partner; Mister Potato as official snack partner; Nike as official kit manufacturer; Audi as official car supplier; Singha as official beer; Thomas Cook as official travel partner; Turkish Airlines as official airline partner; Epson as official office products supplier; STC as official integrated telecommunications partner; plus some 14 more companies partnering in some form.[31] All these companies hope that sponsorship will connect their brands with major audiences throughout the world through the matches the club plays and the strength of its sporting brand – Manchester United has an estimated worldwide following of 333 million people, with 92 million in Asia, and a uniquely strong brand in football. Manchester United sponsorship agreements are worth in excess of £130 million, including a recent ground-breaking £40 million deal with logistics firm DHL to sponsor the club's training kit.

But according to one business reporter, energy drink maker Red Bull is the 'mother of event marketers':[32]

> Event pioneer Red Bull holds hundreds of events each year in dozens of sports around the world. Each event features off-the-grid experiences designed to bring the high-octane world of Red Bull to its community of enthusiasts. The brand even hosts a 'Holy S**t' tab on its website, featuring videos of everything from 27-metre ocean cliff dives at its Cliff Diving Series event in Grimstad, Norway, to dare-devil free-skiing feats at its Red Bull Cold Rush event in the Colorado mountain peaks, to absolutely breathtaking wing suit flights at Red Bull events staged in exotic locations from Monterrey, Mexico, to Hunan Province, China. The Red Bull Final Descent series is a mountain biking challenge that pushes riders to the brink and back, over some of the most technically challenging terrain in North America. Red Bull events draw large crowds and plenty of media coverage. But it's about more than just the events – it's about customer engagement. It's about creating face-to-face experiences in which customers can actually feel the excitement and live the brand. 'It's about deepening and enhancing relationships', says one analyst.

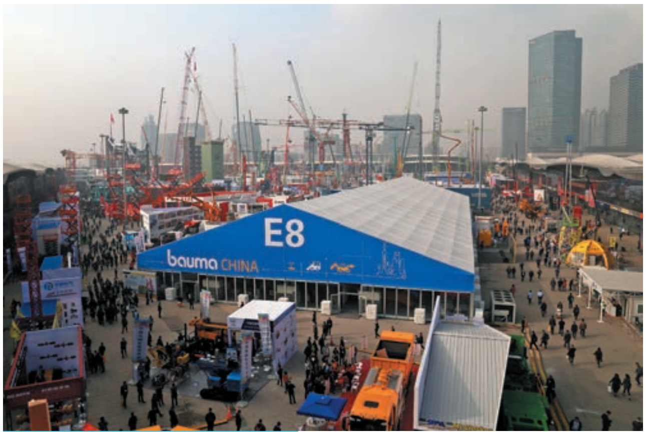
Trade promotions

Manufacturers direct more sales promotion dollars toward retailers and wholesalers (79 per cent of all promotions dollars) than to final consumers (21 per cent).[33] **Trade promotions** can persuade resellers to carry a brand, give it shelf space, promote it in advertising and push it to consumers. Shelf space is so scarce these days that manufacturers often have to offer price-offs, allowances, buy-back guarantees or free goods to retailers and wholesalers to get products on the shelf and, once there, to keep them on it.

Trade promotions Sales promotion tools used to persuade resellers to carry a brand, give it shelf space and promote it in advertising.

Manufacturers use several trade promotion tools. Many of the tools used for consumer promotions – such as contests, premiums and displays – can also be used as trade promotions. Or the manufacturer may offer a straight *discount* off the list price on each case purchased during a stated period of time (also called a *price-off*, *off-invoice* or *off-list*). Manufacturers also may offer an *allowance* (usually so much off per case) in return for the retailer's agreement to feature the manufacturer's products in some way. For example, an advertising allowance compensates retailers for advertising the product, whereas a display allowance compensates them for using special displays.

Manufacturers may offer *free goods*, which are extra cases of merchandise, to resellers who buy a certain quantity or who feature a certain flavour or size. They may also offer *push money* – cash



Some trade shows are huge. At the Bauma mining and construction equipment trade show in Munich, Germany, more than 3,400 exhibitors from 57 countries presented their latest product innovations to over 530,000 attendees from more than 200 countries.
Source: Roman Korotkov/Shutterstock

Business promotions Sales promotion tools used to generate business leads, stimulate purchases, reward customers and motivate salespeople.

or gifts to dealers or their sales forces to 'push' the manufacturer's goods. Manufacturers may give retailers free *speciality advertising items* that carry the company's name, such as pens, calendars, memo pads and tote bags. However, in the UK and Europe suppliers have to be very careful not to breach strict anti-bribery laws in European countries – both local and EU-wide. Under new laws in the UK, even minor gifts or payments to individuals are liable to be seen as bribes, with severe penalties for the donors.

Business promotions

Companies spend billions of dollars each year on promotion geared toward industrial customers. **Business promotions** are used to generate business leads, stimulate purchases, reward customers and motivate salespeople. Business promotions include many of the same tools used for consumer or trade promotions. Here, we focus on two additional major business promotion tools: conventions and trade shows, and sales contests.

Many companies and trade associations organise *conventions and trade shows* to promote their products. Firms selling to the industry show their products at the trade show. Vendors at these shows receive many benefits, such as opportunities to find new sales leads, contact customers, introduce new products, meet new customers, sell more to present customers, and educate customers with publications and audiovisual materials. Trade shows also help companies reach many prospects that are not reached through their sales forces.

Some trade shows are huge. For example, at the 2016 International Consumer Electronics Show, more than 3,600 exhibitors attracted some 170,000 professional visitors. Even more impressive, at the Bauma mining and construction equipment trade show in Munich, Germany, more than 3,400 exhibitors from 57 countries presented their latest product innovations to more than 530,000 attendees from more than 200 countries. Total exhibition space equalled about 6.1 million square feet (more than 127 football fields).[34]

A *sales contest* is a contest for salespeople or dealers to motivate them to increase their sales performance over a given period. Sales contests motivate and recognise good company performers, who may receive trips, cash prizes or other gifts. Some companies award points for performance, which the receiver can cash in for any of a variety of prizes. Sales contests work best when they are tied to measurable and achievable sales objectives (such as finding new accounts, reviving old accounts or increasing account profitability).

Developing the sales promotion programme

Beyond selecting the types of promotions to use, marketers must make several other decisions in designing the full sales promotion programme. First, they must determine the *size of the incentive*. A certain minimum incentive is necessary if the promotion is to succeed; a larger incentive will produce more sales response. The marketer also must set *conditions for participation*. Incentives might be offered to everyone or only to select groups.

Marketers must determine how to *promote and distribute the promotion* programme itself. For example, a £2-off coupon could be given out in a package, in an advertisement, at the store, via the internet or in a mobile download. Each distribution method involves a different level of reach and cost. Increasingly, marketers are blending several media into a total campaign concept. The *length of the promotion* is also important. If the sales promotion period is too short, many prospects (who may not be buying during that time) will miss it. If the promotion runs too long, the deal will lose some of its 'act now' force.

Evaluation is also very important. Marketers should work to measure the returns on their sales promotion investments, just as they should seek to assess the returns on other marketing activities. The most common evaluation method is to compare sales before, during and after a promotion. Marketers should ask: Did the promotion attract new customers or more purchasing from current customers? Can we hold on to these new customers and purchases? Will the long-run customer relationship and sales gains from the promotion justify its costs?

Clearly, sales promotion plays an important role in the total promotion mix. To use it well, the marketer must define the sales promotion objectives, select the best tools, design the sales promotion programme, implement the programme and evaluate the results. Moreover, sales promotion must be coordinated carefully with other promotion mix elements within the overall IMC programme.

Learning outcomes review

This chapter is the third of four chapters covering the final marketing mix element – promotion. The previous two chapters dealt with overall integrated marketing communications, and with advertising and public relations. This chapter investigated personal selling and sales promotion. Personal selling is the interpersonal arm of the communications mix. Sales promotion consists of short-term incentives to encourage the purchase or sale of a product or service.

Objective 1 Discuss the role of a company's salespeople in creating value for customers and building customer relationships (pp. 482–485)

Most companies use salespeople, and many companies assign them an important role in the marketing mix. For companies selling business products, the firm's sales force works directly with customers. Often, the sales force is the customer's only direct contact with the company and therefore may be viewed by customers as representing the company itself. In contrast, for consumer product companies that sell through intermediaries, consumers usually do not meet salespeople or even know about them. The sales force works behind the scenes, dealing with wholesalers and retailers to obtain their support and helping them become more effective in selling the firm's products.

As an element of the promotion mix, the sales force is very effective in achieving certain marketing objectives and carrying out such activities as prospecting, communicating, selling and servicing, and information gathering. But with companies becoming more market oriented, a customer-focused sales force also works to produce both customer satisfaction and company profit. The sales force plays a key role in engaging customers and developing and managing profitable customer relationships.

Objective 2 Identify and explain the six major sales force management steps (pp. 485–492)

High sales force costs necessitate an effective sales management process consisting of six steps: designing sales force strategy and structure, recruiting and selecting, training, compensating, supervising, and evaluating salespeople and sales force performance.

In designing a sales force, sales management must address various issues, including what type of sales force structure will work best (territorial, product, customer or complex structure), sales force size, who will be involved in selling, and how various salespeople and sales-support people will work together (inside or outside sales forces and team selling).

Salespeople must be recruited and selected carefully. In recruiting salespeople, a company may look to the job duties and the characteristics of its most successful salespeople to suggest the traits it wants in new salespeople. It must then look for applicants through recommendations of current salespeople, ads, and the internet and social media as well as university recruitment/placement centres. After the selection process is complete, training programmes familiarise new salespeople not only with the art of selling but also with the company's history, its products and policies, and the characteristics of its customers and competitors.

The sales force compensation system helps to reward, motivate and direct salespeople. In addition to compensation, all salespeople need supervision, and many need continuous encouragement because they must make many decisions and face many frustrations. Periodically, the company must evaluate their performance to help them do a better job. In evaluating salespeople, the company relies on information gathered from sales reports, personal observations, customer surveys and conversations with other salespeople.

The fastest-growing sales trend is the explosion in social selling – using online, mobile and social media in selling. The new digital technologies are providing salespeople with powerful tools for identifying and learning about prospects, engaging customers, creating customer value, closing sales and nurturing customer relationships. Many of today's customers no longer rely as much on assistance provided by salespeople. Instead, increasingly, they use online and social media resources to analyse their own problems, research solutions, get advice from colleagues and rank buying options before ever speaking to a salesperson. In response, sellers are reorienting their selling processes around the new customer buying process. They are using social media, mobile devices, web forums, online communities, blogs and other digital tools to engage customers earlier and more fully. Ultimately, online, mobile and social media technologies are helping to make sales forces more efficient, cost-effective and productive.

Objective 3 Discuss the personal selling process, distinguishing between transaction-oriented marketing and relationship marketing (pp. 495–499)

Selling involves a seven-step process: prospecting and qualifying, pre-approach, approach, presentation and demonstration, handling objections, closing and follow-up. These steps help marketers close a specific sale and, as such, are transaction oriented. However, a seller's dealings with customers should be guided by the larger concept of relationship marketing. The company's sales force should help to orchestrate a whole-company effort to develop profitable long-term relationships with key customers based on superior customer value and satisfaction.

Objective 4 Explain how sales promotion campaigns are developed and implemented (pp. 499–505)

Sales promotion campaigns call for setting sales promotion objectives (in general, sales promotions should be *consumer relationship building*); selecting tools; and developing and implementing the sales promotion programme by using *consumer promotion tools* (from coupons, refunds, premiums and point-of-purchase promotions to contests, sweepstakes and events), *trade promotion tools* (from discounts and allowances to free goods and push money), and *business promotion tools* (conventions, trade shows and sales contests) as well as determining such things as the size of the incentive, the conditions for participation, how to promote and distribute the promotion package and the length of the promotion. After this process is completed, the company must evaluate its sales promotion results.

Navigating the key terms

Objective 1
Personal selling (p. 483)
Salesperson (p. 484)

Objective 2
Sales force management (p. 485)
Territorial sales force structure (p. 486)
Product sales force structure (p. 486)
Customer (or market) sales force structure (p. 486)
Outside sales force (or field sales force) (p. 487)
Inside sales force (p. 487)
Team selling (p. 488)
Sales quota (p. 492)
Social selling (p. 493)

Objective 3
Selling process (p. 495)
Prospecting (p. 496)
Pre-approach (p. 496)
Approach (p. 496)
Presentation (p. 497)
Handling objections (p. 497)
Closing (p. 497)
Follow-up (p. 498)

Objective 4
Sales promotion (p. 499)
Consumer promotions (p. 500)
Event marketing (or event sponsorships) (p. 502)
Trade promotions (p. 503)
Business promotions (p. 504)

Discussion and critical thinking

Discussing the concepts

16.1 Define personal selling and discuss its role in a company's promotion mix. (AACSB: Communication; Reflective thinking)

16.2 Name and describe the four sales compensation elements. What are the various compensation combinations, and how can they be used to achieve the company's marketing objectives? (AACSB: Communication; Reflective thinking)

16.3 What is social selling, and how is it affecting the sales function in organisations? (AACSB: Communication; Reflective thinking)

16.4 Name and explain the steps in the selling process. (AACSB: Communication)

16.5 What is sales promotion? Discuss its growth as a short-term consumer promotion tool. (AACSB: Communication)

Critical-thinking exercises

16.6 There are considerable free sales training resources available on the internet. Search 'free sales training' to find some of these resources and access one of them. Create a presentation highlighting what you learned. (AACSB: Communication; Use of IT; Reflective thinking)

16.7 You are the district manager for Pureation Beverage Group, a beer and wine distributor. The company has experienced rapid growth and needs to add additional salespeople to its team. Using the sales force management steps in

Figure 16.1, discuss what needs to be done to effectively manage your sales force. Support your position. (AACSB: Communication; Reflective thinking)

16.8 In a small group, design a sales promotion campaign using online, social media and mobile marketing for a small business or organisation in your community. Develop a presentation to pitch your campaign to the business or organisation and incorporate what you've learned about the selling process. (AACSB: Communication; Reflective thinking)

Mini-cases and applications

Online, mobile and social media marketing: snap it and redeem it!

More than 320 billion coupons are distributed each year, with more than 90 per cent of them printed on paper. Consumers redeem only about 1 per cent of coupons distributed, often because they clip them but forget to use them in the store. SnipSnap has a solution for consumers. Hailed as the Best Shopping App by About.com and winning Media Post's Apply Awards for Best Finance App, this app has mobilised those paper coupons for consumers. SnipSnap now boasts 4 million users and more than 50 national retail partners. The app allows consumers to snap a photo of retailers' paper coupons and redeem them at the store. Users can share with friends on Facebook and Twitter and follow others' couponing. SnipSnap is the first mobile app that scans the text, images, logos and barcodes in printed coupons and creates a mobile coupon. It also sends expiration date reminders and location-based notifications. Retailer Lord & Taylor have installed iBeacon technology and partnered with SnipSnap to send shoppers targeted coupons based on where they are in the store. So if you want a good deal on a Michael Kors purse, it knows you are looking at the item and might send you a coupon through the app. SnipSnap employees noticed consumers were snapping pictures of 'coupons' they created to send to friends and family that were good for some special treatment, so the company created a spin-off app called GoodFor. Now, if you want to send a special someone a coupon good for a 30-minute massage or your kid a 'get out of chores free' coupon, GoodFor allows you to do it!

16.9 Research other types of apps that rely on smartphone cameras to redeem a sales promotion offer. Explain how they work and how they are similar to and different from SnipSnap. (AACSB: Communication; Use of IT; Reflective thinking)

16.10 The profitable growth potential for SnipSnap is in the enterprise market where it provides mobile promotion services to retailers. SnipSnap is working with retailers to create and manage geo-conquesting campaigns. Research what this is and create a presentation explaining how it works. (AACSB: Communication; Use of IT; Reflective thinking)

Marketing ethics: walking the customer

Before Staples closed down its physical stores, employees once faced a challenging work environment. According to *The New York Times*, Staples maintained an internal reporting system nicknamed '*Market Basket*' that could carefully track all equipment and protection plan add-ons that each sales staff member sold. Staples expected that each salesperson would upsell each transaction by $200 with additional merchandise and warranty contracts. Staples salespeople had been trained to push until they get at least three objections. This is a classic hard-sell technique. Sales staff who did not meet their goals were coached. If that didn't work, the underperforming employees faced disciplinary action that could lead to more night and weekend shifts, reduced work hours or even termination.

Store managers also faced intense scrutiny. They had received a clear message that to avoid bringing down a store's Market Basket averages, salespeople should 'walk the customer' if they couldn't be successfully upsold. The customer was informed that the merchandise was not in stock and then left the store empty-handed. Salespeople had another option: They could escort customers to an in-store kiosk to place an online order. Online orders were not subject to Staples's key performance indicators (KPI) and were not reported to a store's Market Basket. (For more reading, see David Segal, 'Selling it with extras, or not at all', www.nytimes.com/2012/09/09/your-money/sales-incentives-at-staples-draw-complaints-the-haggler.html?smid=pl-share)

16.11 A company's sales force creates and communicates customer value by personally engaging customers and building customer relationships. With its Market Basket approach, was Staples focusing on building customer value and relationships? Explain.

16.12 Read Staples's code of ethics at www.staples.com/sbd/cre/marketing/staples_soul/documents/staples-code-of-ethics_english.pdf. Is the situation outlined above consistent with Staples's ethics policies? Is 'walking the customer' a violation of the ethics code? Provide specific examples.

Marketing by numbers: sales force analysis

Wheels, Inc. is a manufacturer of bicycles sold through retail bicycle shops in the south-eastern United States. The company has two salespeople that do more than just sell the products – they manage relationships with the bicycle shops to enable them to better meet consumers' needs. The company's sales reps visit the shops several times per year, often for hours at a time. The owner of Wheels is considering expanding to the rest of the country and would like to have distribution through 1,000 bicycle shops. To do so, however, the company would have to hire more salespeople. Each salesperson earns $40,000 plus 2 per cent commission on all sales. Another alternative is to use the services of sales agents instead of its own sales force. Sales agents would be paid 5 per cent of sales.

16.13 Refer to Appendix 2 to answer this question. Determine the number of salespeople Wheels needs if it has 1,000 bicycle shop accounts that need to be called on four times per year. Each sales call lasts approximately 2.5 hours, and each sales rep has approximately 1,250 hours per year to devote to customers. (AACSB: Communication; Analytical reasoning)

16.14 At what level of sales would it be more cost efficient for Wheels to use to sales agents compared with its own sales force? To determine this, consider the fixed and variable costs for each alternative. What are the pros and cons of using a company's own sales force over independent sales agents? (AACSB: Communication; Analytical reasoning; Reflective thinking)

Video case

First Flavor

see www.pearsoned.co.uk/kotler

First Flavor is a start-up company with a unique product. It manufactures great-tasting edible film that can replicate the flavour of just about anything, from an eight-topping pizza to an alcoholic beverage. If you're wondering why a company would make such a product, think of the endless possibilities it allows for consumers to sample the taste of a food or beverage before purchasing it.

Although First Flavor first replicated flavours on thin film in order to market the product as a new method for product sampling, the company is now evaluating many other applications of the technology. This video demonstrates how one product can be marketed in multiple ways.

After viewing the video featuring First Flavor, answer the following questions:

16.15 Classify First Flavor's core business as a sales promotion element.

16.16 Brainstorm a list of the ways that First Flavor's edible film might be used to sample products.

16.17 Can First Flavor successfully pursue consumer product opportunities in addition to its promotional services? Explain.

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Company case

SunGard: building sustained growth by selling the SunGard way

If asked what company topped the most recent *Selling Power* magazine list of 50 Best Companies to Sell For, you'd probably guess IBM, P&G or maybe Xerox, companies long known for their outstanding sales forces. But number one on 2013's list (and number two in 2014 and 2015) is a company you probably know less about – software and technology services company SunGard. SunGard was acquired by FIS (Fidelity National Information Services), a Florida-based technology provider to banks and insurers, for $9.1 billion.

What makes SunGard such a good place to work as a salesperson? To start with, SunGard has strong name recognition and a solid reputation in its industry. SunGard has long provided excellent compensation and training to its salespeople. And the company has consistently delivered strong customer growth and retention. However, although SunGard has long been good in these areas, what has made it outstanding and put it at the top of *Selling Power*'s list is a recent complete transformation of SunGard's sales force model.

Pioneering a new industry

In the late 1970s, the computer services division of the Sun Oil Company (today Sunoco) pioneered a service now considered indispensable by virtually every company in the world. Sun and 20 other Philadelphia-area companies entered an agreement to act as backups for each other's data systems. To create the needed capacity, the group developed a designated disaster recovery backup centre. But when member companies were slow to pay their shares of the expenses, Sun Oil took over the backup operation and began selling computer services. In 1983, Sun Oil spun off the computer division and SunGard was born.

Since then, with the help of a few acquisitions, SunGard has grown steadily. It's now one of the world's leading software and technology services companies, with nearly $3 billion in annual revenues. SunGard now provides processing solutions for the financial services industry, K–12 (from kindergarten to 12th grade in the US) education and public sector organisations. It serves 16,000 customers in more than 70 countries. As a business-to-business service provider, that requires a substantial sales force.

Good, but not great

When Russell Fradin took over as the CEO of SunGard, business was good. But the company faced some issues of concern. To start with, the internet increasingly provided SunGard clients and potential clients with the information they needed to solve their own problems. For both its private and public sector businesses, compliance with government regulations was also increasing. And increasing globalisation made it more and more challenging for SunGard's sales reps to meet client needs. SunGard was not alone in facing these issues. But that just added to the pressure – any company finding effective ways to meet these challenges would gain considerable strategic advantage.

SunGard also faced plenty of internal issues. The company sold multiple product lines, and Fradin felt that the SunGard sales force wasn't achieving its potential in terms of selling the optimal mix of products. The company's thousands of sales reps spent most of their time and effort selling licensed software rather than developing broader solutions to customer problems. Moreover, with multiple divisions and product lines and a fragmented go-to-market approach, SunGard often had multiple sales reps pursuing the same clients, sapping productivity and even driving some customers away.

Based on these assessments, Fradin asked himself, 'How can SunGard make its sales force – one of the company's biggest and most important investments – perform more effectively?' SunGard had decent systems in place for recruiting, hiring and training its salespeople. And SunGard's sales executives did a reasonable job of making incremental changes. But Fradin felt that the company needed to do more in order to improve its growth and performance. If more drastic changes weren't made, the mounting challenges would likely limit future sales and profits. To Fradin's thinking, SunGard needed a complete sales force transformation.

According to a report by global sales consulting firm ZA Associates, companies that move sales force effectiveness from good to excellent by virtue of a sales force transformation can increase profitable growth by as much as 20 per cent. But that kind of transformation would require a major effort, many months to plan and execute, and even longer to take hold. It would demand nothing less than a total commitment from everyone in the organisation – those at the lowest rung on the corporate ladder up to senior management and executives. It would also require that everyone have a clear vision of the benefits, both for themselves and for the organisation as a whole. Disruptions from implementing such a sweeping change would likely mean losing good people and clients. It might also result in a short-term dip in performance before the benefits began to kick in.

Setting transformation in motion

All challenges considered, Fradin hired Jim Neve and Ken Powell to head up SunGard's global sales efforts. The two-person team had worked on other successful large-scale sales force transformations and planned to carry out the same process at SunGard. 'We needed to maximize our channels, sell the broadest set of solutions possible, and go to market in a coordinated manner', said Powell. 'We needed to build a sustainable growth engine.'

Neve and Powell branded the sales force transformation initiative as 'Selling the SunGard Way'. More than just a fancy title, 'Selling the SunGard Way' was a philosophy defined by specific goals and characteristics. First and foremost, the transformation would shift the basic sales approach from selling based on meeting customer needs to selling based on insights. SunGard reps needed to thoroughly understand the client buying decision process, anticipate needs before even customers themselves were aware of them, and tailor the client relationship to meet shifting concerns. Focusing on product functionality and price just wouldn't cut it any more. And sales interactions would need to draw from technology and services across all SunGard business units, not just within specific divisions or product lines. In order to achieve these skills, SunGard's sales personnel would need greater knowledge and expertise of the full line of company products as well as the nature of each client's business.

After thoroughly surveying the needs of SunGard sales associates, Neve and Powell drafted a detailed transformation plan. Sales reps needed better training, detailed competitive analyses and more effective sales campaigns. They needed better data, fewer administrative tasks and a simplified interface for the company's Salesforce CRM sales management tool. To achieve such goals, Neve and Powell set out to overhaul SunGard's core sales functions, including recruiting, training, managing and compensating sales force personnel.

This transformation would take time and effort, and it would cost millions. But by the time the plan was revealed, there was support throughout the company. 'The whole organization gravitated toward change', said Powell. '[Everyone] knew it had to happen.' To help cover costs, the company shifted budgets, reallocating funds from ineffective programmes to the transformation project.

On the recruiting front, SunGard adopted a new talent-assessment tool that defined ideal job profiles and evaluated skills and performance patterns of potential hires. The company also hired a team of sales development managers, charged with increasing the productivity of first-year sales reps. It was their job to make sure that new sales reps received all the training and exposure necessary to understand the company's structure, strategic plans, products and sales tools. That relieved front-line sales managers of these tasks, letting them focus more on selling. Sales development manager compensation hinged on the performance of first-year sales reps.

For existing sales personnel, SunGard revised procedures, metrics, training and tools to make them consistent across the organisation. It also made major revisions to its Salesforce CRM and sales management tool with an eye toward providing salespeople with all the information they needed for every aspect of the sales process. The important tool now provided easy and immediate access to content such as case studies, customer information and market data. Additional tools were made available to guide people through the necessary steps of effectively closing a sale.

But to improve effectiveness for both new and existing sales personnel, SunGard needed to make even more changes in how it measured and tracked performance. For example, prior to the transformation, the company tracked incentives and commissions manually, and they were not readily accessible by relevant stakeholders. Under the new scheme, metrics such as individual goals and forecasts, as well as how often sales were made or lost, became part of an automated system, accessible by sales reps and managers via mobile interface at any time. They could even run 'what-if' scenarios to determine potential earnings of different situations. This capability motivated sales reps by increasing accountability and promoting a competitive spirit.

From transformation to results

As the new sales structure and tools took root, it wasn't long before they began to bear fruit. 'There was a tremendous product suite that had yet to capture its full market share', says Todd Albright, who joined SunGard as senior vice president of sales for the Americas after the transformation was under way. That market share will soon be achieved. 'There were tremendous assets locked up at SunGard', Neve summarises. 'We put a road map in place to unlock those assets, translating them into new sales and revenue growth.'

With its billion-dollar sales plan now in place, SunGard is on target. As one example, consider the productivity improvements for first-year reps. Prior to the transformation, about 75 per cent of new reps booked their first sale before the end of their first year at an average of about $400,000. Through the new policies, that sales productivity has doubled, adding an incremental $30–$40 million to annual sales.

If boosting sales force effectiveness was easy, every company would achieve optimal sales force productivity. SunGard was willing to pay the price. In the first year following the implementation of the transformation, as expected, SunGard revenues decreased over the previous year – down by about 16 per cent. However, profits rose by nearly 35 per cent, thanks in part to reduced costs from more efficient operations. By the end of the second year, revenues were back on the rise. Fradin was notably pleased. 'Clients are responding positively to these initiatives, knowing that our offerings help their businesses be more competitive. We [are] particularly pleased with our sales momentum and our organic revenue growth.'

Importantly, SunGard's sales force is now much more coordinated and collaborative. It's better trained and equipped to sell based on insights. Its products and services are bundled across product lines rather than within lines. And reps are developing partnerships with customers, assisting them in streamlining operations, accelerating growth and complying with regulations. By transforming its sales force to 'Selling the SunGard Way', SunGard is on a path to sustainable, organic growth for years to come.

Questions for discussion

1. Compare SunGard's sales force structure before and after the transformation.
2. What are the positive and negative aspects of SunGard's new sales force structure?
3. How would the challenges faced by SunGard have affected sales productivity had the company not initiated its transformational plan?
4. Identify specific ways that SunGard's transformational plan addresses the different steps of managing the sales force.
5. Will 'Selling the SunGard Way' really work? Why or why not?

Sources: Henry Canaday, 'Selling the new SunGard way', *Selling Power*, www.sellingpower.com/content/article/?a=10217/selling-the-new-sungard-way&page=1; '50 best companies to sell for in 2015', *Selling Power*, www.sellingpower.com/2015/50-best-companies-to-sell-for/; Ben McLannahan, 'FIS buys SunGard for $9.1bn to undo "club" deal', *Financial Times*, 12 August, 2015, https://www.ft.com/content/03423eac-4085-11e5-b98b-87c7270955cf; Andris Zoltners, P. K. Sinha and Sally Lorimer, 'Improving your sales force: fine-tune or transform?' *Harvard Business Review*, 13 November 2012, http://blogs.hbr.org/2012/11/improving-your-sales-force-fin/; and information from https://www.sungard.com/, accessed May 2019.

Chapter Seventeen

Direct, online, social media and mobile marketing

Chapter preview

In the previous three chapters, you learned about engaging consumers and communicating customer value through integrated marketing communications and about four elements of the marketing communications mix: advertising, publicity, personal selling and sales promotion. In this chapter, we examine direct marketing and its fastest-growing form: digital marketing (online, social media and mobile marketing). Today, spurred by the surge in internet usage and buying as well as rapid advances in digital technologies – from smartphones, tablets and other digital devices to the spate of online mobile and social media – direct marketing has undergone a dramatic transformation. As you read this chapter, remember that although direct and digital marketing are presented as separate tools, they must be carefully integrated with each other and with other elements of the promotion and marketing mixes.

Let's start by looking at Amazon, a company that markets *only* directly and digitally. In little more than 20 years, Amazon has blossomed from an obscure dot-com upstart into one of the most powerful names on the internet. According to one survey, an amazing 40 per cent of people turn to Amazon first when searching for or buying products online. How has Amazon become such an incredibly successful direct and online marketer in such a short time? It's all about creating customer engagement, value and relationships through personal and satisfying online customer experiences. Few online marketers do that as well as Amazon.

Learning outcomes

- **Objective 1** You will be able to define direct and digital marketing and discuss their rapid growth and benefits to customers and companies.
  Direct and digital marketing (pp. 516–519)
- **Objective 2** You will be able to identify and discuss the major forms of direct and digital marketing.
  Forms of direct and digital marketing (p. 519)
- **Objective 3** You will be able to explain how companies have responded to the internet and the digital age with various online marketing strategies.
  Marketing, the internet and the digital age (pp. 519–529)
- **Objective 4** You will be able to discuss how companies use social media and mobile marketing to engage consumers and create brand community.
  Social media and mobile marketing (p. 529–531)
- **Objective 5** You will be able to identify and discuss the traditional direct marketing forms and overview the public policy and ethical issues presented by direct marketing.
  Traditional direct marketing forms (pp. 531–539)

Amazon: the poster child for direct and digital marketing

When you think of shopping online, chances are good that you think first of Amazon. The online pioneer first opened its virtual doors in 1995, selling books out of founder Jeff Bezos's garage in suburban Seattle. Amazon still sells books – lots and lots of books. But it now sells just about everything else as well, from music, electronics, tools, housewares, apparel and groceries to fashions, loose diamonds and Maine lobsters. Most analysts view Amazon as *the* model for direct marketing in the digital age.

From the start, Amazon has grown explosively. Its annual sales have rocketed from a modest €130 million in 1997 to €156 billion in 2017. Currently, Amazon is the second-largest retailer in the US, trailing only Walmart. What has made Amazon such an amazing success story? Founder and CEO Bezos puts it in three simple words: 'Obsess over customers'. To its core, the company is relentlessly customer driven. 'The thing that drives everything is creating genuine value for customers', says Bezos. Amazon believes that if it does what's good for customers, profits will follow. So the company starts with the customer and works backward. Rather than asking what it can do with its current capabilities, Amazon first asks: Who are our customers? What do they need? Then it develops whatever capabilities are required to meet those customer needs.

At Amazon, every decision is made with an eye toward improving the Amazon customer experience. In fact, at many Amazon meetings, the most influential figure in the room is 'the empty chair' – literally an empty chair at the table that represents the all-important customer. At times, the empty chair isn't empty but is occupied by a 'Customer Experience Bar Raiser', an employee who is specially trained to represent customers' interests.

Amazon's obsession with serving the needs of its customers drives the company to take risks and innovate in ways that other companies don't. For example, when it noted that its book-buying customers needed better access to e-books and other digital content, Amazon developed the Kindle e-reader, its first-ever original product. The Kindle took more than four years and a whole new set of skills to develop. But Amazon's start-with-the-customer thinking paid off handsomely. The Kindle is one of the company's best-selling products, and Amazon now sells more e-books than hardcovers and paperbacks combined. What's more, the company's growing line of Kindle Fire tablets now leads the market for low-priced tablet computers. Thus, what started as an effort to improve the customer experience now gives Amazon a powerful presence in the burgeoning world of digital, mobile and social media. Not only does the Kindle allow access to e-books, music, videos and apps sold by Amazon, it makes interacting online with the digital giant easier than ever. Customers use their Kindle tablets to shop at Amazon and interact with the company on its blogs and social media pages.

Amazon wants to deliver a special online experience to every customer. Most Amazon regulars feel a surprisingly strong relationship with the company, especially given the almost complete lack of actual human interaction. Amazon obsesses over making each customer's experience uniquely personal. For example, the Amazon's websites greet customers with their very own home pages, complete with personalised recommendations. Amazon was the first company to sift through each customer's past purchases and browsing histories and the purchasing patterns of customers with similar profiles to come up with personalised site content. Amazon wants to personalise the shopping experience for each individual customer. If it has over 300 million customers, it reasons, it should have over 300 million stores.

Visitors to Amazon websites receive a unique blend of benefits: huge selection, good value, low prices and convenience. But it's the 'discovery' factor that makes the buying experience really special. Once on the Amazon sites, you're compelled to stay for a while – looking, learning and discovering. To create even greater selection and discovery for customers, Amazon allows competing retailers – from mom-and-pop operations to Marks & Spencer – to sell their products on Amazon through the Amazon Marketplace, creating a virtual shopping mall of incredible proportions. The broader selection attracts more customers, and everyone benefits. Last year, Amazon customers bought billions of items from tens of thousands of third-party Amazon Marketplace sellers worldwide, accounting for close to 50 per cent of Amazon's unit sales.

Amazon also makes the order delivery experience a whizz with its Amazon Prime service. For an annual fee, Prime members can receive free two-day shipping for all eligible purchases

Amazon does much more than just sell goods online. It engages customers and creates direct, personalised and highly satisfying customer online buying experiences.

Source: NetPhotos/Alamy Stock Photo

plus unlimited streaming of movies and TV shows with Prime Instant Video and access to borrowing e-books from the Kindle Owners' Lending Library. Amazon is moving rapidly toward same-day delivery. It also launched Prime Now, which offers speedy two-hour free delivery of tens of thousands of items in several large metropolitan areas (or one-hour delivery for a small additional fee). 'In the past six weeks my husband and I have made an embarrassing number of orders through Amazon Prime Now', says one excited customer. 'It's cheap, easy, and insanely fast.'

More than just a place to buy things, Amazon has become a kind of online community in which customers can browse for products, research purchase alternatives, share opinions and reviews with other visitors, and chat online with authors and experts. In this way, Amazon does much more than just sell goods online. It engages customers and creates direct, personalised customer relationships and satisfying online experiences. Year after year, Amazon places at or near the top of almost every customer satisfaction ranking, regardless of industry.

Based on its powerful growth, many analysts have speculated that Amazon will become the Walmart of the web. In fact, some argue, it already is. Although Walmart's total sales dwarf Amazon's, Amazon's online sales are nearly eight times greater than Walmart's. And Amazon's e-commerce revenue is growing at a faster rate than Walmart's. So online, it's Walmart that's chasing Amazon. Put another way, Walmart wants to become the Amazon of the web, not the other way around. However, despite its mammoth proportions, to catch Amazon online, Walmart will have to match the superb Amazon's online customer experience, and that won't be easy.

Thus, Amazon has become the poster child for direct and digital marketing. 'The reason I'm so obsessed with . . . the customer experience is that I believe [our success] has been driven exclusively by that experience', says Jeff Bezos. It all starts with customer value. If Amazon creates superior value for customers, it will earn their business and loyalty, and success will follow in terms of company sales and returns. As Bezos puts it, 'When things get complicated, we simplify them by asking, "What's best for the customer?" We believe that if we do that, things will work out in the long term.'[1]

Author comment

For most companies, direct and digital marketing are supplemental channels or media. But for many other companies today – such as Amazon, We Buy Any Car, Trivago or Priceline – direct marketing is a complete way of doing business.

Many of the marketing and promotion tools that we've examined in previous chapters were developed in the context of *mass marketing*: targeting broad markets with standardised messages and offers distributed through intermediaries. Today, however, with the trend toward narrower targeting and the surge in digital and social media technologies, many companies are adopting *direct marketing*, either as a primary marketing approach or as a supplement to other approaches. In this section, we explore the exploding world of direct marketing and its fastest-growing form – digital marketing using online, social media and mobile marketing channels.

Direct and digital marketing

Direct and digital marketing
Engaging directly with carefully targeted individual consumers and customer communities to both obtain an immediate response and build lasting customer relationships.

Direct and digital marketing involve engaging directly with carefully targeted individual consumers and customer communities to both obtain an immediate response and build lasting customer relationships. Companies use direct marketing to tailor their offers and content to the needs and interests of narrowly defined segments or individual buyers. In this way, they build customer engagement, brand community, and sales.

For example, Amazon interacts directly with customers via its website or mobile app to help them discover and buy almost anything and everything online. Similarly, typical financial services companies interact directly with customers – by telephone, through websites or smartphone apps, or on Facebook, Twitter and YouTube pages – to build individual brand relationships, give insurance quotes, sell policies or service customer accounts.

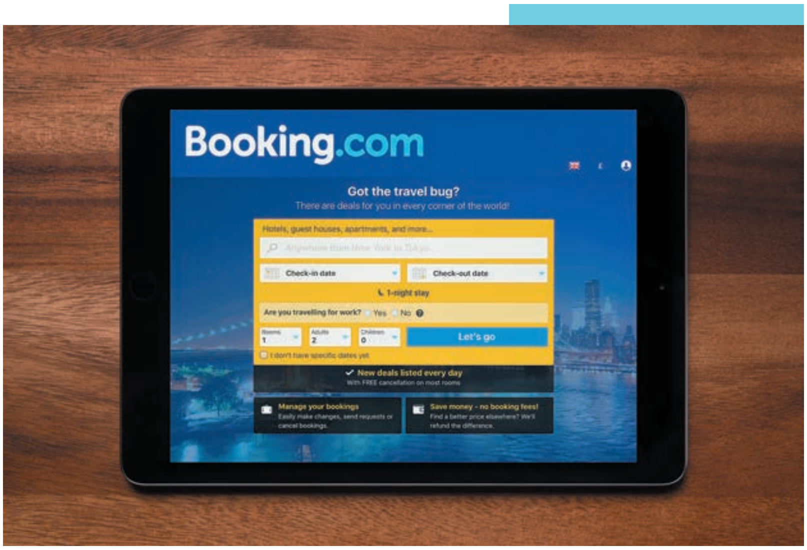
The new direct marketing model

Early direct marketers – catalogue companies, direct mailers and telemarketers – gathered customer names and sold goods mainly by mail and telephone. Today, however, spurred by the surge in internet usage and buying and by rapid advances in digital technologies – from smartphones, tablets and other digital devices to the spate of online social and mobile media – direct marketing has undergone a dramatic transformation.

In previous chapters, we discussed direct marketing as direct distribution – as marketing channels that contain no intermediaries. We also included direct and digital marketing elements of the promotion mix – as an approach for engaging consumers directly and creating brand community. In actuality, direct marketing is both of these things and much more.

Most companies still use direct marketing as a supplementary channel or medium. Thus, most department stores, such as John Lewis and Selfridges, sell the majority of their merchandise off their store shelves, but they also sell through direct mail, online catalogues and social media pages. Pepsi's Mountain Dew brand markets heavily through mass-media advertising and its retail partners' channels. However, it also supplements these channels with a heavy dose of direct marketing. Mountain Dew's marketing mix consists of 55 per cent television advertising and 45 per cent digital. It uses its several brand websites and a long list of social media to engage its digitally connected customer community in everything from designing their own Mountain Dew lifestyle pages to deciding which limited-edition flavours should be launched or retired. Through such direct interactions, Mountain Dew has created one of the most passionately loyal fan bases of any brand, which in turn has made it the fourth-largest soft drink brand in the US.[2]

However, for many companies today, direct and digital marketing are more than just supplementary channels or advertising media – they constitute a complete model for doing business. Firms employing this direct model use it as the only approach. Companies such as Amazon, Google, Facebook, eBay, Netflix, Direct Line and Booking.com have successfully built their entire approach to the marketplace around direct and digital marketing. For example, Booking.com, the online travel company, sells its services exclusively through online, mobile and social media channels. Booking.com and other online travel agency competitors such as Expedia and Trivago have pretty much driven traditional offline travel agencies to extinction.[3]



The new direct marketing model: online travel agency booking.com sells its services exclusively through online, mobile and social media channels. Along with other online competitors, booking.com has pretty much driven traditional offline travel agencies to extinction.

Source: M4OS Photos/Alamy Stock Photo

Rapid growth of direct and digital marketing

Direct and digital marketing have become the fastest-growing form of marketing. According to one source, US companies spent an estimated $163 billion on direct and digital marketing in 2017, up more than 6 per cent over the previous year. Direct marketing continues to become more internet-based, and digital direct marketing is claiming a surging share of marketing spending and sales. In the UK, the total advertising budget grew 3.7 per cent to reach £21.4 billion in 2016, with a dominance of growth by the digital formats, which grew 13.4 per cent to reach £10.3 billion. And mobile platforms accounted for 99 per cent of the growth of the total digital formats and grew a whopping 45.4 per cent to reach £3.9 billion.[4] Although TV stays as a pivotal part of the advertising expenditure mix, undoubtedly digital ad spend is leapfrogging it at an explosive pace. It was predicted that by 2020, 60 per cent of marketing budgets will be accounted for by online ads with TV representing just 21.5 per cent.[5] In the US, marketers spent an estimated $60 billion on digital advertising in 2016, up 20 per cent over the previous year. Total digital advertising spending – including online display and search advertising, social media, mobile, video, email and other – now accounts for the largest share of media spending, overtaking even television spending. And as consumers spend more and more time on their tablets and smartphones, ad spending on mobile advertising is exploding. In 2016 alone, mobile ad spending grew by 66 per cent, and by 2019 it was expected to have accounted for an expected 29 per cent of total US ad spending.[6] Meanwhile in the UK, Direct Marketing Association research suggests direct marketing spend had reached £15.2 billion by 2012, with annual growth topping 7 per cent, and their report reveals that UK companies on average attribute 23 per cent of their total sales to direct marketing, with this rising to 32 per cent for the travel and leisure sector, 30 per cent for the retail and wholesale sectors and 28 per cent for the financial services sector.[7]

Benefits of direct and digital marketing to buyers and sellers

For buyers, direct and digital marketing are convenient, easy and private. They give buyers anywhere, anytime access to an almost unlimited assortment of goods and a wealth of product and buying information. For example, on its website and mobile app, Amazon offers more information than most of us can digest, ranging from top 10 product lists, extensive product descriptions and expert and user product reviews to recommendations based on customers' previous searches and purchases.

Through direct marketing, buyers can interact with sellers by phone or on the seller's website or mobile app to create exactly the configuration of information, products or services they want and then order them on the spot. Finally, for consumers who want it, digital marketing through online, mobile and social media provides a sense of brand engagement and community – a place to share brand information and experiences with other brand fans.

For sellers, direct marketing often provides a low-cost, efficient, speedy alternative for reaching their markets. Today's direct marketers can target small groups or individual customers. Because of the one-to-one nature of direct marketing, companies can interact with customers by phone or online, learn more about their needs, and personalise products and services to specific customer tastes. In turn, customers can ask questions and volunteer feedback.

Direct and digital marketing also offer sellers greater flexibility. They let marketers make ongoing adjustments to prices and programmes or to create immediate, timely and personal engagement and offers. For example, home-improvement and DIY retailer B&Q's YouTube channel offers a series of how-to videos showing do-it-yourself tips for anything from painting a wall to laying a patio.

Especially in today's digital environment, direct marketing provides opportunities for *real-time marketing* that links brands to important moments and trending events in customers' lives. It is a powerful tool for moving customers through the buying process and for building customer engagement, community and personalised relationships. And brands ranging from Costa to the Red Cross use Twitter to communicate with consumers in real time about important promotions, events, and other news and announcements. Real-time marketing is becoming widely used in service sectors, such as the hospitality sector. A hotel can use real-time marketing to build customer dialogues, enhance customer loyalty and increase spending during each hotel visit. Consider how a hotel can interact with the guest during the whole hotel guest journey. Upon reservation, the guest receives a confirmation email with a tailored upsell offer, within a matter of minutes. Two days before the visit, the guest receives another email explaining the activities and tailored promotions (personalised based on historical customer data, preferences and predictive analysis) available during the stay at the hotel.

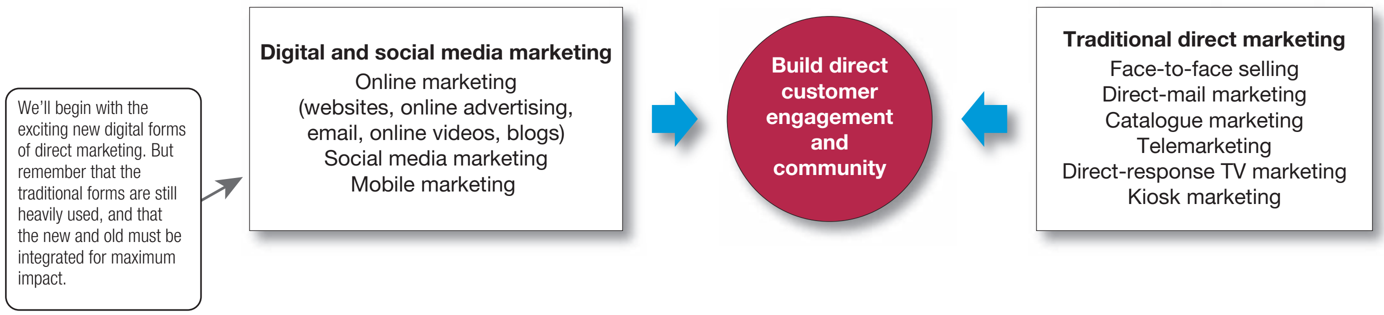


Figure 17.1 Forms of direct and digital marketing

Upon checking in, the guest receives a tailored letter summarising the activities, with coupons to participate. Finally, after check-out, the guest is contacted for feedback on the visit, with incentives and encouragement for future visits.

Forms of direct and digital marketing

The major forms of direct and digital marketing are shown in Figure 17.1. Traditional direct marketing tools include face-to-face selling, direct-mail marketing, catalogue marketing, telemarketing, direct-response television marketing and kiosk marketing. In recent years, however, a dazzling new set of digital direct marketing tools has burst onto the marketing scene, including online marketing (websites, online ads and promotions, email, online videos and blogs), social media marketing and mobile marketing.

We'll begin by examining the new direct digital and social media marketing tools that have received so much attention lately. Then we'll look at the still heavily used and very important traditional direct marketing tools. As always, however, it's important to remember that all of these tools – both the new digital and the more traditional forms – must be blended into a fully integrated marketing communications programme.

As noted earlier, **digital and social media marketing** is the fastest-growing form of direct marketing. It uses digital marketing tools such as websites, online video, email, blogs, social media, mobile ads and apps, and other digital platforms to directly engage consumers anywhere, anytime via their computers, smartphones, tablets, internet-ready TVs and other digital devices. The widespread use of the internet and digital technologies is having a dramatic impact on both buyers and the marketers who serve them.

Author comment

Direct marketing is rich in tools, from traditional favourites such as direct mail and catalogues to dazzling new digital tools – online, mobile and social media.

Digital and social media marketing Using digital marketing tools such as websites, social media, mobile apps and ads, online video, email, and blogs that engage consumers anywhere, anytime via their digital devices.

Marketing, the internet and the digital age

Much of the world's business today is carried out over digital networks that connect people and companies. These days, people connect digitally with information, brands and each other at almost any time and from almost anywhere. In the age of the 'Internet of Things' (IoT), it seems that everything and everyone will soon be connected digitally to everything and everyone else. The digital age has fundamentally changed customers' notions of convenience, speed, price, product information, service and brand interactions. As a result, it has given marketers a whole new way to create customer value, engage customers and build customer relationships.

Digital usage and impact continue to grow steadily. In the UK, in 2018, 90 per cent of adults were recent internet users and only 8.4 per cent of adults had never used the internet. Almost all of those aged 16 to 34 were recent internet users.[8] More than 87 per cent of all US adults use the internet, and the average US internet user spends almost six hours a day using digital media, primarily via mobile devices. Worldwide, more than 46 per cent of the population has internet access, and 30 per cent has access to the mobile internet, a number that's expected to double by 2020 as mobile becomes an ever-more-popular way to get online.[9]

Author comment

Direct digital and social media marketing are surging and grabbing all the headlines these days, so we'll start with them. But the traditional direct marketing tools are still heavily used. We'll dig into them later in the chapter.

In the age of the 'Internet of Things' (IoT), it seems that everything and everyone will soon be connected digitally to everything and everyone else.
Source: crazystocker/Shutterstock

As a result, more than 40 million people shop online in the UK, and the number is increasing in recent years. Twenty-six per cent of these online shoppers make online purchases two or three times a month. And over 16 per cent of total retail sales are now online. In Europe as a whole, it is estimated that online sales will increase from £237 billion in 2017 to £365 billion in 2021, and the number of online retail users will increase from 440.72 million in 2017 to 470.56 million in 2023.[10] In the US, half of all households now regularly shop online, and digital buying continues to grow at a healthy double-digit rate. US online retail sales were an estimated $350 billion last year, about 7.1 per cent of total retail sales. By 2020, as consumers continue to shift their spending from physical to digital stores, that number is expected to grow to more than $520 billion (8.9 per cent of total retail sales). Perhaps even more important, it's estimated that more than half of all US retail sales were either transacted directly online or influenced by internet research.[11] As today's omni-channel consumers become more and more adept at blending online and in-store shopping, digital channels will come into play for an ever-larger proportion of their purchases.

To reach this burgeoning market, most companies now market online. Some companies operate *only* online. They include a wide array of firms, from *e-tailers* such as Amazon, Watchshop.com and Expedia.co.uk that sell products and services directly to final buyers via the internet to *search engines and portals* (such as Google, Bing and Yahoo!), *transaction sites* (eBay, Craigslist), *content sites* (BBC Online, ESPN.com and *Encyclopædia Britannica*) and *online social media* (Facebook, Twitter, YouTube, Instagram and Snapchat).

Today, however, it's hard to find a company that doesn't have a substantial online presence. Even companies that have traditionally operated offline have now created their own online sales, marketing and brand community channels. Traditional store retailers are reaping increasingly larger proportions of their sales online. For example, In the UK, Tesco is the leading online grocery retailer in the UK, with a significantly higher share than the online-only store, Ocado.[12] In the US, Macy's is now the world's seventh-largest e-tailer, with almost 20 per cent of its revenues coming from online. Staples captures about 22 per cent of its sales online; at Williams-Sonoma, it's more than 50 per cent.[13]

Omni-channel retailing Creating a seamless cross-channel buying experience that integrates in-store, online and mobile shopping.

In fact, **omni-channel retailing** companies are having as much online success as their online-only competitors. For example, Zara, the famous Spanish fast fashion retailer, has more than 7,000 stores worldwide. However, its recent success has been helped significantly by its strong growth in online sales.[14] Similarly, in the US, home-improvement retailer Home Depot has nearly 2,000 stores. But its hottest growth area in recent years has been online sales, which have grown at nearly 40 per cent annually over the past five years.[15]

Direct digital and social media marketing take any of the several forms shown in Figure 17.1. These forms include online marketing, social media marketing and mobile marketing. We discuss each in turn, starting with online marketing.

Online marketing

Online marketing Marketing via the internet using company websites, online ads and promotions, email, online video, and blogs.

Online marketing refers to marketing via the internet using company websites, online advertising and promotions, email marketing, online video and blogs. Social media and mobile marketing also take place online and must be closely coordinated with other forms of digital marketing. However, because of their special characteristics, we discuss the fast-growing social media and mobile marketing approaches in separate sections.

Websites and branded web communities

For most companies, the first step in conducting online marketing is to create a website. Websites vary greatly in purpose and content. Some websites are primarily **marketing websites**, designed to engage customers and move them closer to a direct purchase or other marketing outcome.

Marketing website A website that engages consumers to move them closer to a direct purchase or other marketing outcome.

For example, car companies like Hyundai operate marketing websites. Once a potential customer clicks in to Hyundai's site, the car maker wastes no time trying to turn the enquiry into a sale and then into a long-term relationship. The site opens with a promotional message, then offers a garage full of useful information and interactive selling features, including detailed descriptions of current Hyundai models, tools for designing your own Hyundai, an area to calculate the trade-in value of your current car, information on dealer locations and services, and even a place to request a quote online. Inventory search and schedule a test drive features encourage customers to take the plunge and visit a Hyundai dealership.

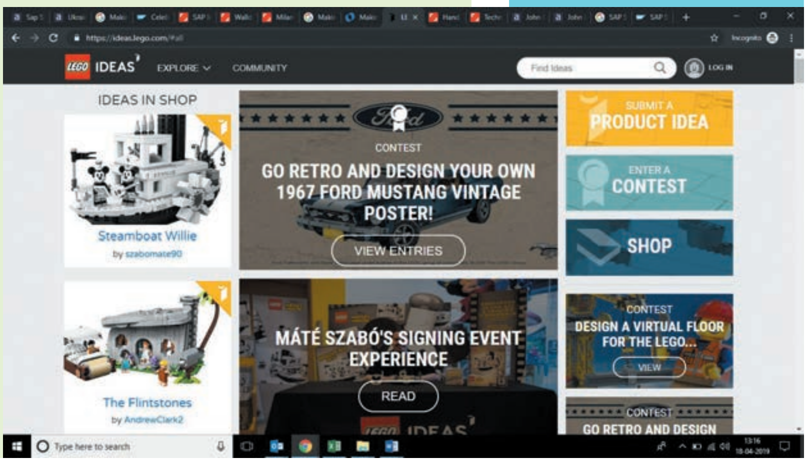
More and more companies in various sectors have moved to using their own websites for online sales, including the car industry. In 2014, Volvo Cars claimed an industry first by selling a limited number of its new XC90 model online. To assist this online sale, the website needed to have more dynamic content, to be able to create a more personalised experience for customers, and entertain and engage with customers. And it is estimated that by 2020, 5 per cent of all cars will be bought online.[16]

In contrast, **brand community websites** do much more than just sell products. Instead, their primary purpose is to present brand content that engages consumers and creates a customer–brand community. Such sites typically offer a rich variety of brand information, videos, blogs, activities and other features that build closer customer relationships and generate engagement with and between the brand and its customers. For example, LEGO IDEAS is a brand community website that allows users and enthusiasts to create and submit ideas for new LEGO designs. Besides promoting the sharing of ideas, it allows members to vote and offer feedback. LEGO will officially review any designs that have received 10,000 votes and consider putting them into production to be sold around the world. Successful creators whose designs are produced are rewarded with royalties from the sales of their set and a credit in the set's building instructions booklet.[17] At French personal care and beauty store Sephora's Beauty Talk site, visitors can interact with like-minded people to explore and discover beauty products, post photo and links, and ask other members to weigh in with information and advice ('all the things marketers dreamed would happen on Facebook, but didn't', notes one observer). And you can't buy anything at ESPN.com. Instead, the site creates a vast branded sports community:[18]

Brand community website A website that presents brand content that engages consumers and creates customer community around a brand.

At ESPN.com, sports fans can access an almost overwhelming repository of sports information, statistics and game updates. They can customise site content by sport, team, players and authors to match their own special sports interests and team preferences. The site engages fans in contests and fantasy games (everything from fantasy football, baseball, basketball and hockey to poker). Sports fans from around the world can participate in discussions with other fans and celebrities before, during and after sporting events. They can friend and message other users and post comments on message boards and blogs. By downloading various widgets and apps, fans can customise their ESPN experience and carry it with them wherever they go. In all, ESPN's website creates a virtual brand community without walls, a must-have experience that keeps fans coming back again and again.

LEGO IDEAS is a brand community website allowing users and enthusiasts to create and submit ideas for new LEGO designs.
Source: LEGO System



Creating a website is one thing; getting people to *visit* the site is another. To attract visitors, companies aggressively promote their websites in offline print and broadcast advertising and through ads and links on other sites. But today's web users are quick to abandon any website that doesn't measure up. The key is to create enough engaging and valued content to get consumers to come to the site, stick around and come back again.

At the very least, a website should be easy to use and visually appealing. Ultimately, however, websites must also be *useful*. When it comes to online browsing and shopping, most people prefer substance over style and function over flash. For example, ESPN's site isn't all that flashy, and it's pretty heavily packed and congested. But it connects customers quickly and effectively to all the sports information and involvement they are seeking. Thus, effective websites contain deep and useful information, interactive tools that help find and evaluate content of interest, links to other related sites, changing promotional offers and entertaining features that lend relevant excitement.

Online advertising

Online advertising
Advertising that appears while consumers are browsing online, including display ads, search-related ads, online classifieds and other forms.

As consumers spend more and more time online, companies are shifting more of their marketing dollars to **online advertising** to build brand sales or attract visitors to their internet, mobile and social media sites. Online advertising has become a major promotional medium. The main forms of online advertising are display ads and search-related ads. Together, display and search-related ads account for the largest portion of firms' digital marketing budgets.

Online display ads might appear anywhere on an internet user's screen and are often related to the information being viewed. Such display ads have come a long way in recent years in terms of engaging consumers and moving them along the path to purchase. Today's *rich media* ads incorporate animation, video, sound and interactivity. For example, while browsing sports-related content on your laptop, tablet or phone, you might see a bright blue and green banner ad for Gillette Fusion ProGlide razors floating at the bottom of the page, with the provocative headline 'Our Gentlest Shave'. A click on the banner expands it into a full interactive display ad, complete with an embedded 15-second demonstration video plus click-throughs to the Gillette Fusion ProGlide microsite and a buy-now link. Similarly, while perusing your favourite backpacking site, you might see an attention-grabbing video ad from The North Face. Roll over the brand logo and up pops an interactive ad panel, with the video continuing in the upper-right corner alongside information on featured products and real-time links to The North Face website and a store locator. Such dynamic ads can engage consumers and deliver substantial impact.[19]

Online display advertising: today's dynamic rich media ads incorporate animation, video, sound and interactivity, engaging consumers and moving them along the path to purchase.
Source: Quka/Alamy Stock Photo

Using *search-related ads* (or *contextual advertising*), text- and image-based ads and links appear atop or alongside search engine results on sites such as Google, Yahoo! and Bing. For example, search Google for 'LED TVs'. At the top and side of the resulting search list, you'll see inconspicuous ads for 10 or more advertisers, ranging from Samsung and LG to Currys, John Lewis and Amazon. Almost 90 per cent of Google's revenues come from ad sales. Search is an always-on kind of medium, and the results are easily measured.[20]

A search advertiser buys search terms from the search site and pays only if consumers click through to its site. For instance, enter 'Coke' or 'Coca-Cola' or even just 'soft drinks' or 'rewards' into your search engine and almost without fail 'My Coke Rewards' comes up as one of the top options, perhaps along with a display ad and link to Coca-Cola's official Google+ page. This is no coincidence. Coca-Cola supports its popular online loyalty programme largely through search buys. The soft drink giant started first with traditional TV and print advertising but quickly learned that search was the most effective way to bring consumers to its www.mycokerewards.com web or mobile site to register. Now, any of dozens of purchased search terms will return mycokerewards.com at or near the top of the search list.

Email marketing

Email marketing Sending highly targeted, highly personalised, relationship-building marketing messages via email.

Email marketing remains an important and growing digital marketing tool. 'Social media is the hot new thing,' says one observer, 'but email is still the king.'[21] Around the world, more than 200 million emails are sent out every minute of every day. According to one account, 72 per cent of adults prefer companies to communicate with them via email, and 91 per cent say they like receiving promotional emails from companies with which they do business. What's more, email is no longer limited to PCs; 66 per cent of all emails are now opened on mobile devices. Not surprisingly, 25 per cent of companies in one survey say that email is their top channel in terms of return on investment.[22]

When used properly, email can be the ultimate direct marketing medium. Today's emails are anything but the staid, text-only messages of the past. Instead, they are colourful, inviting and interactive. Email lets marketers send highly targeted, tightly personalised, relationship-building messages. For example, toymaker Fisher-Price uses email to send timely check-ins, updates and birthday wishes to subscribers. A mother might receive a colourful, personalised 'happy birthday to your baby' email on her child's first birthday that contains links to age-related playtime ideas, parenting tips and product information.[23]

Similarly, an eyewear brand can send a sequence of nine informational and promotional emails to home try-on customers. Each is personally addressed and keyed to steps in the trial process, from initial registration and order confirmation to offers of selection assistance and instructions for returning frames. The brand then sends cheerful after-purchase follow-up and announcement emails. For example, it can send personalised emails to customers on the first anniversary of their purchase, with the message like 'You've had your frames for one year now. Tell 'em we said Happy Birthday! We hope the first 365 days have been joyful.' And just in case the customer wants 'to start more traditions', the email also includes a link to the brand's website.[24]

Spam Unsolicited, unwanted commercial email messages.

But there's a dark side to the growing use of email marketing. The explosion of **spam** – unsolicited, unwanted commercial email messages that clog up our email boxes – has produced consumer irritation and frustration. According to one source, spam now accounts for about half of the billions of emails sent worldwide each day. In the second quarter of 2018, China accounted for 14.36 per cent of global spam volume, followed by the United States with 12.08 per cent, Germany 11.12 per cent and France 4.42 per cent. The UK fares slightly better with 2.43 per cent.[25] Email marketers walk a fine line between adding value for consumers and being intrusive and annoying.

To address these concerns, most legitimate marketers now practise *permission-based email marketing*, sending email pitches only to customers who 'opt in.' Many companies use configurable email systems that let customers choose what they want to get. Amazon targets opt-in customers with a limited number of helpful 'we thought you'd like to know' messages based on their expressed preferences and previous purchases. Few customers object, and many actually welcome such promotional messages. Amazon benefits through higher return rates and by avoiding alienating customers with emails they don't want. In fact, in the recent SPAMMY awards, which each year recognise the worst email abusers but also the most liked, Amazon topped the most-popular email subscriptions list for the second year in a row.[26]

Online videos

Another form of online marketing is posting digital video content on brand websites or on social media sites such as YouTube, Facebook and others. Some videos are made specifically for the web and social media. Such videos range from 'how-to' instructional videos and public relations pieces to brand promotions and brand-related entertainment. Other videos are ads that a company makes primarily for TV and other media but posts online before or after an advertising campaign to extend their reach and impact.

Good online videos can engage consumers by the tens of millions. The online video audience is soaring. About 65 per cent of the UK population has viewed online videos with about 37 per cent viewing them on smartphones.[27] YouTube users now upload more than 500 hours of video every minute. Facebook alone generates 8 billion video views per day worldwide; Snapchat adds another 6 billion views.[28]

Marketers hope that some of their videos will go viral. **Viral marketing**, the digital version of word-of-mouth marketing, involves creating videos, ads and other marketing content that are so infectious that customers will seek them out or pass them along to their friends. Because customers find and pass along the content, viral marketing can be very inexpensive. And when content comes from a friend, the recipient is much more likely to view or read it.

Viral marketing The digital version of word-of-mouth marketing: videos, ads and other marketing content that is so infectious that customers will seek it out or pass it along to friends.

All kinds of videos can go viral, producing engagement and positive exposure for a brand. For example, Google Android launched a compellingly sharable video called 'Friends Furever', which featured unlikely pairings of animals – an orangutan and a dog, a bear and a tiger, a cat and a duckling – being pals and enjoying life together. The video was the latest instalment in Android's two-year-old 'Be together. Not the same' marketing campaign. The campaign highlights how people can be different and still be stronger together, in line with Android's core competency of running on diverse devices, each with its own design and features. The heart-warming 'Friends Furever' video went viral in a big way. It captured more than 24 million YouTube views and was shared more than 6.4 million times across Facebook, Twitter and the blogosphere in its first nine months, making it the most-shared video of all time.[29]

Many brands produce multiplatform video campaigns that bridge traditional TV, online and mobile media. For example, Adidas's recent 'Take It' campaign – a series of action-packed 60-second video ads featuring famous Adidas athletes toughing it out in practice and on game day – began on TV but quickly zoomed to the top of the viral charts. The campaign drove home a captivating motivational message: 'Do something and be remembered. Or do nothing and be forgotten. No one owns today. Take it.' The initial 'Take It' ad broke during NBA All-Star Weekend, but that was only the beginning. The video ad went on to capture a whopping 21 million YouTube views in just the first week and 40 million in the first two months. Additional videos in the ad series grabbed millions more views, making 'Take It' one of the most successful viral campaigns of the decade.[30]

Despite these viral successes, it's important to note that marketers usually have little control over where their viral messages end up. They can seed content online, but that does little good unless the message itself strikes a chord with consumers. Says one creative director, 'You hope that the creative is at a high enough mark where the seeds grow into mighty oaks. If they don't like it, it ain't gonna move. If they like it, it'll move a little bit; and if they love it, it's gonna move like a fast-burning fire through the Hollywood hills.'[31]

Blogs and other online forums

Blogs Online journals where people and companies post their thoughts and other content, usually related to narrowly defined topics.

Brands also conduct online marketing through various digital forums that appeal to specific special-interest groups and brand communities. **Blogs** (or web logs) are online journals where people and companies post their thoughts and other content, usually related to narrowly defined topics. Blogs can be about anything, from politics or football to haiku, car repair, brands or the latest television series. Many bloggers use social networks such as Twitter, Facebook, Tumblr and

Instagram to promote their blogs, giving them huge reach. Such reach can give blogs – especially those with large and devoted followings – substantial influence.

Most marketers are now tapping into the blogosphere with their own brand-related blogs that reach customer communities. For example, O2 created a corporate blog website to offer advice and inspiration to business customers, particularly on the area of how to make the most of technology. On the Coca-Cola Unbottled blog, Coke fans and company insiders can 'look at what's beyond the bottle', sharing posts on everything from new products and sustainability initiatives to fun and inspiring 'what's bubbling' fan stories about 'spreading happiness'. On the Netflix Blog, members of the Netflix team (themselves rabid movie fans) tell about the latest Netflix features, share tricks for getting the most out of the Netflix experience and collect feedback from subscribers. And the creative Nuts About Southwest blog, written by the US Southwest Airlines' employees, fosters a two-way dialogue that gives customers a look inside the company's culture and operations. At the same time, it lets Southwest engage customers directly and get feedback from them.

Beyond their own brand blogs, many marketers use third-party blogs to help get their messages out. For example, some fashion bloggers have amassed millions of followers, with fan bases larger even than the blogs and social media accounts of major fashion magazines. For example, 23-year-old Danielle Bernstein started the We Wore What fashion blog as an undergraduate at the Fashion Institute of Technology in New York City. The blog is now a source of daily outfit inspiration to a fan base of more than 1.4 million. Because of such large followings, brands flock to Bernstein and other fashion blog influencers such as BryanBoy, The Blonde Salad, Song of Style and Gal Meets Glam, paying them $15,000 or more to post and tag product images in their blog, Facebook and Instagram sites. Bernstein posts images that contain sponsored products from small brands to large brands such as Nike and Lancôme.[32]

As a marketing tool, blogs offer some advantages. They can offer a fresh, original, personal and cheap way to enter into consumer online and social media conversations. However, the blogosphere is cluttered and difficult to control. And although companies can sometimes leverage blogs to engage customers in meaningful relationships, blogs remain largely a consumer-controlled medium. Whether or not they actively participate in the blogs, companies should monitor and listen to them. Marketers can use insights from consumer online conversations to improve their marketing programmes.

Author comment

As in just about every other area of our lives, digital media and mobile technologies have taken the marketing world by storm. They offer some amazing marketing possibilities. But truth be told, many marketers are still sweating over how to use them most effectively.

Social media marketing

As we've discussed throughout the text, the surge in internet usage and digital technologies and devices has spawned a dazzling array of online **social media** and other digital communities. Countless independent and commercial social networks have arisen where people congregate to socialise and share messages, opinions, pictures, videos and other content. These days, it seems, almost everyone is buddying up on Facebook or Google+, checking in with Twitter, tuning into the day's hottest videos at YouTube, pinning images on social scrapbooking site Pinterest, or sharing photos with Instagram and Snapchat. And, of course, wherever consumers congregate, marketers will surely follow.

Social media Independent and commercial online social networks where people congregate to socialise and share messages, opinions, pictures, videos and other content.

Most marketers are now riding the huge social media wave. The global social media ad spend was estimated at $41 billion in 2017. According to one survey, over half of marketers believe that social media marketing helps their businesses by improving sales (53 per cent), providing marketplace insight (54 per cent), developing loyal fans (63 per cent), generating leads (64 per cent), increasing traffic (78 per cent) and increasing exposure (87 per cent).[33] Interestingly, just as marketers are now learning how to use social media to engage customers, the social media services themselves are learning how to make their communities a suitable platform for marketing content, in a way that benefits both social media users and brands. Most social media, even the successful ones, still face a monetisation issue: how can they profitably tap the marketing potential of their massive communities to make money without driving off loyal users?[34]

The first and best bet for converting the social-sharing potential of a social network's gigantic user community into real dollars is online advertising. For marketers, the targeting and customer engagement potential of social media is a dream come true, and advertisers willingly pay for access via ads and other paid brand content. But successfully injecting brand content alongside user content can be tricky and risky. Social media users often cherish the free (and commercial-free) sharing cultures of their online communities. If not well conceived, commercial content becomes an unwelcome intrusion that can alienate users and potentially drive them away.

Thus, although social media have exploded in popularity, most are still having trouble making money. Even Facebook – far and away the most financially successful social network – has little more than scratched the surface of its vast financial potential. To illustrate the monetisation difficulties that social media face, let's dig deeper into one of today's most successful ones, Snapchat, the wildly popular messaging app. Yet in its rise to glory, Snapchat only recently started to generate revenue of any kind and has yet to make even a penny of profits. Snapchat's financial story is typical for successful social media: modest beginnings as a start-up followed by meteoric growth in popularity and use leading to outrageously high valuation – all with little or no income. Then comes that difficult question: how can they monetise their massive user bases to make profits and sustain themselves? For Snapchat, that's especially difficult. The very feature that makes Snapchat unique and so popular – content lasting only seconds – makes it difficult to track and analyse users for targeting purposes, a turn-off to marketers. In this era of big data, how can Snapchat, which collects no user data, attract marketers? Snapchat's challenge is to persuade marketers that the benefits of reaching its young Millennials and GenZ community outweigh user anonymity and lack of pinpoint targeting potential.

Careful not to ruffle its community's sensitivities or disrupt the user experience, Snapchat didn't introduce its first advertising opportunities until October 2014. However, it now offers several ad platforms. At the most basic level, Snapchat sells traditional paid video ad placements alongside other site content. Next, it offers a magazine-like platform called 'Discover'. Discover is a Snapchat content area where publishers post daily collections of their best content. Snapchat users can share Discover news stories and video with personalised comments or emojis. Advertisers pay a minimum of $50,000 a day to advertise alongside the Discover content, and Snapchat has hinted that it will soon offer brand-owned Discover stories.

Snapchat also offers advertisers a sponsored feeds platform called 'Live Story'. These feeds are TV-like streams of an event such as New Year's Eve, featuring user-generated content curated by Snapchat. Advertisers can buy sponsorship rights for a Live Story feed starting at $250,000, which includes a brand mention in the opening title as well as branded snaps interspersed throughout the feed. Advertisers can also pay for a single 10-second brand snap woven into a feed. Live Stories feeds garner an estimated 20 million daily views within the Snapchat community. In its quest to monetise, Snapchat has a lot at stake. Will increased advertising and brand content alienate avid Snapchat fans? If done right, probably not. Studies show that social media users readily accept – even welcome – well-targeted brand content. A recent Snapchat survey found that 60 per cent of Snapchat users actually like its Live Story ads.

But that's the catch – doing it right. Like its own disappearing photo feature, Snapchat's soaring popularity could vanish quickly if overly aggressive monetisation causes resentment within its highly mobile and typically fickle fan base. Snapchat must move forward carefully. As one Snapchat marketer concludes, 'We're always fine tuning to ensure we deliver the best possible experience for our community.'

Using social media

Marketers can engage in social media in two ways: They can use existing social media or they can set up their own. Using existing social media seems the easiest. Thus, most brands – large and small – have set up shop on a host of social media sites. Check the websites of brands ranging from Coca-Cola, Nike and Victoria's Secret or even Manchester United and you'll find links to each brand's Facebook, Google+, Twitter, YouTube, Flickr, Instagram or other social media pages. Such social media can create substantial brand communities. Coca-Cola has an incredible 80 million fans.

Some of the major social networks are huge. Nearly 1.6 billion people access Facebook every month, nearly 20 times the whole population of the UK. Twitter has more than 305 million active monthly users. And YouTube's more than 1 billion users upload 500 hours of video every minute of every day. The list goes on: Google+ has 359 million active users, Instagram 400 million, LinkedIn 100 million and Pinterest 100 million.[35]

Although these large, general-interest social media networks grab most of the headlines, countless niche and interest-based social media have also emerged. These online social networks cater to the needs of smaller communities of like-minded people, making them ideal vehicles for marketers who want to target special-interest groups. There's at least one social media network for just about every interest, hobby or group. Goodreads is a social network where 55 million avid readers can 'Meet your next favorite book' and discuss it with friends, whereas moms share advice and commiseration at CafeMom.com. FarmersOnly.com provides online dating for down-to-earth 'country folks' who enjoy 'blue skies, living free and at peace in wide open spaces, raising animals, and appreciating nature' – 'because city folks just don't get it.' At Birdpost.com, avid birdwatchers can keep an online list of birds they've seen and share bird sightings with other members using modern satellite maps.[36]

Social media marketing advantages and challenges

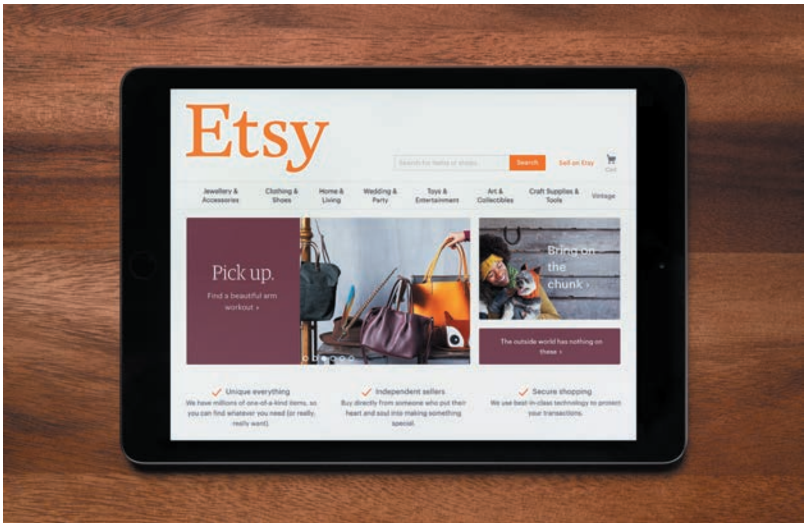
Using social media presents both advantages and challenges. On the plus side, social media are *targeted* and *personal* – they allow marketers to create and share tailored brand content with individual consumers and customer communities. Social media are *interactive,* making them ideal for starting and participating in customer conversations and listening to customer feedback. For example, TOMS shoes – which gives a free pair of shoes to a child in need for every shoe purchased, one for one – recently ran a two-week #withoutshoes campaign, in which it donated one pair of shoes for every person who snapped a picture of their bare feet, shared it on Instagram and urged others to do the same. The campaign resulted in more than 296,000 pairs of shoes donated, engaging customers in spreading the brand's philanthropic message to millions around the world.[37]

Social media are also *immediate* and *timely.* They can be used to reach customers anytime, anywhere with timely and relevant marketing content regarding brand happenings and activities. As discussed earlier in the chapter, the rapid growth in social media usage has caused a surge in *real-time marketing*, allowing marketers to create and join consumer conversations around situations and events as they occur. Marketers can now watch what's trending and create content to match.

Social media can be very *cost-effective*. Although creating and administering social media content can be costly, many social media are free or inexpensive to use. Thus, returns on social media investments are often high compared with those of expensive traditional media such as television or print. The low cost of social media puts them within easy reach of even small businesses and brands that can't afford the high costs of big-budget marketing campaigns.

Perhaps the biggest advantage of social media is their *engagement and social sharing capabilities*. Social media are especially well suited to creating customer engagement and community – for getting customers involved with the brand and with each other. More than any other channels, social media can involve customers in shaping and sharing brand content, experiences, information and ideas.

For example, consider Etsy – the online craft marketplace that's 'Your place to buy and sell all things handmade.' Etsy uses its web and mobile sites and a host of social media to create an Etsy lifestyle community, where buyers congregate to learn about, explore, exchange and share ideas about handmade and vintage products and related topics. In addition to its active Facebook, Twitter and YouTube pages, Etsy engages 780,000 brand followers on photo-sharing site Instagram, where the Etsy community shares photos of creative ideas and projects. It also engages



Through its extensive online and social media presence, Etsy has created an active and engaged brand community of buyers and sellers in a 'marketplace we make together'.
Source: M4OS Photos/Alamy Stock Photo

almost a million followers on social scrapbooking site Pinterest, with 120 boards on topics ranging from 'DIY Projects', 'Entertaining' and 'Stuff We Love' to 'Etsy Weddings' and even 'Yum! Recipes to Share', where the community posts favourite recipes. Etsy sells few of the ingredients that go into the recipes, but it's all part of the Etsy lifestyle. Through its extensive online and social media presence, Etsy has created an active and engaged worldwide community of 24 million shoppers and 1.6 million sellers worldwide in what it calls 'The marketplace we make together'.[38]

Social media marketing also presents challenges. First, many companies are still experimenting with how to use them effectively and results are hard to measure. Second, such social networks are largely user controlled. The company's goal in using social media is to make the brand a part of consumers' conversations and their lives. However, marketers can't simply muscle their way into consumers' digital interactions – they need to earn the right to be there. Rather than intruding, marketers must become a valued part of the online experience by developing a steady flow of engaging content.

Because consumers have so much control over social media content, even a seemingly harmless social media campaign can backfire. That's what happened when Sea World, a US chain of marine theme parks, launched a 'Sea World Cares' marketing campaign to educate the public about its work to protect killer whales and other aquatic species in captivity and in the wild: [39]

> As part of the broader campaign, recognising that 'some people have questions about the welfare of killer whales in human care', Sea World invited Twitter users to pose their questions to the company directly using the hashtag #AskSeaWorld. But rather than the constructive Q&A exchange that Sea World intended, the hashtag turned into a bashtag nightmare. Angry Twitter users used the hashtag to jump all over Sea World for what they saw as animal abuse practices. Some typical responses: '#AtSeaWorld how do you sleep knowing you imprison innocent animals, abuse them for entertainment, lie to the public, and make millions?' and '#AskSeaWorld do you think it's morally okay to take a child away from its mother? #EmptyTheTanks'.

There's a clear message. With social media, 'you're going into the consumer's backyard. This is their place', warns one social marketer. 'Social media is a pressure cooker', says another. 'The hundreds of thousands, or millions, of people out there are going to take your idea, and they're going to try to shred it or tear it apart and find what's weak or stupid in it.'[40]

Integrated social media marketing

Using social media might be as simple as posting some messages and promotions on a brand's Facebook or Twitter pages or creating brand buzz with videos or images on YouTube, Instagram or Pinterest. However, most large companies are now designing full-scale social media efforts that blend with and support other elements of a brand's marketing content strategy and tactics. More than making scattered efforts and chasing 'Likes' and tweets, companies that use social media successfully are integrating a broad range of diverse media to create brand-related social sharing, engagement and customer community.

Managing a brand's social media efforts can be a major undertaking. For example, Starbucks is one of the most successful social media marketers. Its core social media team connects with its fans through 30 accounts on 12 different social platforms. Frappuccino alone has more than 11 million followers on Facebook, Twitter, Instagram and We Heart It. Managing and integrating all that social media content is challenging, but the results are worth the investment. Customers can and do engage with Starbucks by the tens of millions digitally, without ever setting foot in a store.[41]

But more than just creating online engagement and community, Starbucks' social media presence also drives customers into its stores. For example, in its first big social media promotion six years ago, Starbucks offered a free pastry with a morning drink purchase. A million people showed up. A more recent 'Tweet-a-Coffee' promotion, which let customers give a $5 gift card to a friend by putting both #tweetacoffee and the friend's handle in a tweet, resulted in $180,000 in purchases within little more than one month. Social media 'are not just about engaging and telling a story and connecting', says Starbucks' head of global digital marketing. 'They can have a material impact on the business.'[42]

Mobile marketing

Mobile marketing Marketing messages, promotions, and other content delivered to on-the-go consumers through their mobile devices.

Mobile marketing features marketing messages, promotions and other marketing content delivered to on-the-go consumers through their mobile devices. Marketers use mobile marketing to engage customers anywhere, anytime during the buying and relationship-building processes. The widespread adoption of mobile devices and the surge in mobile web traffic have made mobile marketing a must for most brands.

With the recent proliferation of mobile phones, smartphones and tablets, mobile device penetration is now greater than 100 per cent in the United States (many people possess more than one mobile device). About 78 per cent of people own a smartphone in the UK, and similarly over 70 per cent of people in the United States own a smartphone. The number of mobile phone users in Western Europe was estimated to be about 345 million in 2018. The mobile subscriber penetration rate in Europe is expected to reach 88 per cent per cent in 2025.[43] The mobile apps market has exploded globally: There are more than 3 million apps available, and the average smartphone has 11 to 20 apps installed on it.[44]

Most people love their phones and rely heavily on them. According to one study, nearly 90 per cent of consumers who own smartphones, tablets, computers and TVs would give up all of those other screens before giving up their phones. Mobile devices are the most popular means of internet access for most users. Seventy-three per cent of time spent on the internet is on mobile devices. European countries, such as Spain and Italy, have a particularly high rate of mobile device internet access (81 per cent and 78 per cent respectively). In the UK, according to the 2017 figures, 36 per cent of smartphone users spend over 61 minutes and 63 per cent of users spend over 30 minutes a day on their devices. Only 14 per cent of all users spend less than 10 minutes daily.[45] On average, Americans check their phones 46 times a day – 74 times a day for 18- to 24-year-olds – and spend three hours and forty minutes a day using apps, talking, texting and browsing the web. Thus, although TV is still a big part of people's lives, mobile is rapidly becoming their 'first screen'. Away from home, it's their only screen.[46]

For consumers, a smartphone or tablet can be a handy shopping companion. It can provide on-the-go product information, price comparisons, advice and reviews from other consumers, and access to instant deals and digital coupons. One recent study found that 90 per cent of smartphone-toting shoppers have used their phone while shopping. Not surprisingly, then, more than 42 per cent of all e-commerce purchases are made on mobile devices in the UK and US. The percentage is slightly lower in Germany and France, but is still over 30 per cent and increasing at a double-digit rate.[47]

Mobile provides a rich platform for engaging consumers more deeply as they move through the buying process, with tools ranging from mobile ads, coupons and texts to apps and mobile websites. Consumers use their mobile devices for various different shopping activities. Forty-four per cent of users have used a mobile device to research products, 38 per cent to compare prices with competitors, 37 per cent to pay for their purchase, 31 per cent to access a coupon or promotional code and 24 per cent to store product information for purchase at a later date.[48]

Mobile marketing: mobile promotions company Kiip helps client brands link mobile offers to relevant customer experiences and positive moments. 'We want to capitalise on happiness', says Kiip's CEO.
Source: David Paul Morris/Bloomberg via Getty Images

Mobile advertising spending in the United States is surging. Globally it was estimated that 59 per cent of internet advertising expenditure will be on mobile ads. It grew 75 per cent last year alone and will more than double during the next four years.[49] Mobile ad spending is expected to overtake TV ad spending by 2020. Almost every major marketer – from Nike, P&G and Unilever to your local supermarket to non-profits such as the Red Cross – is now integrating mobile marketing into its direct marketing programmes.

Companies use mobile marketing to stimulate immediate buying, make shopping easier, enrich the brand experience, or all of these. It lets marketers provide consumers with information, incentives and choices at the moment they are expressing an interest or when they are most likely to make a buying choice. For example, placecasting is a growing way of making direct contact with consumers through their mobile phones: [50]

> Starbucks and L'Oréal are among leading brands developing placecasting to position their marketing and product messages direct with European consumers. Placecasting involves consumers receiving offers and discounts over their mobile phones by text message and uses a 'geofencing' system that directs text messages to consumers' mobile phones, when they are in the proximity of stores. Also, supermarkets have begun issuing 'digital coupons' on the internet that can be downloaded to mobile phones and scanned against purchases at the store checkout. Quick Response codes can be scanned by a smartphone camera to link the device to a retailer's mobile website. Youth-oriented cosmetics retailer, Sephora, uses this to link customers' phones to its Tarina Tarantino website and also has a mobile phone link for customer-generated product reviews, which can be uploaded to Facebook.

For example, Taco Bell, a fast food restaurant chain originating from the US with 30 branches in the UK, uses mobile advertising to reach consumers at what it calls mobile 'moments that matter'.[51]

> As part of its ongoing push to promote Taco Bell for breakfast, the chain uses carefully targeted mobile advertising to reach consumers just as they are starting their day. It targets mobile ads based on specific behaviours, such as which apps consumers use first in the morning, their favourite news apps, or what time of day they've looked at a breakfast recipe. 'We're weaving into morning behaviors', says a Taco Bell marketer. Taco Bell also targets mobile ads geographically using navigation and traffic apps such as Google's Waze to zero in on specific customer locations, even providing step-by-step directions to nearby stores. In these ways, Taco Bell can customise mobile ads according to each customer's actions, experiences and environment. In marketing its breakfasts, says the marketer, mobile lets Taco Bell be 'present on experiences that consumers turn to when they first open their eyes in the morning'.

Most marketers have created their own mobile online sites, optimised for specific phones and mobile service providers. Others have created useful or entertaining mobile apps to engage customers with their brands and help them shop. For example, Starbucks' mobile app lets customers use their phones as a Starbucks card to make fast and easy purchases.

As with other forms of direct marketing, however, companies must use mobile marketing responsibly or risk angering already ad-weary consumers. Most people don't want to be interrupted regularly by advertising, so marketers must be smart about how they engage people on mobile devices. The key is to provide genuinely useful information and offers that will make consumers want to engage. And many marketers target mobile ads on an opt-in-only basis.

In all, digital direct marketing – online, social media and mobile marketing – offers both great promise and many challenges for the future. Its most ardent apostles still envision a time when the internet and digital marketing will replace magazines, newspapers and even stores as sources for information, engagement and buying. Most marketers, however, hold a more realistic view. For most companies, digital and social media marketing will remain just one important approach to the marketplace that works alongside other approaches in a fully integrated marketing mix.

Traditional direct marketing forms

Author comment

Although online, social media and mobile direct marketing seem to be getting much of the attention these days, traditional direct media still carry a lot of the direct marketing freight. Just think about your often-overstuffed letterbox.

Although the fast-growing digital marketing tools have grabbed most of the headlines lately, traditional direct marketing tools are very much alive and still heavily used. We now examine the traditional direct marketing approaches shown on the right-hand side of Figure 17.1.

The major traditional forms of direct marketing are face-to-face or personal selling, direct-mail marketing, catalogue marketing, telemarketing, direct-response television (DRTV) marketing and kiosk marketing. We examined personal selling in depth in Chapter 16. Here, we look into the other forms of traditional direct marketing.

Direct-mail marketing

Direct-mail marketing Marketing that occurs by sending an offer, announcement, reminder or other item directly to a person at a particular address.

Direct-mail marketing involves sending an offer, announcement, reminder or other item to a person at a particular address. Using highly selective mailing lists, direct marketers send out millions of mail pieces each year – letters, catalogues, ads, brochures, samples, videos and other 'salespeople with wings'. UK marketers spend an estimated £1.75 billion on direct mail a year, as the third-largest medium behind the internet and TV. Germany, France and the UK are the largest direct-mail markets in Europe. In the US, marketers spend an estimated $47 billion annually on direct mail (including both catalogue and non-catalogue mail), which accounts for 30 per cent of all direct marketing spending.[52]

Direct mail is well suited to direct, one-to-one communication. It permits high target-market selectivity, can be personalised, is flexible and allows the easy measurement of results. Although direct mail costs more per thousand people reached than mass media such as television or magazines, the people it reaches are much better prospects. Direct mail has proved successful in promoting all kinds of products, from books, insurance, travel, gift items, gourmet foods, clothing and other consumer goods to industrial products of all kinds. Charities also use direct mail heavily to raise billions of euros each year.

Some analysts predict a decline in the use of traditional forms of direct mail in the coming years as marketers switch to newer digital forms, such as email and online, social media and mobile marketing. The newer digital direct marketing approaches deliver messages at incredible speeds and lower costs compared to the traditional post office's 'snail mail' pace.

However, even though new digital forms of direct marketing are bursting onto the scene, traditional direct mail is still heavily used by most marketers. Mail marketing offers some distinct advantages over digital forms. It provides something tangible for people to hold and keep, and it can be used to send samples. 'Mail makes it real', says one analyst. It 'creates an emotional connection with customers that digital cannot. They hold it, view it, and engage with it in a manner entirely different from their [digital] experiences'. Most people check their physical mailboxes every day. In contrast, email and other digital forms are easily ignored, filtered or trashed. With spam filters and ad blockers filtering out email and mobile ads these days, says a direct marketer, 'sometimes you have to lick a few stamps'.[53]

Traditional direct mail can be an effective component of a broader integrated marketing campaign. For example, an insurance company can reply heavily on TV advertising to establish broad customer awareness and positioning. However, it also needs to use lots of good old direct mail to break through the glut of insurance advertising clutter on TV. It can use direct-mail offers that invite carefully targeted customers to act immediately to save money on their car insurance by visiting its website, calling its sales number or contacting a local agent. It can make its direct mailers as un-skippable as its TV and digital ads. For example, potential customers might receive a personally addressed mail piece with a 'save money' message and scannable code on the front of the envelope, inviting them to look inside or simply scan the code with their smartphone. Scanning the code takes them directly to the company's mobile site where they receive additional information and calls to action.

Direct mail may be resented as *junk mail* if sent to people who have no interest in it. For this reason, smart marketers are targeting their direct mail carefully so as not to waste their money and recipients' time. They are designing permission-based programmes that send direct mail only to those who want to receive it.

Catalogue marketing

Catalogue marketing Direct marketing through print, video or digital catalogues that are mailed to select customers, made available in stores or presented online.

Advances in technology, along with the move toward personalised, one-to-one marketing, have resulted in exciting changes in **catalogue marketing**. *Catalog Age* magazine used to define a *catalogue* as 'a printed, bound piece of at least eight pages, selling multiple products, and offering a direct ordering mechanism'. Today, this definition must be revamped to meet the changing times.

With the stampede to the internet and digital marketing, more and more catalogues are going digital. A variety of online-only cataloguers have emerged, and most print cataloguers have added web-based catalogues and mobile catalogue shopping apps to their marketing mixes. For example, in the days before the latest Lands' End clothing catalogue arrives in the mail, customers can access it digitally at landsend.com, at social media outlets such as Facebook, or via the Lands' End mobile app.[54]

Digital catalogues eliminate printing and mailing costs. They also allow real-time merchandising: products and features can be added or removed as needed and prices can be adjusted instantly to match demand. And whereas space is limited in a print catalogue, online catalogues can offer an almost unlimited amount of merchandise. Customers can carry digital catalogues anywhere they go, even when shopping at physical stores. Online catalogues also offer a broader assortment of presentation formats, including search and video. Finally, digital catalogues can be interactive. For example, IKEA's catalogue app allows customers to experiment with room designs and colour schemes to see how an IKEA product might look in their own space, and to share product and design ideas with others via social media.

Despite the advantages of digital catalogues, however, as your overstuffed letterbox may suggest, printed catalogues are still thriving. Why aren't companies ditching their old-fashioned paper catalogues in this new digital era? For one thing, printed catalogues are one of the best ways to drive online and mobile sales, making them more important than ever in these digital times. For example, one survey found that 75 per cent of Lands' End shoppers say they look at a catalogue before heading to the retailer's online or mobile site to buy. And US-based menswear company Bonobos discovered that 30 per cent of its first-time online customers are inspired to shop there after receiving a catalogue, and these buyers spend 50 per cent more than catalogue-free Bonobos shoppers.[55]

Similarly, in the UK, catalogues are continuing to boost online retail success by encouraging shoppers to buy online, according to research from Royal Mail's MarketReach initiative.[56] The study, which looks at the role of printed catalogues in the digital age, found the benefits of posting catalogues can be 'instant', with 60 per cent of people going online to make a purchase within a week of receiving one. It also found that more than half of catalogue users will spend over £40 on their first purchase, showing that companies that overlook catalogues could be missing out on sales. The MarketReach study found that for over 50 per cent of people, catalogues are a convenient way to review products. More than a third of people (36 per cent) said it allows them to compare products before a purchase. When they go online, consumers with catalogues were found to look at more than double the number of pages viewed by the average person per visit (121 per cent). They also spend 109 per cent more time on any given website than the average site visitor.

But beyond their ability to drive immediate sales, paper catalogues create emotional connections with customers. Somehow, turning actual catalogue pages engages consumers in a way that digital images simply can't. And many sellers are revamping their catalogues, making them much more than just big books full of product pictures and prices. For example, Anthropologie, a clothing retailer with over 200 stores worldwide, calls its catalogues 'journals' and fills them with lifestyle images. 'Of course we're trying to sell clothes and accessories', says Anthropologie's CMO, 'but it's more to inspire and engage'. Boden, a British clothing retailer, addressed a personalised catalogue to each customer using their first name, with a fold-out spread unique to each person based on his or her shopping history and 'life story with the brand'. This move drove a near 30 per cent uplift in response.[57]

Boden, a British clothing retailer, addresses a personalised catalogue to each customer using their first name, with a fold-out spread unique to each person based on his or her shopping history and 'life story with the brand'.

Source: Steven May/Alamy Stock Photo

Similarly, in addition to the 10 or so traditional catalogues that it publishes each year, US-based outdoor clothing company Patagonia sends out other catalogues built around themes. One recent catalogue featured falconry, with images of children with condors in Chile and wildlife volunteers in California releasing rehabilitated red-tailed hawks. The catalogue included only a handful of products, placed on the last four pages of the 43-page book. Such catalogues are 'a way we're speaking to our closest friends and people who know the brand really well', says a Patagonia marketer. 'Years ago, [a catalogue] was a selling tool, and now it's become an inspirational source', says another direct marketer. 'We know our customers love a tactile experience.'[58]

Telemarketing

Telemarketing involves using the telephone to sell directly to consumers and business customers. US marketers spent an estimated $44 billion on telemarketing in 2016, almost as much as on direct mail.[59] We're all familiar with telephone marketing directed toward consumers, but business-to-business (B-to-B) marketers also use telemarketing extensively. Marketers use *outbound* telephone marketing to sell directly to consumers and businesses. They also use *inbound* free phone numbers to receive orders from television and print ads, direct mail or catalogues.

Telemarketing Using the telephone to sell directly to customers.

Properly designed and targeted telemarketing provides many benefits, including purchasing convenience and increased product and service information. However, the explosion in unsolicited outbound telephone marketing over the years annoyed many consumers, who objected to the almost daily 'junk phone calls'. Mobile phone users can also become concerned about the impact of unwanted calls on their battery life while out and about. For these reasons, an increasing number of countries have laws and voluntary agreements allowing people to opt out of receiving commercial messages over the phone, if they do not want to receive them. Automated re-dial systems for calling back are generally not allowed either in most European states. The penalties for breaching these legal and voluntary restrictions vary by country.

Do-not-call legislation has hurt parts of the consumer telemarketing industry. However, two major forms of telemarketing – inbound consumer telemarketing and outbound B-to-B telemarketing – remain strong and growing. Telemarketing also remains a major fundraising tool for non-profit and political groups. Interestingly, do-not-call regulations appear to be helping some direct marketers more than they're hurting them. Rather than making unwanted calls, many of these marketers are developing 'opt-in' calling systems, in which they provide useful information and offers to customers who have invited the company to contact them by phone or email. The opt-in model provides better returns for marketers than the formerly invasive one.

Direct-response television marketing

Direct-response television (DRTV) marketing Direct marketing via television, including direct-response television advertising (or infomercials) and interactive television (iTV) advertising.

Direct-response television (DRTV) marketing takes one of two major forms: direct-response television advertising and interactive TV (iTV) advertising. Using *direct-response television advertising*, direct marketers air television spots, often 60 or 120 seconds in length, which persuasively describe a product and give customers a free phone number or an online site for ordering. It also includes full 30-minute or longer advertising programmes, called *infomercials*, for a single product.

In countries such as the UK, there are stringent compliance procedures making it more difficult to use this approach and it has been relatively uncommon in the past. Nonetheless, High Street TV has pioneered the development of infomercials in the UK, for example for the Zumba dance fitness programme for which it has the UK rights, so things are changing.[60]

The US experience is that successful direct-response television advertising campaigns can ring up big sales. For example, little-known infomercial maker Guthy-Renker has helped propel its Proactiv Solution acne treatment and other 'transformational' products into power brands that pull in $1.8 billion in sales annually to 5 million active customers (compare that to only about $150 million in annual drugstore sales of acne products in the United States). Guthy-Renker now combines DRTV with social media campaigns using Facebook, Pinterest, Google+, Twitter and YouTube to create a powerful integrated direct marketing channel that builds consumer involvement and buying.[61]

DRTV ads are often associated with somewhat loud or questionable pitches for cleaners, stain removers, kitchen gadgets and nifty ways to stay in shape without working very hard at it. In recent years, however, a number of large companies have begun using infomercials to sell their wares, refer customers to retailers, recruit members or attract buyers to their online, mobile and social media sites.

A more recent form of direct-response television marketing is *interactive TV (iTV)*, which lets viewers interact with television programming and advertising. Thanks to technologies such as interactive cable systems, internet-ready smart TVs, and smartphones and tablets, consumers can now use their TV remotes, phones or other devices to obtain more information or make purchases directly from TV ads. For example, fashion retailer H&M ran ads that let viewers with certain Samsung smart TVs use their remotes to interact directly with the commercials. A small pop-up menu, shown as the ads ran, offered product information, the ability to send that information to another device and the option to buy directly.[62]

Increasingly, as the lines continue to blur between TV and other screens, interactive ads and infomercials are appearing not just on TV, but also on mobile, online and social media platforms, adding even more TV-like interactive direct marketing venues. Also, most TV ads these days routinely feature web, mobile and social media links that let multiscreen consumers connect in real time to obtain and share more information about advertised brands.

Kiosk marketing

As consumers become more and more comfortable with digital and touchscreen technologies, many companies are placing information and ordering machines – called *kiosks* (good old-fashioned vending machines but so much more) – in stores, airports, hotels, university campuses and other locations. Kiosks are everywhere these days, from self-service hotel and airline check-in devices, to unmanned product and information kiosks in malls, to in-store ordering devices that let you order merchandise not carried in the store. Many modern 'smart kiosks' are now wireless-enabled. And some machines can even use facial recognition software that lets them guess gender and age and make product recommendations based on those data.

In-store kiosks let customers transfer pictures from memory cards, mobile phones and other digital storage devices; edit them; and make high-quality colour prints. Coffee kiosks in grocery, drug and mass-merchandise stores grind and brew fresh coffee beans and serve coffee, mochas and lattes to on-the-go customers around the clock. Timpson, a British retailer specialising in shoe repairs, key cutting and engraving operates kiosks in various retail premises, including Tesco stores.

In the US, for example, to ensure the American consumer is never far away from a purchase opportunity, ZoomSystems creates small, free-standing kiosks called ZoomShops for retailers ranging from Apple, Sephora and The Body Shop to Macy's and Best Buy. One hundred Best Buy Express ZoomShop kiosks across the country – conveniently located in airports, busy malls, military bases, retail stores and resorts – automatically dispense an assortment of portable media players, digital cameras, gaming consoles, headphones, phone chargers, travel gadgets and other popular products. According to ZoomSystems, today's automated retailing 'offers [consumers] the convenience of online shopping with the immediate gratification of traditional retail'.[63]

Kiosk marketing: as well as saving time, these kiosks display adverts to entice hungry diners with additional extras.

Source: Terence Toh Chin Eng/ Shutterstock

Public policy issues in direct and digital marketing

Direct marketers and their customers usually enjoy mutually rewarding relationships. Occasionally, however, a darker side emerges. The aggressive and sometimes shady tactics of a few direct marketers can bother or harm consumers, giving the entire industry a black eye. Abuses range from simple excesses that irritate consumers to instances of unfair practices or even outright deception and fraud. The direct marketing industry has also faced growing privacy concerns, and online marketers must deal with internet and mobile security issues.

Author comment

Although we mostly benefit from direct and digital marketing, like most other things in life, they have a dark side as well. Marketers and customers alike must guard against irritating or harmful direct and digital marketing practices.

Irritation, unfairness, deception and fraud

Direct marketing excesses sometimes annoy or offend consumers. For example, most of us dislike direct-response TV commercials that are too loud, long and insistent. Our letterboxes fill up with unwanted junk mail, our email inboxes bulge with unwanted spam, and our computer, phone and tablet screens flash with unwanted online or mobile display ads, pop-ups or pop-unders.

Beyond irritating consumers, some direct marketers have been accused of taking unfair advantage of impulsive or less-sophisticated buyers. Television shopping channels, enticing websites and programme-long infomercials targeting television-addicted shoppers seem to be the worst culprits. They feature smooth-talking hosts, elaborately staged demonstrations, claims of drastic price reductions, 'while they last' time limitations and unequalled ease of purchase to inflame buyers who have low sales resistance.

In the UK in 2015, after a newspaper investigation, charity organisations were accused of 'aggressive, ruthless and cynical' behaviour in cold telephone calling to raise donations, and using intensive, high-pressure 'boiler room' call centres. Callers were allegedly told by trainers, 'Be brutal . . . these people have no excuse for not giving'. They were accused of asking elderly dementia sufferers to commit to direct debits, taking money from those who admitted to confusion and memory problems, and repeatedly calling people aged in their 90s for donations even when they had opted out. When this story hit the news, major charities were forced to cease these fundraising activities and Government ministers threatened new laws to crack down on their 'grotesque' practices.[64]

Fraudulent schemes, such as investment scams or phony collections for charity, have also multiplied in recent years. *Internet fraud*, including identity theft and financial scams, has become a serious problem.

One common form of internet fraud is *phishing*, a type of identity theft that uses deceptive emails and fraudulent online sites to fool users into divulging their personal data. For example, consumers may receive an email, supposedly from their bank or credit card company, saying that their account's security has been compromised. The sender asks them to log on to a provided web address and confirm their account number, password and perhaps even other personal details. If they follow the instructions, users are actually turning this sensitive information over to scam artists. Although many consumers are now aware of such schemes, phishing can be extremely costly to those caught in the net. It also damages the brand identities of legitimate online marketers who have worked to build user confidence in web, email and other digital transactions.

Many consumers also worry about *online and digital security*. They fear that unscrupulous snoopers will eavesdrop on their online transactions and social media postings, picking up personal information or intercepting credit and debit card numbers. Although online shopping is now commonplace, one recent study indicated that 70 per cent of participants were still concerned about identity theft. Such concerns are often justified in this age of mass consumer data breaches by organisations ranging from retailers, telecommunications services and banks to health-care providers and the government. According to the latest Cyber Security Breaches Survey, in the UK 43 per cent of businesses and 19 per cent of charities have experienced a cyber security breach or attack in the last 12 months.[65] In the US, according to one source, there were 781 major data security breaches in 2015 alone.[66]

Another internet marketing concern is that of *access by vulnerable or unauthorised groups*. For example, marketers of adult-oriented materials and sites have found it difficult to restrict access by minors. Although Facebook, Snapchat, Twitter, Instagram and other social networks allow no children under age 13 to have profiles, all have significant numbers of underage users. Young social media users can be especially vulnerable to identity theft schemes, revealing personal information, negative experiences and other online dangers. Concerned governments are currently debating bills that would help better protect children online. Unfortunately, this requires the development of technology solutions, and as Facebook puts it, 'That's not so easy'.[67]

Consumer privacy

Invasion of privacy is perhaps the toughest public policy issue now confronting the direct marketing industry. Consumers often benefit from database marketing; they receive more offers that are closely matched to their interests. However, many critics worry that marketers may know *too* much about consumers' lives and that they may use this knowledge to take unfair advantage of consumers. At some point, they claim, the extensive use of databases intrudes on consumer privacy. Consumers, too, worry about their privacy. Although they are now much more willing to share personal information and preferences with marketers via digital and social media, they are still nervous about it. A survey conducted in the UK shows that 79 per cent of internet users have concerns about some aspects of going online, 58 per cent people are concerned about data or privacy and 54 per cent about hacking or security.[68] In the US, one recent survey found that 92 per cent of US internet users worry about their privacy online. Another found that more than 90 per cent of Americans feel they have lost control over the collection and use by companies of the personal data and information they share on social media sites.[69]

In these days of 'big data', it seems that almost every time consumers post something on social media or send a tweet, visit a website, enter a sweepstake, apply for a credit card or order products by phone or online, their names are entered into some company's already bulging database. Using sophisticated big data analytics, direct marketers can mine these databases to 'microtarget' their selling efforts. Most marketers have become highly skilled at collecting and analysing detailed consumer information both online and offline. Even the experts are sometimes surprised by how much marketers can learn. Consider this account by one *Advertising Age* reporter:[70]

> I'm no neophyte when it comes to targeting – not only do I work at *Ad Age*, but I cover direct marketing. Yet even I was taken aback when, as an experiment, we asked the database-marketing company to come up with a demographic and psychographic profile of me. Was it ever spot-on. Using only publicly available information, it concluded my date of birth, home phone number and political-party affiliation. It gleaned that I was a college graduate, that I was married and that one of my parents had passed away. It found that I have several bank, credit and retail cards at 'low-end' department stores. It knew not just how long I've lived at my house but how much it cost, how much it was worth, the type of mortgage that's on it and – within a really close ballpark guess – how much is left to pay on it. It estimated my household income – again nearly perfectly – and determined that I am of British descent.
>
> But that was just the beginning. The company also nailed my psychographic profile. It correctly placed me into various groupings such as: someone who relies more on their own opinions than the recommendations of others when making a purchase; someone who is turned off by loud and aggressive advertising; someone who is family-oriented and has an interest in music, running, sports, computers and is an avid concert-goer; someone who is never far from an internet connection, generally used to peruse sports and general news updates; and someone who sees health as a core value. Scary? Certainly.

Some consumers and policy makers worry that the ready availability of information may leave consumers open to abuse. For example, they ask, should credit card companies be allowed to make data on their millions of cardholders worldwide available to merchants who accept their cards? Is it right for government agencies to sell the names and addresses of driver's licence holders, along with height, weight and gender information, allowing apparel retailers to target tall or overweight people with special clothing offers? Or is it right for telecommunications companies to make mobile phone usage data available to data analytics firms that then sell customer insights to marketers? For example, SAP's Consumer Insight 365 unit gleans and sells customer insights from up to 300 mobile call, web surfing and text messaging events per day for each of 20–25 million mobile subscribers from data supplied by mobile operators.[71]

A need for action

In response to online privacy and security concerns, many national government and European agencies are considering numerous legislative actions to regulate how online, social media and mobile operators obtain and use consumer information. New laws promise to give consumers more control over how web information is used, and to allow regulators to take a more active role in policing online privacy. European regulators have already several times taken action to curb what they regard as unwarranted invasion of consumer privacy. For example, in Europe in 2014 consumers gained 'the right to be forgotten' following a ruling of the European Union's top court, whereby individuals can ask that Google removes results that turn up in internet searches for their own names, and Google is responding to thousands of requests from individuals who want data removed from searches.[72]

In addition to the Privacy and Electronic Communications Regulations introduced in the EU in 2003, in 2012 the EU Privacy and Electronic Communications Directive came into force, apparently heralding a new era of regulation for digital business models. The directive is designed to protect users' privacy if they do not wish their browsing habits to be tracked. The regulations have been driven by complaints from privacy campaigners concerned about cookies tracking details of web use to allow targeted advertising based on the web user's behaviour online. The directive introduces an 'opt-in' regime where users have to agree to cookies being used.[73] The General Data Protection Regulation (GDPR) came into effect in 2018, superseding the Data Protection Act 1998 and other Data protection Regulations in the EU. It is an EU regulation on data protection and privacy for all individuals within the European Union (EU) and the European Economic Area (EEA), with a primary aim of giving control to individuals over their personal data and unify the regulation within the EU with a simplified regulatory environment for international business. It applies when the data controller (an organisation that collects data from EU residents), the processor (an organisation that processes data on behalf of a data controller) or the data subject (person) is based in the EU.[74] In 2018, the Data Protection Act (DPA) 2018 came into force as the UK implementation of GDPR. Strict rules need to be followed by everyone who is responsible for using personal data. The rules are based on eight principles on data use: fairly and lawfully processed; processed for limited purposes; adequate, relevant and not excessive; accurate; not kept for longer than is necessary; processed in line with your rights; secure; and not transferred to other countries without adequate protection.[75]

Despite the introduction of various regulations, historically regulators struggle to control the actions of powerful global organisations like Facebook and Google. Early 2012 saw Google rolling out a new privacy policy which makes it possible for Google to take what it has learnt about a consumer from one of its services, such as search or Gmail, and use it to tailor what the user sees on other services. The content of emails sent on Gmail could, for example, be used to influence what advertising is shown to that person on YouTube. Google made these changes in spite of repeated requests from regulators to delay, and warnings that the policy might not be lawful in the European Union.[76]

Consumer privacy: the ad industry has agreed on an *advertising option icon* that will tell consumers why they are seeing a particular ad and allow them to opt out.
Source: Richard Levine/Alamy Stock Photo

Particular concern relating to privacy issues relates to Google and Facebook. The ability of Google to use its records of individuals' internet searches to identify them as targets for advertising and marketing offers on the basis of their search interests is a major worry for privacy advocates. The capacity of Facebook to track online behaviour and connections of users of its social network provides a unique database relating to people's behaviour and preferences. The argument about whether these companies breach people's rights continues.

All of these concerns call for strong actions by marketers to monitor and prevent privacy abuses before legislators step in to do it for them. For example, to head off increased government regulation, six advertiser groups – the American

Association of Advertising Agencies, the American Advertising Federation, the Association of National Advertisers, the Direct Marketing Association, the Interactive Advertising Bureau and the Network Advertising Initiative – issued a set of online advertising principles through the Digital Advertising Alliance. Among other measures, the self-regulatory principles call for online and mobile marketers to provide transparency and choice to consumers if online viewing data are collected or used for targeting interest-based advertising. The ad industry uses an *advertising option icon* – a little 'i' inside a triangle – that it adds to behaviourally targeted online ads to tell consumers why they are seeing a particular ad and allowing them to opt out.[77]

Many companies have responded to consumer privacy and security concerns with actions of their own. Still others are taking an industry-wide approach. For example, TRUSTe, a non-profit self-regulatory organisation, works with many large corporate sponsors, including Microsoft, Yahoo!, AT&T, Facebook, Disney and Apple, to audit privacy and security measures and help consumers navigate the internet safely. According to the company's website, 'TRUSTe believes that an environment of mutual trust and openness will help make and keep the internet a free, comfortable, and richly diverse community for everyone.' To reassure consumers, the company lends its TRUSTe privacy seal to websites, mobile apps, email marketing and other online and social media channels that meet its privacy and security standards.[78]

The direct marketing industry as a whole is also addressing public policy issues. For example, in an effort to build consumer confidence in shopping direct, the Direct Marketing Association – the largest association for businesses practising direct, database and interactive marketing, including nearly half of the *Fortune* 100 companies – launched a 'Privacy Promise to American Consumers'. The Privacy Promise requires that all DMA members adhere to a carefully developed set of consumer privacy rules. Members must agree to notify customers when any personal information is rented, sold or exchanged with others. They must also honour consumer requests to opt out of receiving further solicitations or having their contact information transferred to other marketers. Finally, they must abide by the DMA's Preference Service by removing the names of consumers who do not wish to receive mail, phone or email offers.[79]

Direct marketers know that, if left untended, such direct marketing abuses will lead to increasingly negative consumer attitudes, lower response and engagement rates, and calls for more restrictive legal control by government. Most direct marketers want the same things that consumers want: honest and well-designed marketing offers targeted only toward consumers who will appreciate and respond to them. Direct marketing is just too expensive to waste on consumers who don't want it.

Learning outcomes review

This chapter is the last of four chapters covering the final marketing mix element – promotion. The previous chapters dealt with advertising, public relations, personal selling and sales promotion. This one investigates the burgeoning field of direct and digital marketing, including online, social media and mobile marketing.

Objective 1 Define direct and digital marketing and discuss their rapid growth and benefits to customers and companies (pp. 516–519)

Direct and digital marketing involve engaging directly with carefully targeted individual consumers and customer communities to both obtain an immediate response and build lasting customer relationships. Companies use direct marketing to tailor their offers and content to the needs and interests of narrowly defined segments or individual buyers to build direct customer engagement, brand community and sales. Today, spurred by the surge in internet usage and buying, and by rapid advances in digital technologies – from smartphones, tablets and other digital devices to the spate of online social and mobile media – direct marketing has undergone a dramatic transformation.

For buyers, direct and digital marketing are convenient, easy to use and private. They give buyers anywhere, anytime access to an almost unlimited assortment of products and buying information. Direct marketing is also immediate and interactive, allowing buyers to create exactly the configuration of information, products or services they desire and then order them on the spot. Finally, for consumers who want it, digital marketing through online, mobile and social media provides a sense of brand engagement and community – a place to share brand information and experiences with other brand fans. For sellers, direct and digital marketing are powerful tools for building customer engagement and close, personalised, interactive customer relationships. They also offer greater flexibility, letting marketers make ongoing adjustments to prices and programmes or make immediate, timely and personal announcements and offers.

Objective 2 Identify and discuss the major forms of direct and digital marketing (p. 519)

The main forms of direct and digital marketing include traditional direct marketing tools and the new digital marketing tools. Traditional direct approaches are face-to-face personal selling, direct-mail marketing, catalogue marketing, telemarketing, DRTV marketing and kiosk marketing. These traditional tools are still heavily used and very important in most firms' direct marketing efforts. In recent years, however, a dazzling new set of direct digital marketing tools has burst onto the marketing scene, including online marketing (websites, online ads and promotions, email, online videos and blogs), social media marketing and mobile marketing. The chapter first discusses the fast-growing new digital direct marketing tools and then examines the traditional tools.

Objective 3 Explain how companies have responded to the internet and the digital age with various online marketing strategies (pp. 519–529)

The internet and digital age have fundamentally changed customers' notions of convenience, speed, price, product information, service and brand interactions. As a result, they have given marketers a whole new way to create customer value, engage customers and build customer relationships. The internet now influences a large proportion of total sales – including sales transacted online plus those made in stores but encouraged by online research. To reach this burgeoning market, most companies now market online.

Online marketing takes several forms, including company websites, online advertising and promotions, email marketing, online video and blogs. Social media and mobile marketing also take place online. But because of their special characteristics, we discuss these fast-growing digital marketing approaches in separate sections. For most companies, the first step in conducting online marketing is to create a website. The key to a successful website is to create enough value and engagement to get consumers to come to the site, stick around and come back again.

Online advertising has become a major promotional medium. The main forms of online advertising are display ads and search-related ads. Email marketing is also an important form of digital marketing. Used properly, email lets marketers send highly targeted, tightly personalised relationship-building messages. Another important form of online marketing is posting digital video content on brand websites or social media. Marketers hope that some of their videos will go viral, engaging consumers by the tens of millions. Finally, companies can use blogs as effective means of reaching customer communities. They can create their own blogs and advertise on existing blogs or influence content there.

Objective 4 Discuss how companies use social media and mobile marketing to engage consumers and create brand community (pp. 529–531)

In the digital age, countless independent and commercial social media have arisen that give consumers online places to congregate, socialise, and exchange views and information. Most marketers are now riding this huge social media wave. Brands can use existing social media or they can set up their own. Using existing social media seems the easiest. Thus, most brands – large and small – have set up shop on a host of social media sites. Some of the major social networks are huge; other niche social media cater to the needs of smaller communities of like-minded people. Beyond these independent social media, many companies have created their own online brand communities. More than making just scattered efforts and chasing 'Likes' and tweets, most companies are integrating a broad range of diverse media to create brand-related social sharing, engagement and customer community.

Using social media presents both advantages and challenges. On the plus side, social media are targeted and personal, interactive, immediate and timely, and cost-effective. Perhaps the biggest advantage is their engagement and social sharing capabilities, making them ideal for creating customer community. On the down side, consumers' control over social media content makes social media difficult to control.

Mobile marketing features marketing messages, promotions and other content delivered to on-the-go consumers through their mobile devices. Marketers use mobile marketing to engage customers anywhere, anytime during the buying and relationship-building processes. The widespread adoption of mobile devices and the surge in mobile web traffic have made mobile marketing a must for most brands, and almost every major marketer is now integrating mobile marketing into its direct marketing programmes. Many marketers have created their own mobile online sites. Others have created useful or entertaining mobile apps to engage customers with their brands and help them shop.

Objective 5 Identify and discuss the traditional direct marketing forms and overview the public policy and ethical issues presented by direct marketing (pp. 531–539)

Although the fast-growing digital marketing tools have grabbed most of the headlines lately, traditional direct marketing tools are very much alive and still heavily used. The major forms are face-to-face or personal selling, direct-mail marketing, catalogue marketing, telemarketing, direct-response television (DRTV) marketing and kiosk marketing.

Direct-mail marketing consists of the company sending an offer, announcement, reminder or other item to a person at a specific address. Some marketers rely on catalogue marketing – selling through catalogues mailed to a select list of customers, made available in stores or accessed online. Telemarketing consists of using the telephone to sell directly to consumers. DRTV marketing has two forms: direct-response advertising (or infomercials) and interactive television (iTV) marketing. Kiosks are information and ordering machines that direct marketers place in stores, airports, hotels and other locations.

Direct marketers and their customers usually enjoy mutually rewarding relationships. Sometimes, however, direct marketing presents a darker side. The aggressive and sometimes shady tactics of a few direct marketers can bother or harm consumers, giving the entire industry a black eye. Abuses range from simple excesses that irritate consumers to instances of unfair practices or even outright deception and fraud. The direct marketing industry has also faced growing concerns about invasion of privacy, and internet security issues. Such concerns call for strong action by marketers and public policy makers to curb direct marketing abuses. In the end, most direct marketers want the same things that consumers want: honest and well-designed marketing offers targeted only toward consumers who will appreciate and respond to them.

Navigating the key terms

Objective 1
Direct and digital marketing (p. 516)

Objective 2
Digital and social media marketing (p. 519)

Objective 3
Omni-channel retailing (p. 520)
Online marketing (p. 520)
Marketing website (p. 521)
Branded community website (p. 521)
Online advertising (p. 522)
Email marketing (p. 523)
Spam (p. 523)
Viral marketing (p. 524)
Blogs (p. 524)

Objective 4
Social media (p. 525)
Mobile marketing (p. 529)

Objective 5
Direct-mail marketing (p. 531)
Catalogue marketing (p. 532)
Telemarketing (p. 533)
Direct-response television (DRTV) marketing (p. 534)

Discussion and critical thinking

Discussing the concepts

17.1 Discuss the benefits of direct and digital marketing to buyers and sellers. (AACSB: Communication)

17.2 Define omni-channel retailing. How are retailers responding to the omni-channel consumer? (AACSB: Communication)

17.3 What are blogs, and how are marketers using them to market their products and services? What advantages and disadvantages do blogs pose for marketers? (AACSB: Communication)

17.4 Discuss how the traditional forms of direct marketing continue to be important promotion tools. (AACSB: Communication)

17.5 What is phishing, and how does it affect internet marketing? (AACSB: Communication; Reflective Thinking)

Critical-thinking exercises

17.6 In a small group, search the internet to locate a controversial or failed social media campaign. Present an analysis of the failed campaign. Make a recommendation on how to address the controversy. (AACSB: Use of IT; Communication; Reflective thinking)

17.7 Review the Telephone Consumer Protection Act and discuss a recent case in which a marketer was fined for violating the act. (AACSB: Communication; Use of IT; Reflective thinking)

17.8 Although mobile advertising makes up a small percentage of online advertising, it is one of the fastest-growing advertising channels. But one obstacle is measuring return on investment in mobile. How are marketers measuring the return on investment in mobile advertising? Develop a presentation suggesting metrics marketers should use to measure effectiveness of mobile advertising. (AACSB: Communication; Use of IT; Reflective thinking)

Mini-cases and applications

Online, mobile and social media marketing: 'Buy' buttons

Amazon is the big gun in e-commerce that has disrupted traditional retailing. But now, it seems, Amazon is in for some disruptive competition itself. With global e-commerce sales expected to reach almost €2 trillion a year, Google and social media sites such as Facebook, Twitter, Pinterest and Instagram want to get in on the action. Several social media sites are experimenting with 'Buy' buttons on their sites that let consumers purchase directly through the social medium. Google is experimenting with 'Buy' buttons on search results to counter the almost 40 per cent of consumers who now start their shopping searches on Amazon instead of search engines like Google. The biggest game changer, however, might be Pinterest. Pinterest started in 1999 as a shareable bulletin board where participants 'pin' pictures of things they like. It is now a multibillion-dollar company with 70 million monthly visitors who have saved more than 50 billion objects on a billion Pinterest bulletin boards. Lots of people would like to be able to buy some of those pinned objects, so Pinterest has added a 'Buy' button to its mobile app. Users had already been able to click through to a marketer's website, but now they can purchase any of more than 2 million products from retailers such as Macy's, Bloomingdales and Nordstrom directly through Pinterest without leaving the site. Payments are processed through Pinterest's partners Stripe, Brainstorm or Apple Pay, but the seller provides the order fulfilment. In the future, Pinterest users may see an appetising recipe, click the 'Buy' button to order the ingredients from Fresh Direct, and have them delivered to their homes in less than an hour.

17.9 What competitive advantage does Pinterest (www.pinterest.com) have over other social media that might make its 'Buy' button more successful? (AACSB: Communication; Reflective thinking)

17.10 Discuss the advantages and disadvantages of 'Buy' buttons for social media sites like Pinterest and search engines like Google. What are the advantages and disadvantages for marketers making their goods available through 'Buy' buttons on these sites? (AACSB Communication; Reflective thinking)

Marketing ethics: #Fail

According to one survey, 92 per cent of US companies now claim that social media marketing is important for their businesses. Fashion designer Kenneth Cole took advantage of the trend in 2011 by posting a tweet promoting his business by linking it to the Egyptian revolution. Kenneth Cole was criticised on social media for capitalising on the strife of the Egyptian revolution to promote his website. The offensive tweet was deleted, and Cole apologised.

Most marketers would not make the same mistake twice. However, in September 2013, as the United States deliberated military action in Syria, Cole tweeted the following: "'Boots on the ground" or not, let's not forget about sandals, pumps and loafers. Footwear.' To justify this action, Cole told *Details* magazine, 'Billions of people read my inappropriate, self-promoting tweet. I got a lot of harsh responses, and we hired a crisis management firm. If you look at lists of the biggest Twitter gaffes ever, we're always one through five. But our stock went up that day, our e-commerce business was better, the business at every one of our stores improved, and I picked up 3,000 new followers on Twitter. So on what criteria is this a gaffe? Within hours, I tweeted an explanation, which had to be vetted by lawyers. I'm not even sure I used the words I'm sorry – because I wasn't sorry.'

17.11 Kenneth Cole believes that his controversial tweets improve business and provoke conversation and awareness. Is this an effective use of social media to engage customers with the brand? Why or why not? (AACSB: Communication, Reflective thinking)

17.12 Many marketers are still learning how to use social media platforms effectively to engage customers in meaningful relationships. Locate three social media platforms used by the Kenneth Cole brand to engage customers. Is the brand's marketing message consistent across all platforms? Explain. (AACSB: Communication; Use of IT; Reflective thinking)

Marketing by numbers: field sales versus telemarketing

Many companies are realising the efficiency of telemarketing in the face of soaring sales force costs. Whereas an average business-to-business sales call by an outside salesperson costs \$600, the cost of a telemarketing sales call can be as little as \$20 to \$30. And telemarketers can make 20 to 33 decision-maker contacts per day to a salesperson's four per day. This has gotten the attention of many business-to-business marketers, where telemarketing can be very effective.

17.13 Refer to Appendix 2 to determine the marketing return on sales (marketing ROS) and return on marketing investment (marketing ROI) for Company A and Company B in the table below. Which company is performing better? Explain. (AACSB: Communication; Analytical reasoning; Reflective thinking)

	Company A (sales force only)	Company B (telemarketing only)
Net sales	$1,000,000	$850,000
Cost of goods sold	$ 500,000	$425,000
Sales expenses	$ 300,000	$100,000

17.14 Should all companies consider reducing their sales forces in favour of telemarketing? Discuss the pros and cons of this action. (AACSB: Communication; Reflective thinking)

Video case

Nutrisystem

see www.pearsoned.co.uk/kotler

You've probably heard of Nutrisystem, a company that produced $800 million in revenues last year by selling weight-loss products. What started as a small effort based on an e-commerce marketing plan has evolved into a multi-pronged marketing campaign that not only has expanded the business but also provides substantial return-on-investment potential.

The key to Nutrisystem's efforts is its direct-to-consumer platform. Using various advertising outlets, from magazines to television, Nutrisystem's promotions all have one thing in common – they let customers make direct contact with the company. Inserting a unique URL or 800 number in every ad also lets Nutrisystem track the success of each and every effort.

After viewing the video featuring Nutrisystem, answer the following questions:

17.15 In what different ways does Nutrisystem engage in direct marketing?

17.16 What advantages does Nutrisystem's marketing campaign have over selling through intermediary channels?

17.17 In addition to its direct-to-consumer distribution and promotional efforts, what is essential to the success of Nutrisystem?

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Company case

The ASOS experience

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From AsSeenOnScreen to ASOS

AsSeenOnScreen was established on 3 June 2000 by Nick Robertson and Quentin Griffiths. In 2003, the name was abbreviated and ASOS was born. ASOS is a British pure play online fashion and beauty retailer primarily aimed at young adults, or as ASOS states, the '20-something market'. It sells over 850 brands as well as its own range of clothing, accessories and beauty products via e-commerce and mobile channels. It aspires to be the world's number-one online shopping destination for fashion-loving 20-somethings and it's not too far from this goal. In 2017, ASOS recorded £1,876.5 million retail sales, an increase of 34 per cent on 2016 figures. This success is greatly attributed to the company's commitment that fashion and technology have to go hand in hand, which is evident in ASOS's business. Let's see what ASOS's key to success is.

Friction-free shopping experience

With over 1.5 billion visitors to its online platforms, ASOS understands its target market and the importance of providing consumers with a unique online experience, particularly on mobile where over 70 per cent of visits to asos.com take place. The future is mobile! ASOS therefore continues to invest in its already five-star rated mobile app to meet the ever-growing expectations of tech-savvy 20-somethings who look at their phones 100+ times a day, and stay connected to the internet 24/7. ASOS recognises that 20-somethings live in a world that is constantly changing; the world of fast fashion and technological innovations. To 'keep up with the Joneses', ASOS adopts an 'always in beta' philosophy, which reflects the company's commitment to continuous improvement aimed at providing the consumer with a seamless online experience at all stages of the decision-making process.

To provide 20-somethings with the best possible experience online, the shopping journey is infused with useful and inspirational content. The ASOS content development team works around the clock to bring in the right content at the right time. They produce 60,000 pieces of content every month, which include photos of products presented by over 200 models of differing shapes and sizes, and much-loved video catwalks. This graphical content is like a shop window through which the consumer can assess the product and make purchase decisions. To further support decision making, in addition to content developed by the ASOS team, consumers can access user-generated content. This includes online consumer product reviews as well as graphical content sourced directly from the social media #AsSeenOnMe campaign.

With products from over 850 brands on offer, ASOS understands that searching for the right product can be a daunting task, even with its recently improved navigation schemes – search, as well as category and brand listed pages. To ease product search, ASOS has introduced, and constantly improves, its product recommendation algorithm based on consumers' previous purchases. Consumers can also search for products using ASOS's latest feature Style Match. Style Match is a photo search technology that allows the consumer to search for products based on pre-uploaded pictures, which directs the consumer straight to the product they are looking for. Maintaining the 'always in beta' mindset, ASOS keeps looking forward. Plans are being made to leverage machine learning, and experiment with augmented reality and voice search, to make it ever easier for the consumer to find the right product.

And when the consumer finally finds the right product, ASOS knows that there is nothing more frustrating than a 404 error code at the checkout. To ensure seamless transactions, in 2018 ASOS introduced a new upgraded app with fully native mobile experience and improved checkout. The app can handle a record number of 33 orders per second without compromising on consumer online experience.

At checkout, things are easy as ABC and that's because ASOS killed the keyboard on mobile. Instead of typing and re-typing payment card details, the consumer can scan and upload a photo of their payment card on the app, or use ApplePay or Touch ID on iOS apps, all of which allow the consumer to conclude the transaction effortlessly. If, however, the consumer wants to try the product before paying for it, a new feature, 'try before you buy' is readily available where, in three simple steps, 20-somethings can place an order, try it on and pay within 30 days from the order date.

Order delivery is as easy (and fast!) as payment. ASOS offers a range of delivery options; from standard and next day to precise, and even instant delivery to various Click & Collect options. Consumers can sign up to the Premier Delivery Scheme for unlimited next-day or nominated-day delivery. ASOS also offers real-time tracked services on 98 per cent of global deliveries because 20-somethings like to know where their orders are. Product returns are equally as important as order delivery. ASOS offers free returns from unlimited numbers of locations. All this coupled with in-app up-to-date communication for complete transparency makes the ASOS experience frictionless from start to finish.

If, however, there is a 'friction', customer service is there to help! ASOS strives to provide the best customer service through the entire ASOS experience. It has upgraded self-service functionality for customers with the launch of an updated 'Help' section to ensure that the customer has access to the information they need. Additionally, 20-somethings can contact customer service 24/7, 365 days a year via Facebook Messenger, Twitter, Instagram, Whatsapp, live chat, email or via all of those communication channels – ASOS's CRM system records every consumer–ASOS interaction to provide seamless support.

The ASOS experience does not end there, ASOS wants its consumers to be loyal brand advocates, and they are. Eighty-five per cent of 20-somethings are enrolled on the ASOS A-LIST loyalty scheme, which allows them to collect points from every purchase in exchange for ASOS vouchers. Those vouchers can be then redeemed with their next ASOS purchase. Consumers participating in the scheme do not only shop more on asos.com, but they are also visiting ASOS more often than an average person shopping online. Win–win!

Last but not least, the ASOS experience is a safe one. Every online transaction requires provision of personal data to place an order, make payment, and to engage with the brand. This is a lot of consumer data. The smallest data security breach can lead to reputation damage and loss of consumer confidence. The ASOS Fraud Prevention team therefore works 24/7 providing fraud prevention and data protection services. And oh boy, how effective they are! In 2018 the team prevented £10.9 million worth of fraud attacks across 80,108 orders. In addition to fraud prevention, ASOS has a number of security controls in place to stop unauthorised access to consumer data, and it has recently introduced a Consumer Privacy Programme, which aims to provide the consumer with an open and transparent way to manage their privacy needs in line with EU regulations that came into effect in 2018.

#AsSeenOnMe

Equally important to a seamless online shopping experience is engagement on social media. This is because ASOS recognises that 20-somethings are present on up to seven different social media platforms, where they look for inspiration for buying clothes, accessories and beauty products. To inspire them, 80+ content creators produce social media content that not only reflects the ASOS brand, but also fits into the type of social media and its following. ASOS publishes its content on Facebook where the @ASOS Facebook page is liked by 5 million followers, Twitter where the following of the @ASOS Twitter feed exceeds 1 million, and on the Instagram page, which is regularly visited by over 9 million users. ASOS also has a YouTube channel with over 15 million views, where weekly fashion and beauty videos are uploaded. Moreover, ASOS maintains its presence on Pinterest, Google + and Snapchat. It is everywhere!

Among all the social media platforms used, ASOS knows that Instagram is the most important one. This is because Instagram is where 20-somethings maintain their 'online self'. To encourage self-expression, ASOS encourages its followers to share their fashion looks on Instagram using the #AsSeenOnMe hashtag. Photos with #AsSeenOnMe allow for peer-to-peer styling inspiration. They are also a great source of data. Every #AsSeenOnMe photo is stored in a database, which ASOS analyses to better understand 20-somethings and make more accurate personalised product recommendations. The #AsSeenOnMe campaign is further supported by the ASOS Insiders community – a group of 20-something influencers who offer advice on how to style ASOS products. 20-somethings engaged with ASOS Insiders are found to shop six times more than average person. Win–win, again!

The social media landscape is continuously changing, and to keep up with those changes ASOS constantly introduces new social media tools. The 'always in beta' philosophy therefore, does not finish on the ASOS flagship app, but is continuous throughout its social media strategy. ASOS's latest social media features include Instagram Stories, Facebook Live Chat and Snapchat filters, all of which 20-somethings love. The figures speak for themselves. A 2017 campaign encouraging consumers to use Instagram Stories to upload a video of ASOS products they had purchased resulted in a whopping 3 million UK 20-somethings interacting with the video. WOW!

Questions for discussion

1 What are the key strategic objectives of ASOS and how are they measured?

2 Discuss what ASOS's success can be attributed to.

3 Identify individual stages of the consumer's online shopping journey, and discuss how ASOS supports each stage.

4 Considering the constantly changing digital landscape, discuss the potential risks ASOS could face in the future

5 Provide examples of new and emerging technologies, which ASOS can use to maintain its 'always in beta' philosophy. Discuss how ASOS can incorporate those technologies into its current business model.

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Part Four

Extending marketing

Chapter Eighteen

Creating competitive advantage

Chapter preview

In previous chapters, you explored the basics of marketing. You learned that the aim of marketing is to engage customers and to create value for them in order to capture value from them in return. Good marketing companies win, keep and grow customers by understanding customer needs, designing customer-driven marketing strategies, constructing value-delivering marketing programmes, engaging customers, and building customer and marketing partner relationships. In the final three chapters, we'll extend this concept to three special areas: creating competitive advantage, global marketing, and social and environmental marketing sustainability.

To start, let's dig into the competitive strategy of Microsoft, the technology giant that dominated the computer software world throughout the 1990s and much of the 2000s. Its Windows and Office products have long been must-haves in the PC market. But with the decline in stand-alone personal computers and the surge in digitally connected devices – everything from smartphones and tablets to internet-connected TVs – mighty Microsoft recently found itself struggling to revamp its competitive marketing strategy in a fast-changing digital environment. The tech giant is now reinventing itself as a relevant brand that consumers can't live without in the post-PC era.

Learning outcomes

- **Objective 1** You will be able to discuss the need to understand competitors as well as customers through competitor analysis.
  Competitor analysis (pp. 553–559)
- **Objective 2** You will be able to explain the fundamentals of competitive marketing strategies based on creating value for customers.
  Competitive strategies (pp. 559–568)
- **Objective 3** You will be able to illustrate the need for balancing customer and competitor orientations in becoming a truly market-centred organisation.
  Balancing customer and competitor orientations (pp. 568–569)

Microsoft: a new competitive marketing strategy for the post-PC era

Fifteen years ago, talking high-tech meant talking about the almighty personal computer. Intel provided the PC microprocessors, and manufacturers such as Dell and HP built and marketed the machines. But it was Microsoft that really drove the PC industry – it made the operating systems that made most PCs go. As the dominant software developer, Microsoft put its Windows operating system and Office productivity suite on almost every computer sold.

The huge success of Windows drove Microsoft's revenues, profits and stock price to dizzying heights. By the start of 2000, the total value of Microsoft's stock had hit a record €619 billion, making it the most valuable company in history. In those heady days, no company was more relevant than Microsoft. And from a competitive standpoint, no company was more powerful.

But moving through the first decade of the new millennium, PC sales growth flattened as the world fell in love with a rush of alluring new digital devices and technologies. It started with iPods and smartphones and evolved rapidly into a full complement of digital devices – from e-readers, tablets and sleek new laptops to internet-connected TVs and game consoles. These devices are connected and mobile, not stationary standalones like the old PCs. They link users to an ever-on, head-spinning new world of information, entertainment and socialisation options. And, for the most part, these new devices were coming to market without the need for Microsoft's tried-and-true products. Increasingly, even the trusty old PC became a digital-connection device – a gateway to the web, social media,and cloud computing. And much of that could be done without once-indispensable Microsoft software.

In this new digitally connected world, Microsoft found itself lagging behind new, more-glamorous competitors such as Google, Apple, Samsung, and even Amazon and Facebook, which seemed to provide all things digital – the smart devices, the connecting technologies and even the digital destinations. In the new competitive environment, although still financially strong and still the world's dominant PC software maker, Microsoft lost some of its lustre. In the year 2000 – due largely to the collapse of the stock market technology bubble – Microsoft's value plummeted by 60 per cent. And whereas other tech stocks recovered, Microsoft's share price and profits languished at early 2000's levels for a dozen years or more.

Over the past few years, however, in an attempt to align itself better with the new digital world order and the host of new competitors, Microsoft has undergone a dramatic transformation in its vision and competitive strategy. Microsoft now wants to be a full-line digital devices and services company that delivers 'delightful, seamless technology experiences' that connect people to communication, productivity, entertainment and one another.

Under this new competitive strategy, Microsoft has unleashed a flurry of new, improved or acquired digital products and services. Over the past few years, it has introduced new versions of Windows and Office that serve not just computers but also tablets and smartphones, a next-generation Xbox console that doubles as a TV, a music and movie service to rival iTunes and Google Play, an upgraded version of Skype, the OneDrive cloud storage solution and even innovative new digital hardware – the Microsoft Surface tablet and Microsoft Surface Book laptop – that it hopes will lead the way to even more innovative Windows devices.

But these new individual offerings don't begin to tell the full story of Microsoft's transformation. More important is the way that these software, hardware and service offerings work together to deliver a full digital experience. It all revolves around Windows 10, a dramatic digital-age metamorphosis from previous Windows versions. Windows 10 employs colourful, interactive tiles and touch-screen navigation, with interactive features that compete head-on with the systems of rivals Apple, Google and Amazon. Best of all, Windows 10 works seamlessly across desktops and laptops, tablets, phones and even the company's own Xbox, providing the cloud-based connectivity that today's users covet.

In a fast-changing digital environment, Microsoft is revamping its competitive strategy to make itself a brand that consumers can't live without in the post-PC world.
Source: gguy/Shutterstock

Using Windows 10 software and apps with Windows-based devices and cloud computing services, you can select a movie from a tablet, start playing it on the TV or Xbox, and finish watching it on your phone, pausing to call or text a friend using Skype. What you do on one Windows device is automatically updated on other devices. Playlists created or songs and TV programmes purchased from a mobile device will be waiting for you on your home PC or laptop. And Windows 10 is a social creature; for example, it updates contacts automatically with tweets and photos from friends. The new Windows seems to be pushing all the right digital buttons for customers. In its first eight months, it was placed on 270 million active devices, making it the most successful launch in Windows's nearly 30-year history.

The latest version of Microsoft Office – Office 365 – has also been transformed for the connected age. Office 365 positions Microsoft's venerable productivity suite as a service, not just stand-alone software. With an annual subscription, you get the latest version of Office, a terabyte of cloud storage on OneDrive, 60 minutes of Skype calls per month, free updates and new features, and free tech support by phone or chat through the Microsoft Answer Desk. Microsoft also released an Office version for Apple devices. So Office now works across devices, operating systems and the cloud, making it easier than ever to stay connected with others and to create and share documents on the go.

Perhaps Microsoft's biggest about-face is the development of its own hardware devices. In the past, the company has relied on partners like Dell, HP and Nokia to develop the PCs, tablets and phones that run its software. But to gain better control in today's superheated digital and mobile markets, Microsoft is now doing its own development of Windows-enabled devices.

For starters, Microsoft developed the cutting-edge Surface tablet, a unique combination of tablet and mini-laptop. More recently, it released its first dedicated laptop, the Surface Book, which goes head-to-head with the Apple MacBook Pro. Microsoft is also dabbling seriously with mobile phones, first buying then selling phone maker Nokia and now rumoured to soon be introducing a Windows-based Surface phone of its own. The Surface line, along with Xbox, will give Microsoft better control of access to three important digital screens beyond the PC – tablets, TVs and phones.

Microsoft's revamped competitive strategy also plays to the company's long-held competitive advantage in business markets as the company plunges headlong into new business products and services. In addition to flexible bundling of its Windows, Office and Enterprise Mobility Suite for business customers, Microsoft now offers Azure, a 'cloud for modern business'. And it recently acquired Yammer, a web-services provider and hip maker of business social networking tools – a sort of Facebook for businesses. Finally, Microsoft is now exploring a wide range of futuristic digital technologies, from intelligent chatbots, machine learning and augmented/virtual reality to Internet of Things applications.[1]

Today's companies face their toughest competition ever. In previous chapters, we argued that to succeed in today's fiercely competitive marketplace, companies must move from a product-and-selling philosophy to a customer-and-marketing philosophy. This chapter spells out in more detail how companies can go about outperforming competitors to win, keep and grow customers. To win in today's marketplace, companies must become adept not only in managing products but also in managing customer relationships in the face of determined competition and a difficult marketing environment. Understanding customers is crucial, but it's not enough. Building profitable customer relationships and gaining **competitive advantage** require delivering more value and satisfaction to target customers than competitors do. Customers will see competitive advantages as customer advantages, giving the company an edge over its competitors.

In this chapter, we examine competitive marketing strategies – how companies analyse their competitors and develop successful, customer value-based strategies for engaging customers and building profitable customer relationships. The first step is **competitor analysis**, the process of identifying, assessing and selecting key competitors. The second step is developing **competitive marketing strategies** that strongly position the company against competitors and give the company the strongest possible strategic advantage.

Competitive advantage An advantage over competitors gained by offering consumers greater value.

Competitor analysis Identifying key competitors; assessing their objectives, strategies, strengths and weaknesses, and reaction patterns; and selecting which competitors to attack or avoid.

Competitive marketing strategies Strategies that strongly position the company against competitors and give it the greatest possible competitive advantage.

Competitor analysis

To plan effective marketing strategies, a company needs to find out all it can about its competitors. It must constantly compare its marketing strategies, products, prices, channels and promotions with those of close competitors. In this way, the company can find areas of potential competitive advantage and disadvantage. As shown in Figure 18.1, competitor analysis involves first identifying and assessing competitors and then selecting which competitors to attack or avoid.

Author comment
Creating competitive advantage begins with a thorough understanding of competitors' strategies. But before a company can analyse its competitors, it must first identify them – a task that's not as simple as it seems.

Identifying competitors

Normally, identifying competitors would seem to be a simple task. At the narrowest level, a company can define its competitors as other companies offering similar products and services to the same customers at similar prices. Thus, El Corte Inglés in Spain might see French discount operators such as Carrefour and Auchan as competitors, but Debenhams or Marks & Spencer would not be a competitor. The Ritz-Carlton might see the Four Seasons hotels as a major competitor, but Holiday Inn, Ibis or any of the thousands of bed-and-breakfasts that dot the nation would not be competitors.

However, companies actually face a much wider range of competitors. The company might define its competitors as all firms with the same product or class of products. Thus, the Ritz-Carlton would see itself as competing against all other hotels. Even more broadly, competitors might include all companies making products that supply the same service. Here the Ritz-Carlton would see itself competing not only against other hotels but also against anyone who supplies rooms for busy travellers. Finally, and still more broadly, competitors might include all companies that compete for the same consumer euros. Here the Ritz-Carlton would see itself competing with travel and leisure products and services, from cruises and summer homes to holidays abroad.

Companies must avoid 'competitor myopia'. A company is more likely to be 'buried' by its latent competitors than its current ones. For example, Kodak didn't lose out to competing film makers such as Fuji; it fell to

A cheap and cheerful bed and breakfast services an important niche but does not compete with high-end luxury hotels.
Source: Ahry's Art/Shutterstock

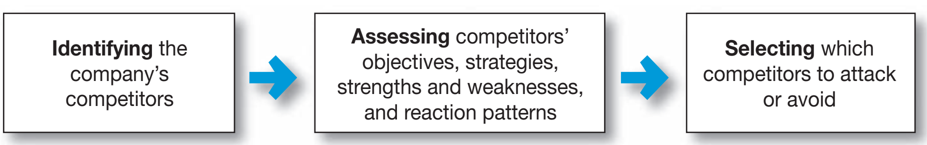

Figure 18.1 Steps in analysing competitors

the makers of digital cameras that use no film at all. Similarly, it wasn't direct competitors that put an end to British Telecom's telegram business after 153 years; it was mobile phones and the internet. Music superstores Our Price and Tower Records didn't go bankrupt at the hands of other traditional music stores; they fell victim to unexpected competitors such as supermarkets, online retailers, and iTunes and other digital download services. Another classic example of competitor myopia is the Royal Mail in the UK:[2]

> The Royal Mail is currently losing money at a rapid rate – millions of euros per year. But it's not direct competitors such as FedEx or UPS that are the problem. Instead, it's a competitor that the Royal Mail could hardly have even imagined a decade and a half ago – the soaring use of personal and business email and online transactions. Last year they experienced a 4 per cent fall in core mail volumes. In the future, the Royal Mail expects more declines of about 5 per cent a year as customers switch to email and other forms of electronic communication. The response of the Royal Mail: increases in postage stamp prices and a reduction in delivery time, moves that will almost certainly reduce mail volume further. The solution? When I figure it out, I'll email you.

Companies can identify their competitors from an *industry* point of view. They might see themselves as being in the oil industry, the pharmaceutical industry or the beverage industry. A company must understand the competitive patterns in its industry if it hopes to be an effective player in that industry. Companies can also identify competitors from a *market* point of view. Here they define competitors as companies that are trying to satisfy the same customer need or build relationships with the same customer group.

From an industry point of view, Pepsi might see its competition as Coca-Cola, Orangina, Fanta, 7 Up and the makers of other soft drink brands. From a market point of view, however, the customer really wants 'thirst quenching' – a need that can be satisfied by bottled water, energy drinks, fruit juice, iced tea and many other fluids. Similarly, Google once defined its competitors as other search engine providers such as Yahoo! or Microsoft's Bing. Now, Google takes a broader view of serving market needs for online and mobile access to the digital world. Under this market definition, Google squares off against once-unlikely competitors such as Apple, Samsung, Microsoft, and even Amazon and Facebook. The maker of Crayola crayons might define its competitors as other makers of crayons and children's drawing supplies. But from a market point of view, it would include all firms making recreational and educational products for children. In general, the market concept of competition opens the company's eyes to a broader set of actual and potential competitors.

Assessing competitors

Having identified the main competitors, marketing management now asks: What are the competitors' objectives? What does each seek in the marketplace? What is each competitor's strategy? What are various competitors' strengths and weaknesses, and how will each react to actions the company might take?

Determining competitors' objectives

Each competitor has a mix of objectives. The company wants to know the relative importance that a competitor places on current profitability, market share growth, cash flow, technological leadership, service leadership and other goals. Knowing a competitor's mix of objectives reveals whether the competitor is satisfied with its current situation and how it might react to different competitive actions. For example, a company that pursues low-cost leadership will react much more strongly to a competitor's cost-reducing manufacturing breakthrough than to the same competitor's increase in advertising.

A company also must monitor its competitors' objectives for various segments. If the company finds that a competitor has discovered a new segment, this might be an opportunity. If it finds that competitors plan new moves into segments now served by the company, it will be forewarned and, hopefully, forearmed.

Identifying competitors' strategies

The more that one firm's strategy resembles another firm's strategy, the more the two firms compete. In most industries, the competitors can be sorted into groups that pursue different strategies. A **strategic group** is a group of firms in an industry following the same or a similar strategy in a given target market. For example, in the major appliance industry, Bosch and Zanussi belong to the same strategic group. Each produces a full line of medium-price appliances supported by good service. In contrast, Smeg and Miele belong to a different strategic group. They produce a narrower line of higher-quality appliances, offer a higher level of service and charge a premium price. Bosch's focus is on high-end home appliances proudly offering 'a new generation of high-performance products'. Bosch claim that they are 'constantly developing new ways to reduce energy and water usage while maintaining product performance and efficiency'.[3]

Strategic group A group of firms in an industry following the same or a similar strategy.

Some important insights emerge from identifying strategic groups. For example, if a company enters a strategic group, the members of that group become its key competitors. Thus, if the company enters a group containing GE and Whirlpool, it can succeed only if it develops strategic advantages over these two companies.

Although competition is most intense within a strategic group, there is also rivalry among groups. First, some strategic groups may appeal to overlapping customer segments. For example, no matter what their strategy, most auto manufacturers offer high-performance vehicle models as well as lower-performing models – competition in one segment does not mean that a firm is limited to that one segment. Second, customers may not see much difference in the offers of different groups; they may see little difference in quality between Bosch and Zanussi. Finally, members of one strategic group might expand into new strategy segments. Thus, Bosch's Logixx premium range of appliances compete in the premium-quality, premium-price line with Smeg and Miele.

The company needs to look at all the dimensions that identify strategic groups within the industry. It must understand how each competitor delivers value to its customers. It needs to know each competitor's product quality, features and mix; customer services; pricing policy; distribution coverage; sales force strategy; and advertising, sales promotion, and online and social media programmes. And it must study the details of each competitor's research and development (R&D), manufacturing, purchasing, financial and other strategies.

Assessing competitors' strengths and weaknesses

Marketers need to carefully assess each competitor's strengths and weaknesses to answer a critical question: What *can* our competitors do? As a first step, companies can gather data on each competitor's goals, strategies and performance over the past few years. Admittedly, some of this information will be hard to obtain. For example, business-to-business (B-to-B) marketers find it hard to estimate competitors' market shares because they do not have the same syndicated data services that are available to consumer packaged-goods companies.

Companies normally learn about their competitors' strengths and weaknesses through secondary data, personal experience and word of mouth. They can also conduct primary marketing research with customers, suppliers and dealers. They can check competitors' online and social media sites. Or they can try **benchmarking** themselves against other firms, comparing the company's products and processes to those of competitors or leading firms in other industries to identify best practices and find ways to improve quality and performance. Benchmarking is a powerful tool for increasing a company's competitiveness.

Benchmarking Comparing the company's products and processes to those of competitors or leading firms in other industries to identify best practices and find ways to improve quality and performance.

Estimating competitors' reactions

Next, the company wants to know: What *will* our competitors do? A competitor's objectives, strategies, and strengths and weaknesses go a long way toward explaining its likely actions. They also suggest its likely reactions to company moves, such as price cuts, promotion increases or new product introductions. In addition, each competitor has a certain philosophy of doing business, a certain internal culture and guiding beliefs. Marketing managers need a deep understanding of a competitor's mentality if they want to anticipate how that competitor will act or react.

Each competitor reacts differently. Some do not react quickly or strongly to a competitor's move. They may feel their customers are loyal, they may be slow in noticing the move, or they may lack the funds to react. Some competitors react only to certain types of moves and not to others. Other competitors react swiftly and strongly to any action. Thus, P&G does not allow a competitor's new product to come easily into the market. Many firms avoid direct competition with P&G and look for easier prey, knowing that P&G will react fiercely if it is challenged. Knowing how major competitors react gives the company clues on how best to attack competitors or how best to defend its current positions.

In some industries, competitors live in relative harmony; in others, competitors are more openly combative. For example, competitors in the UK grocery market have been at each others' throats for years. Tesco, Sainsbury's, Walmart/Asda and Morrisons have aggressively attacked each other in comparative ads. Tesco ads constantly compare its prices (favourably) to its rivals while extolling its automatic price promise. Meanwhile, Aldi and Lidl are taking market share from competitors by offering very low prices that offer high consumer value. And from 2019, Amazon lure grocery customers to their online market, in part by hosting 20 Premier League football games for their Amazon Prime customers.[4]

In some cases, such competitive exchanges can provide useful information to consumers and advantages for brands. In other cases, they can reflect unfavourably on the entire industry.

Selecting competitors to attack and avoid

A company has already largely selected its major competitors through prior decisions on customer targets, positioning and its marketing mix strategy. Management now must decide which competitors to compete against most vigorously.

Strong or weak competitors

A company can focus on one of several classes of competitors. Most companies prefer to compete against weak competitors. This requires fewer resources and less time. But in the process, the firm may gain little. You could argue that a firm also should compete with strong competitors to sharpen its abilities. And sometimes, a company can't avoid its largest competitors, as in the case of Tesco, Sainsbury's and Morrisons. But even strong competitors have some weaknesses, and succeeding against them often provides greater returns.

Customer value analysis
An analysis conducted to determine what benefits target customers value and how they rate the relative value of various competitors' offers.

A useful tool for assessing competitor strengths and weaknesses is **customer value analysis**. The aim of customer value analysis is to determine the benefits that target customers value and how customers rate the relative value of various competitors' offers. In conducting a customer value analysis, the company first identifies the major attributes that customers value and the importance customers place on these attributes. Next, it assesses its performance against competitors on those valued attributes.

The key to gaining competitive advantage is to examine how a company's offer compares to that of its major competitors in each customer segment. The company wants to find the place in the market where it meets customers' needs in a way its rivals can't. If the company's offer delivers greater value than the competitor's offer on important attributes, it can charge a higher price and earn higher profits, or it can charge the same price and gain more market share. But if the company is seen as performing at a lower level than its major competitors on some important attributes, it must invest in strengthening those attributes or finding other important attributes where it can build a lead.

Good or bad competitors

A company really needs and benefits from competitors. The existence of competitors results in several strategic benefits. Competitors may share the costs of market and product development and help legitimise new technologies. They may serve less-attractive segments or lead to more product differentiation. Finally, competitors may help increase total demand.

For example, you might think that Apple's introduction of its iPad tablet would have spelled trouble for Amazon's smaller, dowdier Kindle e-reader, which had been on the market for three years prior to the iPad's debut. Many analysts thought that Apple had created the 'Kindle killer'. However, as it turns out, the competing iPad created a stunning surge in tablet demand that benefited both companies. Kindle e-reader sales increased sharply with the iPad introduction, and new tablet demand spurred Amazon to introduce its own full line of Kindle tablets. As an added bonus, the surge in iPad usage increased Amazon's sales of e-books and other digital content, which can be read on the iPad using a free Kindle for iPad app. Burgeoning tablet demand following the iPad introduction also opened the market to a host of new competitors, such as Samsung, Google and Microsoft.[5]

However, a company may not view all its competitors as beneficial. An industry often contains *good competitors* and *bad competitors*. Good competitors play by the rules of the industry. Bad competitors, in contrast, break the rules. They try to buy share rather than earn it, take large risks and play by their own rules. For example, the nation's traditional newspapers face a lot of bad competitors these days. Digital services that overlap with traditional newspaper content are bad competitors because they offer for free real-time content that subscription-based newspapers printed once a day can't match. An example is Craigslist, the online community that lets local users post largely free classified ads. Started as a hobby about 25 years ago by Craig Newmark, Craigslist has never cared all that much about profit margins, and that's about as bad as the competitor can get. Another example is Gumtree, which is owned by Kijiji, eBay's internal classifieds group. Gumtree is popular across the UK, Ireland and Poland and has Kijiji affiliates across the rest of Europe. Essentially similar to Craigslist, Gumtree offers consumers a network of online classified advertisements and local/community websites. Consumers can browse local classified ads or post free or paid ads (depending on what they are advertising).

Similarly, you might think that an independent coffeehouse surrounded by Starbucks stores might have trouble staying in business. But that's often not the case:[6]

> Coffee shop owners around the country have discovered that the corporate steamroller known as Starbucks is actually good for their business. It turns out that when a Starbucks comes to the neighbourhood, the result is new converts to the latte-drinking fold. When all those converts overrun the local Starbucks, the independents are there to catch the overspill. In fact, some independent store-owners now actually try to open their stores near a Starbucks if they can. That's certainly not how the coffee behemoth planned it. 'Starbucks is actually *trying* to be ruthless', says the owner of a small coffeehouse chain. But 'in its predatory store-placement strategy, Starbucks has been about as lethal a killer as a fluffy bunny rabbit'.

The opening of a new Starbucks is not always bad for a local independent coffeehouse.
Source: Michael Gordon/Shutterstock

Finding uncontested market spaces

Rather than competing head-to-head with established competitors, many companies seek out unoccupied positions in uncontested market spaces. They try to create products and services for which there are no direct competitors. Called a 'blue-ocean strategy', the goal is to make competition irrelevant.[7]

Companies have long engaged in head-to-head competition in search of profitable growth. They have fought for competitive advantage, battled over market share and struggled for differentiation. Yet in today's overcrowded industries, competing head-on results in nothing but a bloody 'red ocean' of rivals fighting over a shrinking profit pool. In their book *Blue Ocean Strategy*, two strategy professors contend that although most companies compete within such red oceans, the strategy isn't likely to create profitable growth in the future. Tomorrow's leading companies will succeed not by battling competitors but by creating 'blue oceans' of uncontested market space. Such strategic moves – termed *value innovation* – create powerful leaps in value for both the firm and its buyers, creating all-new demand and rendering rivals obsolete. By creating and capturing blue oceans, companies can largely take rivals out of the picture.

Apple has long practised this strategy, introducing product firsts such as the iPod, iTunes, iPhone, App Store and iPad that created whole new categories. Another example is Cirque du Soleil, which reinvented the circus as a higher form of modern entertainment targeting adults rather than children. At a time when the circus industry was declining, Cirque du Soleil innovated by eliminating high-cost and controversial elements such as animal acts and bearded ladies, instead focusing on artistic theatrical experiences. Cirque du Soleil did not compete with then-market leader Ringling Bros. and Barnum & Bailey; it was altogether different from anything that preceded it. Instead, it created an uncontested new market space that made existing competitors irrelevant. The results have been spectacular. Thanks to its blue-ocean strategy, Cirque du Soleil is now the undisputed leader in the redefined circus industry. In only its first 20 years, the company achieved more revenues than Ringling Bros. and Barnum & Bailey achieved in its first 100 years. Recently, however, as traditional circuses have updated their acts and smaller Cirque-like rivals have emerged, Cirque du Soleil's blue ocean 'is now full of sharks', says a company executive. Cirque du Soleil must continue to find innovative new ways to separate itself from competitors in bringing value to customers.[8]

Designing a competitive intelligence system

We have described the main types of information that companies need about their competitors. This information must be collected, interpreted, distributed and used. Gathering competitive intelligence can cost much money and time, so the company must design a cost-effective competitive intelligence system.

The competitive intelligence system first identifies the vital types of competitive information needed and the best sources of this information. Then the system continuously collects information from the field (sales force, channels, suppliers, market research firms, internet and social media sites, online monitoring and trade associations) and published data (government publications, speeches and online databases). Next the system checks the information for validity and reliability, interprets it, and organises it in an appropriate way. Finally, it sends relevant information to decision makers and responds to inquiries from managers about competitors.

With this system, company managers receive timely intelligence about competitors in the form of reports and assessments, posted bulletins, newsletters, and email and mobile alerts. Managers can also connect when they need to interpret a competitor's sudden move, know a competitor's weaknesses and strengths, or assess how a competitor will respond to a planned company move.

Competitive strategies

Having identified and evaluated its major competitors, a company now must design broad marketing strategies by which it can gain competitive advantage. But what broad competitive marketing strategies might the company use? Which ones are best for a particular company or for the company's different divisions and products?

Author comment

Now that we've identified competitors and know all about them, it's time to design a strategy for gaining competitive advantage.

Approaches to marketing strategy

No one strategy is best for all companies. Each company must determine what makes the most sense given its position in the industry and its objectives, opportunities and resources. Even within a company, different strategies may be required for different businesses or products. Swiss-based pharmaceutical giant Novartis uses one marketing strategy for its leading brands in stable consumer markets, such as Nicotinell, and a different marketing strategy to medical professionals when marketing Glivec – a drug used to treat a range of cancers that generates revenue of around €2.4 billion, potentially costing around €75,000 per patient per year.

Companies also differ in how they approach the strategy-planning process. Many large firms develop formal competitive marketing strategies and implement them religiously. However, other companies develop strategy in a less formal and orderly fashion. Some companies, such as Harley-Davidson, Red Bull, Virgin Atlantic Airways and BMW's MINI unit succeed by breaking many of the rules of marketing strategy. Such companies don't operate large marketing departments, conduct expensive marketing research, spell out elaborate competitive strategies and spend huge sums on advertising. Instead, they sketch out strategies on the fly, stretch their limited resources, live close to their customers and create more satisfying solutions to customer needs. They form buyers' clubs, use buzz marketing, engage customers up close and focus on winning customer loyalty. It seems that not all marketing must follow in the footsteps of marketing giants such as Nestlé and Unilever.

In fact, approaches to marketing strategy and practice often pass through three stages – entrepreneurial marketing, formulated marketing and intrapreneurial marketing:

- *Entrepreneurial marketing.* Most companies are started by individuals who live by their wits. They visualise an opportunity, construct flexible strategies on the backs of envelopes, and knock on every door to gain attention. For example, Jamie Murray-Wells, founder of online spectacles business Glasses Direct, launched Glasses Direct 15 years ago. Mr Murray-Wells has a provocative style of marketing that shook up a sleepy industry. He also had a disruptive business model: selling cheap glasses online using prescriptions provided to customers by high-street opticians as loss leaders for their own spectacle sales. In the start-up phase of the company, Glasses Direct took a characteristically direct approach to competition by targeting the optician chain Specsavers. Glasses Direct launched their Specspensive campaign that saw people wearing sheep outfits wandering around city centres handing out flyers that advised the public 'Don't get fleeced by Specsavers'. Accompanied by billboard ads, radio and other events the campaign proved newsworthy and great publicity for the fledgling firm.[9]
- *Formulated marketing.* As small companies achieve success, they inevitably move toward more-formulated marketing. They develop formal marketing strategies and adhere to them closely. As brands grow, companies adopt a more formal approach to their marketing efforts. In the case of Glasses Direct, branding was improved, PR companies hired, sales

promotion introduced, social media integrated and a number of other initiatives. Although Glasses Direct will no doubt remain less formal in its marketing than the Specsavers of the marketing world, as it grows, it will adopt more-developed marketing tools.

- *Intrapreneurial marketing.* Many large and mature companies get stuck in formulated marketing. They pore over the latest Nielsen numbers, scan market research reports, and try to fine-tune their competitive strategies and programmes. These companies sometimes lose the marketing creativity and passion they had at the start. They now need to build more marketing initiative and 'intrapreneurship' – encouraging employees to be more entrepreneurial within the larger corporation – recapturing some of the spirit and action that made them successful in the first place.

Some companies build intrapreneurship into their core marketing operations. For example, IBM encourages employees at all levels to interact on their own with customers through blogs, social media and other platforms. Google's Innovation Time Off programme encourages all of its engineers and developers to spend 20 per cent of their time developing 'cool and wacky' new product ideas – blockbusters such as Google News, Gmail, Google Maps and AdSense are just a few of the resulting products. And Facebook sponsors regular 'hackathons', during which it encourages internal teams to come up with and present intrapreneurial ideas. One of the most important innovations in the company's history – the 'Like button' ' resulted from such a hackathon.[10]

The bottom line is that there are many approaches to developing effective competitive marketing strategies. There will be a constant tension between the formulated side of marketing and the creative side. It is easier to learn the formulated side of marketing, which has occupied most of our attention in this book. But we have also seen how marketing creativity and passion in the strategies of many of the companies studied – whether small or large, new or mature – have helped to build and maintain success in the marketplace. With this in mind, we now look at the broad competitive marketing strategies companies can use.

Basic competitive strategies

More than three decades ago, Michael Porter suggested four basic competitive positioning strategies that companies can follow – three winning strategies and one losing one.[11] The three winning strategies are as follows:

- *Overall cost leadership.* Here the company works hard to achieve the lowest production and distribution costs. Low costs let the company price lower than its competitors and win a large market share. Carrefour, Aldi and Ryanair are leading practitioners of this strategy.
- *Differentiation.* Here the company concentrates on creating a highly differentiated product line and marketing programme so that it comes across as the class leader in the industry. Most customers would prefer to own this brand if its price is not too high. Mercedes and Bang & Olufsen follow this strategy in the car and audio goods markets, respectively.
- *Focus.* Here the company focuses its effort on serving a few market segments well rather than going after the whole market. For example, Ritz-Carlton focuses on the top 5 per cent of corporate and leisure travellers. Tetra Food supplies 80 per cent of pet tropical fish food. Bose concentrates on very high-quality electronics products that produce better sound. Hohner owns a stunning 85 per cent of the harmonica market.

Hohner has a breathtaking 85 per cent of the global harmonica market!
Source: Adrian Muttitt/Alamy Stock Photo

Companies that pursue a clear strategy – one of the above – will likely perform well. The firm that carries out that strategy best will make the most profits. But firms that do not pursue a clear strategy – *middle-of-the-roaders* – do the worst. Tesco and Holiday Inn both encountered difficult times because they did not stand out as the lowest in cost, highest in perceived value or best in serving some market segment. Middle-of-the-roaders try to be good on all strategic counts but end up being not very good at anything.

Two marketing consultants, Michael Treacy and Fred Wiersema, offer a more customer-centred classification of competitive marketing strategies.[12] They suggest that companies gain leadership positions by delivering superior value to their customers. Companies can pursue any of three strategies – called *value disciplines* – for delivering superior customer value:

- *Operational excellence.* The company provides superior value by leading its industry in price and convenience. It works to reduce costs and create a lean and efficient value delivery system. It serves customers who want reliable, good-quality products or services but want them cheaply and easily. Examples include Walmart, IKEA, Zara and Southwest Airlines.
- *Customer intimacy.* The company provides superior value by precisely segmenting its markets and tailoring its products or services to exactly match the needs of targeted customers. It specialises in satisfying unique customer needs through a close relationship with and intimate knowledge of the customer. It empowers its people to respond quickly to customer needs. Customer-intimate companies serve customers who are willing to pay a premium to get precisely what they want. They will do almost anything to build long-term customer loyalty and to capture customer lifetime value. For example, North American retailer Nordstrom is a customer-intimacy all-star that's obsessed with 'Taking care of customers no matter what it takes'. Other examples include Lexus, British Airways, Visa and Ritz-Carlton.
- *Product leadership.* The company provides superior value by offering a continuous stream of leading-edge products or services. It aims to make its own and competing products obsolete. Product leaders are open to new ideas, relentlessly pursue new solutions, and work to get new products to market quickly. They serve customers who want state-of-the-art products and services regardless of the costs in terms of price or inconvenience. Examples include Apple, Nokia and Rolls Royce Aero-engines.

From the very beginning, Apple has churned out one cutting-edge product after another. It all started with the Apple Macintosh, the first personal computer ever to feature a graphic user interface and mouse. The innovative Mac changed the computer industry forever, gained an enthusiastic throng of brand fans, and began a chain of events that would establish Apple as one of the world's premier product leaders. Apple's product leadership results from understanding what makes its customer tick, then creating ahead-of-the-curve products that delight and entrance users.

Many tech companies make products that just occupy space and do work. By contrast, Apple has a genius for sparking consumer imaginations and creating 'life-feels-good' products that customers want – usually before consumers themselves even know what they want. The result has been one Apple-led revolution after another. Ground-breaking Apple products such as the iPod, iTunes, iPhone and iPad have all created whole new categories where none previously existed. Such product leadership has produced a consumer love affair with Apple. Diehard fans and gadget geeks around the world have long anointed Apple 'the keeper of all things cool'. In turn, the consumer love affair with Apple has produced stunning sales and profit results over the years.[13]

Some companies successfully pursue more than one value discipline at the same time. For example, FedEx excels at both operational excellence and customer intimacy. However, such companies are rare; few firms can be the best at more than one of these disciplines. By trying to be *good at all* value disciplines, a company usually ends up being *best at none*.

Thus, most excellent companies focus on and excel at a single value discipline while meeting industry standards on the other two. Such companies design their entire value delivery network to single-mindedly support the chosen discipline. For example, Carrefour knows that customer

Product leadership: Apple has been very successful at promoting itself as a product leading company.
Source: pio3/Shutterstock

intimacy and product leadership are important. Compared with other discounters, it offers good customer service and an excellent product assortment. Still, it purposely offers less customer service and less product depth than other supermarkets like Waitrose, which pursue customer intimacy. Instead, Walmart/Asda focuses obsessively on operational excellence – on reducing costs and streamlining its order-to-delivery process to make it convenient for customers to buy just the right products at the lowest prices.

By the same token, Ritz-Carlton wants to be efficient and employ the latest technologies. But what really sets the luxury hotel chain apart is its customer intimacy. The Ritz-Carlton creates custom-designed experiences to coddle its customers – to fulfil even the unexpressed desires of its very demanding clientele.

Classifying competitive strategies as value disciplines is appealing. It defines marketing strategy in terms of the single-minded pursuit of delivering superior value to customers. Each value discipline defines a specific way to build lasting customer relationships.

Competitive positions

Firms competing in a given target market at any point in time differ in their objectives and resources. Some firms are large; others are small. Some have many resources; others are strapped for funds. Some are mature and established; others new and fresh. Some strive for rapid market share growth; others for long-term profits. And these firms occupy different competitive positions in the target market.

Market leader The firm in an industry with the largest market share.

Market challenger A runner-up firm that is fighting hard to increase its market share in an industry.

Market follower A runner-up firm that wants to hold its share in an industry without rocking the boat.

Market nicher A firm that serves small segments that the other firms in an industry overlook or ignore.

We now examine competitive strategies based on the roles firms play in the target market – leader, challenger, follower or nicher. Suppose that an industry contains the firms shown in Figure 18.2. As you can see, 40 per cent of the market is in the hands of the **market leader**, the firm with the largest market share. Another 30 per cent is in the hands of **market challengers**, runner-up firms that are fighting hard to increase their market share. Another 20 per cent is in the hands of **market followers**, other runner-up firms that want to hold their share without rocking the boat. The remaining 10 per cent is in the hands of **market nichers**, firms that serve small segments not being pursued by other firms.

Table 18.1 shows specific marketing strategies that are available to market leaders, challengers, followers and nichers.[14] Remember, however, that these classifications often do not apply to a whole company but only to its position in a specific industry. Large companies such as Unilever, Nestlé, GE, Microsoft or Disney might be leaders in some markets and nichers in others. For example, Unilever leads in many segments, such as hand soaps, but challenges

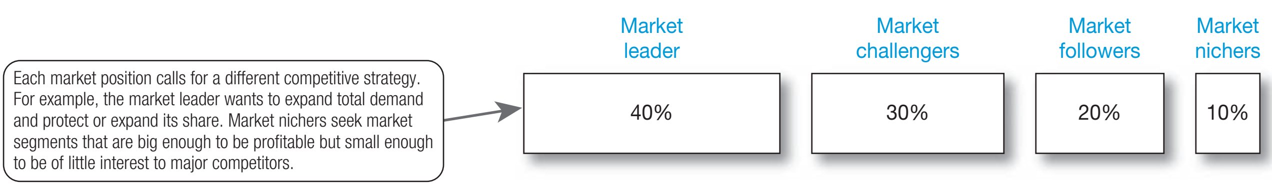

Figure 18.2 Competitive market positions and roles

Table 18.1 Strategies for market leaders, challengers, followers and nichers

Market leader strategies	Market challenger strategies	Market follower strategies	Market nicher strategies
Expand total market	Full frontal attack	Follow closely	By customer, market, quality, price, service
Protect market share	Indirect attack	Follow at a distance	
Expand market share			Multiple niching

P&G in other segments, such as laundry detergents and shampoo, and Kimberly-Clark in facial tissues. Such companies often use different strategies for different business units or products, depending on the competitive situations of each.

Market leader strategies

Most industries contain an acknowledged market leader. The leader has the largest market share and usually leads the other firms in price changes, new product introductions, distribution coverage and promotion spending. The leader may or may not be admired or respected, but other firms concede its dominance. Competitors focus on the leader as a company to challenge, imitate or avoid. Some of the best-known market leaders are Facebook (social networking), L'Oréal (cosmetics), McDonald's (fast food), Amazon (online retailing), Coca-Cola (beverages), Microsoft (computer software), Caterpillar (earth-moving equipment) and Google (internet search services).

A leader's life is not easy. It must maintain a constant watch. Other firms keep challenging its strengths or trying to take advantage of its weaknesses. The market leader can easily miss a turn in the market and plunge into second or third place. A product innovation may come along and hurt the leader (as when Netflix's direct marketing and video streaming unseated then-market leader Blockbuster). The leader might grow arrogant or complacent and misjudge the competition (as when Sainsbury's lost its lead of the UK grocery market to Tesco). Or the leader might look old-fashioned against new and peppier rivals (as when the Sony Walkman lost serious ground to the funky, stylish Apple iPod, or when Abercrombie & Fitch lost ground to stylish or lower-cost brands such as Zara, H&M and Forever 21).

To remain number one, leading firms can take any of three actions. First, they can find ways to expand total demand. Second, they can protect their current market share through good defensive and offensive actions. Third, they can try to expand their market share further, even if market size remains constant.

Expanding total demand

The leading firm normally gains the most when the total market expands. If Europeans eat more fast food, McDonald's stands to gain the most because it holds a much larger fast-food market share than competitors such as Subway or Burger King. If McDonald's can convince more Europeans that fast food is the best eating-out choice, it will benefit more than its competitors.

Market leaders can expand the market by developing new users, new uses and more usage of its products. They usually can find *new users* or untapped market segments in many places. For example, traditionally boy-focused LEGO – the world's biggest toymaker – now successfully targets girls. Based on extensive research into differences between how boys and girls play, in 2011 the company introduced the LEGO Friends line for girls. The line features pastel-coloured bricks and construction sets that encourage girls to build everything from Olivia's House or Emma's Pet Salon to Andrea's City Park Café. LEGO Friends has become one of the most successful lines in LEGO history, helping to triple LEGO's sales to girls within only one year. Last year alone, sales of the Friends line were up 30 per cent over the previous year.[15]

Marketers can expand markets by discovering and promoting *new uses* for the product. For example, The WD-40 Company's knack for expanding the market by finding new uses has made this popular substance one of the truly essential survival items in most European homes:[16]

> Some years ago, the company launched a search to uncover 2,000 unique uses for WD-40. After receiving 300,000 individual submissions, it narrowed the list to the best 2,000, which are now posted on the company's website. Some consumers suggested simple and practical uses, such as keeping wicker chairs from squeaking, freeing stuck LEGO bricks or cleaning crayon marks from just about anywhere. And, it seems, lots of people use WD-40 to make squirrels slide off birdfeeder poles. Others, however, reported some pretty unusual applications. One man uses WD-40 to polish his glass eye; another uses it to remove a prosthetic leg. A bus driver in Asia used WD-40 to remove a python that had coiled itself around the undercarriage of his vehicle. And did you hear about the nude burglary suspect who had wedged himself in a vent at a café in Denver? The fire department extracted him with a large dose of WD-40. Or how about the Mississippi naval officer who used WD-40 to repel an angry bear? Then there's the college student who wrote to say that a friend's nightly amorous activities in the next room were causing everyone in his dorm to lose sleep – he solved the problem by treating the squeaky bedsprings with WD-40. As the company concludes: 'You often hear it said, "You only need two things in life: duct tape and WD-40. If it moves and shouldn't, use duct tape. If it doesn't move and should, use WD-40." Surely there's a reason for that.'

Finally, market leaders can encourage *more usage* by convincing people to use the product more often or use more per occasion. For example, Nestlé urges people to eat Carnation branded desserts and milk products more often by running ads containing new recipes. It also offers a tailored website (www.carnation.co.uk) that lets visitors search for or exchange recipes, sign up for a newsletter, and even watch podcasts (rather predictably listed as 'pudcasts') of famous chefs and celebrities making Carnation-based puddings and snacks.

Protecting market share

While trying to expand total market size, the leading firm also must protect its current business against competitors' attacks. Apple's iPad and iPhone must constantly guard against Samsung; BMW against Lexus; Caterpillar against Komatsu; and BA against Virgin Atlantic.

What can the market leader do to protect its position? First, it must prevent or fix weaknesses that provide opportunities for competitors. It must always fulfil its value promise and work tirelessly to engage valued customers in strong relationships. Its prices must remain consistent with the value that customers see in the brand. The leader should 'plug holes' so that competitors do not jump in.

But the best defence is a good offence, and the best response is *continuous innovation*. The market leader refuses to be content with the way things are and leads the industry in new products, customer services, distribution effectiveness, promotion and cost cutting. It keeps increasing its competitive effectiveness and value to customers. And when attacked by challengers, the market leader reacts decisively. For example, in the laundry products category, Unilever faced huge problems breaking into the US market because of the decisive actions of the US market leader P&G.

> In one of the most fabled marketing battles of the past century, P&G won the laundry war because it was bigger, better, more focused and more aggressive than challenger Unilever. Entering this millennium, even though its US laundry detergent market share was well over 50 per cent, P&G kept raining blows on Unilever and all other comers with stepped-up product launches. By 2007, P&G was outgunning Unilever on US media spending for laundry brands by €153 million to €17 million. New products such as Tide with Downey, Tide Coldwater and the scent-focused Simple Pleasures line-up for Tide and Downey helped P&G steadily gain a share point or two

per year, so that by 2008, it owned a 62.5 per cent share of the €2.6 billion laundry-detergent market to Unilever's 12.9 per cent (including Unilever's All, Wisk and Surf brands). It had an even bigger lead in fabric softeners – 66 per cent to Unilever's 8.4 per cent (Unilever's Snuggle brand). Globally, P&G went from being the number two laundry player in the early 1990s to a dominant market leader, with a global market share of 34 per cent to Unilever's 17 per cent. In the face of P&G's relentless assault, in mid-2008, Unilever finally threw in the towel and sold its North American detergents business.[17]

Expanding market share

Market leaders also can grow by increasing their market shares further. In many markets, small market share increases mean very large sales increases. For example, in the European beer market, a 1 per cent increase in market share is worth €2 billion; while in the spirits market it is €1 billion. Similarly, in the US shampoo market, a 1 per cent increase in market share is worth €70 million in annual sales; in carbonated soft drinks, almost €1 billion![18]

Studies have shown that, on average, profitability rises with increasing market share. Because of these findings, many companies have sought expanded market shares to improve profitability. GE, for example, declared that it wants to be at least number one or two in each of its markets or else get out. GE shed its computer, air-conditioning, small appliances and television businesses because it could not achieve top-dog position in those industries.

However, some studies have found that many industries contain one or a few highly profitable large firms, several profitable and more focused firms, and a large number of medium-sized firms with poorer profit performance. It appears that profitability increases as a business gains share relative to competitors in its *served market*. For example, Lexus holds only a small share of the total car market, but it earns a high profit because it is a leading brand in the luxury-performance car segment. And it has achieved this high share in its served market because it does other things right, such as producing high-quality products, creating outstanding service experiences and building close customer relationships.

Companies must not think, however, that gaining increased market share will automatically improve profitability. Much depends on their strategy for gaining increased share. There are many high-share companies with low profitability and many low-share companies with high profitability. The cost of buying higher market share may far exceed the returns. Higher shares tend to produce higher profits only when unit costs fall with increased market share or when the company offers a superior-quality product and charges a premium price that more than covers the cost of offering higher quality.

Market challenger strategies

Firms that are second, third or lower in an industry are sometimes quite large, such as Royal Dutch Shell, Peugeot, Quick Restaurants, Samsung and Hertz. These runner-up firms can adopt one of two competitive strategies: They can challenge the market leader and other competitors in an aggressive bid for more market share (market challengers), or they can play along with competitors and not rock the boat (market followers).

A market challenger must first define which competitors to challenge and its strategic objective. The challenger can attack the market leader, a high-risk but potentially high-gain strategy. Its goal might be to take over market leadership. Or the challenger's objective may simply be to wrest more market share.

Although it might seem that the market leader has the most going for it, challengers often have what some strategists call a 'second-mover advantage'. The challenger observes what has made the market leader successful and improves on it. For example, Book Stacks Unlimited or Books.com is attributed as the first online book store being founded by Charles Stack in 1991 and launched online in 1992. However, in 1994, Jeff Bezos founded Amazon and subsequently launched online in 1995. After rapidly expanding the product line (to, for example, DVDs and CDs), the second-mover advantage of Amazon is reflected in their turnover that is about three times that of Books.com.

In fact, challengers often become market leaders by imitating and improving on the ideas of pioneering processors. For example, McDonald's first imitated and then mastered the fast-food system first pioneered by White Castle. And founder Sam Walton admitted that Walmart borrowed most of its practices from discount pioneer Sol Price's FedMart and Price Club chains and then perfected them to become today's dominant retailer.

Alternatively, the challenger can avoid the leader and instead challenge firms its own size, or smaller local and regional firms. These smaller firms may be underfinanced and not serving their customers well. Several of the major beer companies grew to their present size not by challenging large competitors but by gobbling up small local or regional competitors. For example, SABMiller became the world's number-two brewer by acquiring brands such as Miller, Molson, Coors and dozens of others. If the challenger goes after a small local company, its objective may be to put that company out of business. The important point remains: the challenger must choose its opponents carefully and have a clearly defined and attainable objective.

How can the market challenger best attack the chosen competitor and achieve its strategic objectives? It may launch a full *frontal attack*, matching the competitor's product, advertising, price and distribution efforts. It attacks the competitor's strengths rather than its weaknesses. The outcome depends on who has the greater strength and endurance. PepsiCo challenges Coca-Cola in this way, and Ford challenges Toyota frontally.

If the market challenger has fewer resources than the competitor, however, a frontal attack makes little sense. Thus, many new market entrants avoid frontal attacks, knowing that market leaders can head them off with ad blitzes, price wars and other retaliations. Rather than challenging head-on, the challenger can make an *indirect attack* on the competitor's weaknesses or on gaps in the competitor's market coverage. It can carve out toeholds using tactics that established leaders have trouble responding to or choose to ignore.

For example, consider how challenger Red Bull first entered the US soft drink market against market leaders Coca-Cola and PepsiCo. Red Bull tackled the leaders indirectly by selling a high-priced niche product in non-traditional distribution points. It began by selling Red Bull via unconventional outlets that were under the radar of the market leaders, such as nightclubs and bars where young revellers gulped down their caffeine fix so they could go all night. Once it had built a core customer base, the brand expanded into more traditional outlets, where it now sits within arm's length of Coke and Pepsi. Finally, Red Bull used a collection of guerrilla marketing tactics rather than the high-cost traditional media used by the market leaders. The indirect approach worked for Red Bull. Despite ever-intensifying competition in the United States, Red Bull is now a €5.7 billion brand that captures a 43 per cent share of the energy drink market versus a combined energy drink share of about 4 per cent for Coca-Cola and Pepsi.[19]

Market follower strategies

Not all runner-up companies want to challenge the market leader. The leader never takes challenges lightly. If the challenger's lure is lower prices, improved service or additional product features, the market leader can quickly match these to defuse the attack. The leader probably has more staying power in an all-out battle for customers. For example, a few years ago, when Walmart/Asda in the UK renewed its low-price 'Saving you money everyday' campaign, directly challenging Tesco, Tesco immediately responded with their own cut-price campaign. Thus, many firms (even if they are market dominant elsewhere – as Walmart is in the US) prefer to follow rather than challenge the market leader.

A follower can gain many advantages. The market leader often bears the huge expenses of developing new products and markets, expanding distribution and educating the market. By contrast, as with challengers, the market follower can learn from the market leader's experience. It can copy or improve on the leader's products and programmes, usually with much less investment. Although the follower will probably not overtake the leader, it often can be as profitable.

Following is not the same as being passive or a carbon copy of the market leader. A follower must know how to hold current customers and win a fair share of new ones. It must find the right balance between following closely enough to win customers from the market leader and following at enough of a distance to avoid retaliation. Each follower tries to bring distinctive advantages to its target market – location, services, financing. A follower is often a major target of attack by challengers. Therefore, the market follower must keep its manufacturing costs and prices low or its product quality and services high. It must also enter new markets as they open up.

Nichers: Logitech is only a fraction of the size of Apple or Microsoft. Yet, through skilful niching, it dominates the mouse market.

Source: Will Ireland/Future Publishing/Shutterstock

Market nicher strategies

Almost every industry includes firms that specialise in serving market niches. Instead of pursuing the whole market or even large segments, these firms target sub-segments. Nichers are often smaller firms with limited resources. But smaller divisions of larger firms also may pursue niching strategies. Firms with low shares of the total market can be highly successful and profitable through smart niching.

Why is niching profitable? The main reason is that the market nicher ends up knowing the target customer group so well that it meets their needs better than other firms that casually sell to that niche. As a result, the nicher can charge a substantial mark-up over costs because of the added value. Whereas the mass marketer achieves high volume, the nicher achieves high margins.

Nichers try to find one or more market niches that are safe and profitable. An ideal market niche is big enough to be profitable and has growth potential. It is one that the firm can serve effectively. Perhaps most important, the niche is of little interest to major competitors. And the firm can build the skills and customer goodwill to defend itself against a major competitor as the niche grows and becomes more attractive.

The key idea in niching is specialisation. Nichers thrive by meeting in depth the special needs of well-targeted customer groups. For example, when it comes to online dating sites, general sites such as eHarmony.com and Match.com get the most notice. But recently, there's been an explosion of niche dating sites that focus on the narrower preferences of small but well-defined audiences:[20]

> PURRsonals.com pairs cat lovers – it's where people who like cats can meet up. SeaCaptainDate.com helps lovers of the ocean 'find your first mate'. Faith-focused ChristianMingle.com is 'where good people find great relationships'. Alternatively, ethicalsingle.com has members that include 'green business practitioners, vegan vixens, organic farmers, human rights supporters, eco warriors, pacifist, wildlife protectors, charity workers and earth friendly consumers.' TallFriends.com brings tall people nose to nose (there's even a choice for people taller than 6'11"!). If that's not niche enough for you, maybe you need a super-nicher such as GlutenfreeSingles.com, with 4,000 love-seeking gluten-free users. There's even a dating site for moustache wearers and people who love them (StachePassions.com). Finally, you could try meeting a partner who shares your favourite activity, be it dining out (foodlover.co.uk), keeping fit (sportssingle.com), horse riding (lovehorse.co.uk) or even rugby (rugbylover.co.uk).

Although some of these niche sites seem a bit extreme, they can be ideal for people who think they know precisely what kind of person they want. For example, FarmersOnly.com serves hundreds of thousands of country-folk members every day seeking like-minded mates with rural persuasions. Farmers Only founder Jerry Miller started the dating site after noticing that the isolated and demanding farming lifestyle makes it hard to find understanding partners. He cites an example in which a country girl and her city boyfriend discussed marriage. Their relationship went to seed when she said that she wanted to raise horses; he said they could keep the horses in the garage. At that point, says Miller, 'She knew they were not compatible'. Hence the dating service's popular tagline: FarmersOnly.com, because 'City folks just don't get it'.

A market nicher can specialise along any of several market, customer, product or marketing mix lines. For example, it can specialise in serving one type of *end user*, as when a law firm specialises in the criminal, civil or business law markets. The nicher can specialise in serving a given *customer-size* group. Many nichers specialise in serving small and mid-size customers who are neglected by the majors.

Some nichers focus on one or a few *specific customers*, selling their entire output to a single company, such as Unilever or Nestlé. Still other nichers specialise by *geographic market*, selling only in a certain locality, region or area of the world. For example, Vegemite is primarily sold and consumed in Australia. *Quality-price* nichers operate at the low or high end of the market. For example, HP specialises in the high-quality, high-price end of the hand-calculator market. Finally, *service nichers* offer services not available from other firms. For example, the Premier Technical Services Group (PTSG) is 'the UK's leading provider of façade access and fall arrest equipment services, lightning protection and electrical testing, specialist building access and fire solutions'.[21] PTSG offer services that are available from very few companies and thus hold on to a key segment of the market for such services.

Niching carries some major risks. For example, the market niche may dry up, or it might grow to the point that it attracts larger competitors. That is why many companies practise *multiple niching*. By developing two or more niches, a company increases its chances for survival. Even some large firms prefer a multiple niche strategy to serving the total market. For example, apparel maker VF Corporation markets more than 30 premium lifestyle brands in niche markets ranging from jeanswear, sportswear and contemporary styles to outdoor gear and imagewear (workwear). For example, VF's Vans unit creates footwear, apparel and accessories for skate-, surf-, and snowboarders. Its 7 for All Mankind brand offers premium denim and accessories sold in boutiques and high-end department stores. The North Face and Timberland brands offer top-of-the-line gear and apparel for outdoor enthusiasts. In contrast, the company's Red Kap, Bulwark and Chef Designs workwear brands provide an array of uniforms and protective apparel for businesses and public agencies, whether it's outfitting a police force or a chef's crew. Together, these separate niche brands combine to make VF a €10.6 billion apparel powerhouse.[22]

Balancing customer and competitor orientations

Whether a company is the market leader, challenger, follower or nicher, it must watch its competitors closely and find the competitive marketing strategy that positions it most effectively. And it must continually adapt its strategies to the fast-changing competitive environment. This question now arises: Can the company spend *too much* time and energy tracking competitors, damaging its customer orientation? The answer is yes. A company can become so competitor centred that it loses its even more important focus on maintaining profitable customer relationships.

Competitor-centred company A company whose moves are mainly based on competitors' actions and reactions.

A **competitor-centred company** is one that spends most of its time tracking competitors' moves and market shares and trying to find strategies to counter them. This approach has some pluses and minuses. On the positive side, the company develops a fighter orientation, watches for weaknesses in its own position and searches out competitors' weaknesses. On the negative side, the company becomes too reactive. Rather than carrying out its own customer relationship strategy, it bases its own moves on competitors' moves. As a result, it may end up simply matching or extending industry practices rather than seeking innovative new ways to create more value for customers.

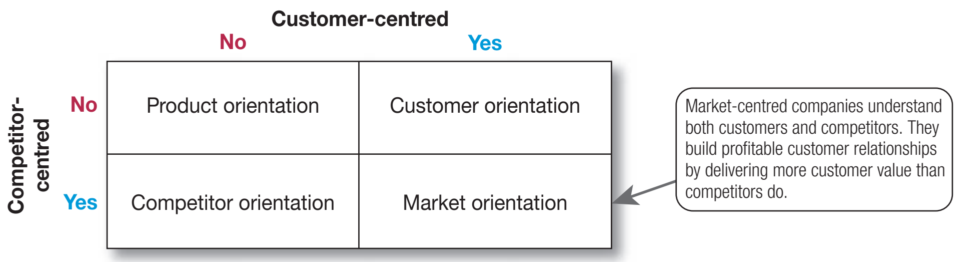

Figure 18.3 Evolving company orientations

A **customer-centred company**, by contrast, focuses more on customer developments in designing its strategies. Clearly, the customer-centred company is in a better position to identify new opportunities and set long-run strategies that make sense. By watching customer needs evolve, it can decide what customer groups and what emerging needs are the most important to serve. Then it can concentrate its resources on delivering superior value to target customers.

Customer-centred company A company that focuses on customer developments in designing its marketing strategies and delivering superior value to its target customers.

In practice, today's companies must be **market-centred companies**, watching both their customers and their competitors. But they must not let competitor watching blind them to customer focusing.

Market-centred company A company that pays balanced attention to both customers and competitors in designing its marketing strategies.

Figure 18.3 shows that companies might have any of four orientations. First, they might be product oriented, paying little attention to either customers or competitors. Next, they might be customer oriented, paying attention to customers. In the third orientation, when a company starts to pay attention to competitors, it becomes competitor oriented. Today, however, companies need to be market oriented, paying balanced attention to both customers and competitors. Rather than simply watching competitors and trying to beat them on current ways of doing business, they need to watch customers and find innovative ways to build profitable customer relationships by delivering more customer value than competitors do.

Learning outcomes review

Today's companies face their toughest competition ever. Understanding customers is an important first step in developing strong customer relationships, but it's not enough. To gain competitive advantage, companies must use this understanding to design market offers that deliver more value than the offers of competitors seeking to win over the same customers. This chapter examines how firms analyse their competitors and design effective competitive marketing strategies.

Objective 1 Discuss the need to understand competitors as well as customers through competitor analysis (pp. 553–559)

To prepare an effective marketing strategy, a company must consider its competitors as well as its customers. Building profitable customer relationships requires satisfying target consumer needs better than competitors do. A company must continuously analyse competitors and develop competitive marketing strategies that position it effectively against competitors and give it the strongest possible competitive advantage.

Competitor analysis first involves identifying the company's major competitors, using both an industry-based and a market-based analysis. The company then gathers information on competitors' objectives, strategies, strengths and weaknesses, and reaction patterns. With this information in hand, it can select competitors to attack or avoid. Competitive intelligence must be collected, interpreted and distributed continuously. Company marketing managers should be able to obtain full and reliable information about any competitor affecting their decisions.

Objective 2 Explain the fundamentals of competitive marketing strategies based on creating value for customers (pp. 559–568)

Which competitive marketing strategy makes the most sense depends on the company's industry and on whether it is the market leader, challenger, follower or nicher. The market leader has to mount strategies to expand the total market, protect market share and expand market share. A market challenger is a firm that tries aggressively to expand its market share by attacking the leader, other runner-up companies or smaller firms in the industry. The challenger can select from a variety of direct or indirect attack strategies.

A market follower is a runner-up firm that chooses not to rock the boat, usually from fear that it stands to lose more than it might gain. But the follower is not without a strategy and seeks to use its particular skills to gain market growth. Some followers enjoy a higher rate of return than the leaders in their industry. A *market nicher* is a smaller firm that is unlikely to attract the attention of larger firms. Market nichers often become specialists in some end use, customer size category, specific customer group, geographic area or service.

Objective 3 Illustrate the need for balancing customer and competitor orientations in becoming a truly market-centred organisation (pp. 568–569)

A competitive orientation is important in today's markets, but companies should not overdo their focus on competitors. Companies are more likely to be hurt by emerging consumer needs and new competitors than by existing competitors. Market-centred companies that balance customer and competitor considerations are practising a true market orientation.

Navigating the key terms

Objective 1
Competitive advantage (p. 553)
Competitor analysis (p. 553)
Competitive marketing strategies (p. 553)
Strategic group (p. 555)
Benchmarking (p. 555)
Customer value analysis (p. 556)

Objective 2
Market leader (p. 562)
Market challenger (p. 562)
Market follower (p. 562)
Market nicher (p. 562)

Objective 3
Competitor-centred company (p. 568)
Customer-centred company (p. 569)
Market-centred company (p. 569)

Discussion and critical thinking

Discussing the concepts

18.1 Define competitive advantage. How do companies go about finding their competitive advantage? (AACSB: Communication)

18.2 How does a company identify its competitors? What do marketing managers want to know about the companies identified as competitors? (AACSB: Communication; Reflective thinking)

18.3 Describe the strategies market challengers can adopt and explain why challengers might have an advantage over market leaders. (AACSB: Communication)

18.4 What is a market nicher? Discuss the strategies and risks associated with this competitive position. (AACSB: Communication)

18.5 Compare the evolving company orientations used to adapt to the fast-changing competitive environment. Is there one orientation that companies should be following? (AACSB: Communication; Reflective thinking)

Critical-thinking exercises

18.6 Form a small group and conduct a customer value analysis for your college or university. What are the strong and weak competitors? For the strong competitors, what are their vulnerabilities? (AACSB: Communication; Reflective thinking)

18.7 Using the internet, find one company market nicher in each of three different industries. Identify the competitive strategy each one uses. (AACSB: Communication; Reflective thinking)

18.8 The chapter describes Apple and Cirque du Soleil as examples of companies that have been successful with a Blue Ocean strategy. Find another example of a company that has successfully pursued a blue ocean strategy. Explain. (AACSB: Communication; Reflective thinking)

Mini-cases and applications

Online, mobile and social media marketing: social logins

How many times have you left a website or app because of the hassle of setting up a login account or because you forgot your username or password for one you had already set up? If you are like the 90 per cent of users bothered by having to log in, you probably just leave the site and never return. Social networks are helping with that problem by offering social logins on third-party sites and applications. With more than 1.6 billion monthly active users, 1.44 billion of whom are monthly mobile users, Facebook is the largest social network. The company is using that power to become even more valuable to both users and businesses. Facebook Login allows website visitors and app users to use their Facebook login credentials to log in to other sites and apps instead of establishing a separate login for each one. Google+, Twitter, LinkedIn and other social networks also offer social login capabilities, but Facebook is the leader, powering more than half of all social logins online and more than 60 per cent of mobile logins. This seems to be a winning arrangement for all parties – users conveniently log in to multiple sites with one username and password, third-party sites and apps gain access to Facebook users' demographic data, and Facebook gathers useful information on users' behaviour to better sell advertising.

18.9 How is Facebook Login expanding the total demand for social networks? (AACSB: Communication; Reflective thinking)

18.10 A major criticism of social logins is consumer privacy. How has Facebook addressed this issue? Do you think it will hurt the company's competitive advantage in this area? (AACSB: Communication; Reflective thinking)

Marketing ethics: creating competitive advantage . . . to what end?

In late September 2015, Volkswagen found itself in the midst of a firestorm. The company, which captures 70 per cent of the US diesel-powered passenger-car market, was caught cheating on diesel emissions tests. Over many years, Volkswagen had installed software on more than half a million diesel cars in the United States – and roughly 10.5 million more worldwide – that detected when the cars were undergoing emissions tests and triggered so-called 'defeat devices' that temporarily switched operating modes and allowed them to pass the tests. VW diesel vehicles were found to actually be emitting up to 40 times the allowable levels of nitrogen oxide pollutants.

Volkswagen has long pitched its diesel cars as efficient, non-polluting vehicles. But in 2008, when US rules on diesel exhaust became stricter, VW faced difficulties meeting the new standards and living up to its 'clean diesel' advertising promises and image. So, under competitive pressures, it covertly installed the secret 'defeat devices'. When the scandal broke, Volkswagen's global sales plunged, along with its reputation. The company halted sales of affected diesel models and suspended all of its 'clean diesel' marketing and advertising. To mitigate the damage, Volkswagen created a 'Customer Goodwill Package' in which it doled out €855 in cash and dealership purchases to VW diesel owners along with access to free 24-hour roadside assistance for three years. It also reached a more than €12.8 billion settlement with US regulators to cover the costs of possible vehicle buybacks and other remedial actions. The full long-run harm to VW's reputation and market performance remains to be seen.

18.11 Is Volkswagen a competitor-centred company, customer-centred company or market-centred company? Explain your answer. (AACSB: Communication; Reflective thinking)

18.12 What competitive thinking moved Volkswagen, one of the world's major car makers, to cheat on emission standards rather than comply with them? How could Volkswagen have prevented this scandal, and what are the lessons for other firms? (AACSB: Ethical reasoning; Communication)

Marketing by numbers: market share

Bottled water is a hot industry with sales of €10 billion in the US alone. Big players in this industry include Nestlé, PepsiCo and Coca-Cola. Nestlé is the market leader with four brands in the top 10 leading brands. Nestlé's Pure Life brand was the top-selling brand with sales of €1.18 billion, but the company's other brands make up an additional €1.4 billion, giving the company total overall sales of almost €2.6 billion. Nestlé saw opportunity in this market and launched a new brand called Resource, targeted to affluent women. Resource is fortified with electrolytes and is promoted as 'more than hydration, it's total electrolytenment'. Nestlé is attempting to take market share away from Glaceau's Vitaminwater and Smartwater. If Resource attains just 3 per cent market share, it will be in the top 10 selling brands.

18.13 Refer to Appendix 2 and calculate Nestlé's Pure Life and the company's overall market share in the bottled water industry. (AACSB: Communication; Analytical reasoning)

18.14 How much revenue does one market share point represent in this industry? Assuming total market sales remain the same, what sales must Resource attain to be in the top 10 selling brands? (AACSB: Communication; Reflective thinking)

Video case

Umpqua Bank

see www.pearsoned.co.uk/kotler

The retail banking industry has become very competitive. And with a few powerhouses that dominate the market, how is a small bank to thrive? By differentiating itself through a competitive advantage that the big guys can't touch.

That's exactly what Umpqua has done. One step inside a branch of this Oregon-based community bank and it is immediately apparent that this is not your typical Christmas club savings account/free toaster bank. Umpqua has created a business model that has transformed banking from retail drudgery to a holistic experience. Umpqua has created an environment where people just love to hang out. It not only has its own music download service featuring local artists, it even has its own blend of coffee.

But under all these bells and whistles lies the core of what makes Umpqua so different: a rigorous service culture where every branch and each employee gets measured on how well they serve customers. That's why every customer feels like he or she gets the help and attention needed from employees.

After viewing the video featuring Umpqua Bank, answer the following questions about creating competitive advantage:

18.15 With what companies does Umpqua compete?

18.16 What is Umpqua's competitive advantage?

18.17 Do you think that Umpqua will be able to maintain this advantage in the long run? Why or why not?

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Company case

YouTube: Google's quest for video dominance

There's no doubt about it. Google – now part of holding company Alphabet – is an unquestioned success. With annual revenues of €71.5 billion last year, only 35 US companies were bigger – and Google is younger than every one of them. But even its rapid rise in revenues doesn't capture the power and influence of this brash, young company. After all, Google powers a whopping 70 per cent of all desktop internet searches, a statistic that balloons to 95 per cent on mobile devices.

But when it comes to defining its competition, the picture isn't cut so clear for the undisputed sultan of search. Certainly, Microsoft (Bing) and Yahoo! are in Google's crosshairs when it comes to search. But when it comes to keeping an eye on competitors, Google is likely more concerned about Apple, Amazon, Facebook and Samsung. In fact, not one of these companies makes a move that Google doesn't notice and evaluate.

How do such seemingly diverse companies end up competing so fiercely with one another? It turns out that these companies really aren't so different when it comes to their ultimate goal – to meet the digital needs of consumers everywhere, a need set that is rapidly evolving and tricky to define. But as consumers have turned more and more of their time and attention to the connected devices they hold in their hands, Google has realised that capturing the biggest possible share of 'time spent' in the digital space is what it really seeks. And although Google and competitors Apple, Amazon, Facebook, Microsoft and Samsung each started out focusing on specific product categories, the quest for online dominance has blurred those market borders and placed the companies in direct competition with each other.

Consider Google's portfolio of internet-oriented products – Gmail, Chrome, Google Maps, Google Earth, Google Drive, Google Docs and Google Photos. Throw in Android, Google Wallet, Chromebooks and Google+, and suddenly Google and its competitors lock horns in more ways than one. Expand even further to the 'moonshot' projects that fall under Google parent Alphabet's umbrella – the Internet of Things (IoT), drones, robots, alternative energy production and autonomous vehicles – and Google and its competitors become so intertwined that it's hard to tease things apart.

Google knows that to be as competitive as possible, it isn't enough to diversify into various businesses and product lines. Rather than being disjointed pieces, every piece must fit neatly into a holistic pie. For Google, all those projects may centre around internet search and organising the world's information. But ultimately, Google wants a big piece of consumers' digital world. And perhaps nowhere is this more apparent than in

Google's efforts to be the leading source of streaming video programming, with its YouTube unit at the heart of those efforts.

'I want my TV!'

When it comes to how people carve up their days, working and sleeping occupy the most ticks of the clock. But according to one recent study, leisure activities take a strong third place. Americans average 5.3 hours each day of leisure time, including activities such as socialising, playing games, reading, recreation and exercise, and relaxing. But a whopping half of all leisure time is spent watching TV. Nowadays, that includes any and all video programming on any and all devices. And although traditional television is still king, the average person now consumes 70 minutes of online video each day, a number that is growing rapidly. Most of that viewing time is spent on mobile devices over traditional computers. In fact, video will account for 80 per cent of all mobile traffic within the next few years.

The compelling new viewing outlets brought to us by mobile, on-demand and digital technologies are part and parcel to the slow but inevitable fraying of traditional prime time line-ups and cable TV bundles. All of this has sparked an intense battle to capture viewing audiences that have never before been more in play. Content that was once only consumed via long-standing broadcast and cable networks such as NBC, ABC, CBS, HBO, MTV, TNT, TBS and ESPN is now being gobbled up through new venues.

The most dominant new player is Netflix. The company that once established itself as the leading distributor of rented DVDs by mail is now the leading source of streaming television and movie programming. More than 75 million paying Netflix subscribers in 190 countries have their eyes glued to 3.8 billion ad-free hours of streaming content every month. In the United States, Netflix commands more than one-third of all internet traffic on any given weeknight. And although most of its content originates from outside sources, Netflix is fast becoming a force as a producer of original content. In fact, with hit series such as *House of Cards*, *Orange Is The New Black*, *Jessica Jones*, and *The Unbreakable Kimmy Schmidt*, Netflix is winning Golden Globes and Emmys, not to mention adding millions of new subscribers to its massive user base each month. With annual revenues of €6.7 billion and most of that being spent on content, Netflix is keeping television and cable network executives awake at night.

But Google is no shrinking violet when it comes to internet video. Through its Google Play media store, it rents and sells movies and TV programs à la iTunes. More important, its own YouTube unit is still far and away the leading source for streaming video with a whopping 77 per cent share of all video site visits. YouTube has always generated revenue for Google, with advertising accounting for the vast majority of that income – a model that has set a standard for internet video. In addition, YouTube provides viewers with a second Google option to rent or purchase movies and TV programmes as well as a selection of pay-per-view subscription channels. By itself, YouTube generated an estimated €9 billion in revenue for Google last year.

Making more money on internet video than even Netflix, you might think Google would be satisfied with its offerings. But Google has never been satisfied with the status quo. It knows that it must keep doing more if it wants to remain on top of the online video heap.

The competition intensifies

As online video explodes, Netflix is hardly Google's only concern. Other premium viewing sites such as Hulu and Crackle are also of concern. But perhaps even more pressing, every one of Google's formidable competitors poses a credible threat with its own online video portals. When it comes to subscription services, Amazon Prime is second only to Netflix with about one-third the number of paying subscribers. Hulu Plus is close behind. Apple invented the online media store with iTunes. And with more than a billion users, Apple certainly has a captive audience for its video portal through the most coveted devices in the world.

Facebook now boasts 8 billion video views a day and growing – a statistic that some suggest makes the world's largest social network YouTube's biggest threat. And with its Surface and Xbox interfaces, even Microsoft has a foot in the door for its Windows media store. Even Twitter recently signed a deal with the NFL to live-stream Thursday night games. With Verizon, Yahoo!, and even Alibaba vying for the attention of eyeballs worldwide with their video content, the industry is red hot.

Lately, each of these players has poured money into building a video empire. And these days it's all about original content. In that arena, Netflix is leading the way and has completely shaken up the competitive landscape. Many Hollywood actors, directors and producers have jumped ship to Netflix not only for the money but for the lure of artistic freedom that traditional channels simply cannot provide. '[Competitors are] in awe of the clout Netflix carries with both consumers and media companies', says Blair Westlake, former chairman of Universal Television and head of media and entertainment for Microsoft. And although they may not walk with Netflix's swagger, Amazon, Hulu and Crackle each hold a hand at the table of original content.

At the most recent Sundance Film Festival, it was 'invitation only' at the iTunes Lounge, the Apple-hosted revolving door of A-listers at the Imperial Hotel on Park City's main drag. Apple's presence at the high-profile festival was part of its current plan to develop a roster of exclusive content intended to rival the options on Netflix – content that will be available only through iTunes and apps on Apple devices.

Apple is pursuing a 'two-lane' approach to content development. The first is a collection of short films, music videos and documentaries built around associates of Dr. Dre and Jimmy Iovine – the founders of Beats Electronics, which Apple purchased for €3 billion and rebranded as Apple Music, its answer to Spotify. In a holistic fashion, this content not only will attract viewers but will serve to promote Apple Music. The second lane is to develop original TV-style programming in the vein of Netflix, Amazon and Hulu. With a stockpile of cash that exceeds €200 billion, Apple has the funds to pave both lanes with gold.

While Apple is putting together deals behind closed doors, Facebook is pursuing its own path. Rumour has it that Facebook's Mark Zuckerberg is obsessed with video. In fact, Facebook is predicting the end of the written word on its platform. In five years' time, Facebook 'will be definitely mobile, it will be probably all video,' says Nicola Mendelsohn, head of Facebook for Europe, the Middle East and Africa. 'The best way to tell stories in this world, where so much information is coming at us, actually is video.'

With its unparalleled reach, analytics and targeting capabilities, Facebook has been very successful in getting studios to use the social network as a platform for trailers and sneak peeks. But Facebook is currently pushing hard with its money and other resources to move beyond promotional partnerships with Hollywood. It aims to be a serious option for destination viewing of original content. Enter Facebook Live, a live streaming platform designed to house just about anything. For example, Whoopi Goldberg provided a behind-the-scenes play-by-play of the most recent Academy Awards in a series of video diaries that received millions of hits. But that's just the tip of the iceberg. Facebook is in talks with everyone from TV producers, comedians and musicians to athletes, chefs, politicians and journalists to stream live shows, including exclusives.

Doing video its own way

So what is Google doing to surpass competitors in this very crowded field? You might think that it would turn Google Play into a Netflix or Hulu clone. Indeed, some analysts have suggested that Google simply purchase one of the proven video portals, pointing to the €75 billion pile of cash it's sitting on. But Google doesn't want to be Netflix. Rather, Google is out to fortify its position as the online video leader based on its own strengths – and that means YouTube. Last year, YouTube launched its own paid subscription service, Red. For €9.99 a month, viewers receive ad-free access to all YouTube content across all YouTube interfaces. Subscribers can save videos and playlists on devices to be viewed offline. There is even a 'music only' setting for music videos, integrating with YouTube Music and Google Play Music to make Red a commercial-free streaming music service.

Although such features are nice, YouTube Red's biggest draw will likely be its recently launched Originals – original programming available exclusively to Red subscribers. But unlike Netflix, Amazon and even Apple, YouTube is developing content with its own twist. First and foremost, it's capitalising on the personalities made famous at home. There's *Scare PewDiePie*, a scripted reality horror show from the producers of *The Walking Dead* and starring YouTube's biggest celebrity, Felix Kjellberg. There's *A Trip to Unicorn Island*, a documentary focusing on Lilly 'Superwoman' Singh. And there's *Fight of the Living Dead*, which puts YouTube talent in a fight to survive a zombie apocalypse.

But even as YouTube signs its own celebrities to star in top-quality programmes, it doesn't have a lock on these stars. In a first-ever competitive move, Netflix recently signed YouTube sensation Miranda Sings to star in an original comedy series, *Haters Back Off!* Although YouTube has plenty of homegrown personalities to choose from, it must now add them to the list of possible competitive threats.

YouTube Red currently has around 40 programmes available. And with many more in the works, including more high-profile shows featuring high-profile industry talent, YouTube Originals is off and running. Offering very competitive compensation for personalities, directors and producers, Hollywood insiders as well as Google's competitors have got the message – YouTube means business.

Questions for discussion

1. Define YouTube in terms of competitive advantage.
2. Of all Google's competitors, which ones should it attack? Which ones should it avoid?
3. Which basic competitive strategy does Google follow?
4. How would you classify Google in terms of competitive position? Why?
5. Is Google a market-centred company? Support your answer.

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Chapter Nineteen

The global marketplace

Chapter preview

You've now learned the fundamentals of how companies develop competitive marketing strategies to engage customers, create customer value and build lasting customer relationships. In this chapter, we extend these fundamentals to global marketing. Although we've discussed global topics in each previous chapter – it's difficult to find an area of marketing that doesn't contain at least some international elements – here we'll focus on special considerations that companies face when they market their brands globally. Advances in communication, transportation and digital technologies have made the world a much smaller place. Today, almost every firm, large or small, faces international marketing issues. In this chapter, we will examine six major decisions marketers make in going global.

To start our exploration of global marketing, let's look at Scandinavian furniture and housewares retailer IKEA. IKEA operates successfully in 51 countries, engaging consumers across vastly different means, languages and cultures. IKEA follows a highly standardised international operating model designed to create good-quality, functional furniture at low prices that everyday people can afford. However, IKEA has learned that, when it comes to global markets, one size rarely fits all.

Learning outcomes

- **Objective 1** You will be able to discuss how the international trade system and the economic, political-legal and cultural environments affect a company's international marketing decisions.
  Global marketing today (pp. 579–589)
- **Objective 2** You will be able to describe three key approaches to entering international markets.
  Deciding how to enter the market (pp. 589–593)
- **Objective 3** You will be able to explain how companies adapt their marketing strategies and mixes for international markets.
  Deciding on the global marketing programme (pp. 593–599)
- **Objective 4** You will be able to identify the three major forms of international marketing organisation.
  Deciding on the global marketing organisation (p. 599)

IKEA: just the right balance between global standardisation and local adaptation

IKEA, the world's largest furniture retailer, is the quintessential global cult brand. Last year, more than 771 million shoppers flocked to the Scandinavian retailer's 368 huge stores in 51 countries, generating revenues of more than €37 billion. That's an average of about €100 million per store annually, more than double Walmart's average per-store sales. IKEA is big and getting bigger – its revenues have doubled during the past decade.

IKEA offers a classic model for how to do business in a global environment. Far more than just a big furniture merchant, IKEA has achieved global success by engaging consumers of all nationalities and cultures. From Beijing to Moscow to Middletown, Ohio, customers are drawn to the IKEA lifestyle, one built around trendy but simple and practical furniture at affordable prices. IKEA's mission worldwide is to 'create a better everyday life for the many people . . . by offering a wide range of well-designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them'.

IKEA succeeds globally by striking just the right balance between global standardisation and local market adaptation. No matter where in the world you shop at IKEA, you'll find huge stores, the familiar blue-and-yellow brand logo and signage, large selections of contemporary Scandinavian-design furnishings and affordable prices. At the same time, IKEA carefully adapts its merchandise assortments, store operations and marketing to cater to the unique needs of customers in different global markets characterised by vastly different means, languages, and cultures.

Many aspects of IKEA's strategy are standard worldwide. For starters, all of its products are rooted in Swedish, contemporary design. Its classic, simple designs have a timeless, near-universal appeal. Low prices are another constant in IKEA's global formula. As a benchmark, every IKEA product is designed to sell for half the price of similar competing products. IKEA keeps its prices low through a relentless focus on cost cutting. Selling largely standardised products worldwide helps keep costs down. So does IKEA's space-saving 'flat pack' approach – selling furniture in pieces to be assembled by customers at home.

IKEA's stores around the world share a standardised design. All are gigantic. At an average size of 300,000 square feet, the average IKEA store is 50 per cent larger than an average supermarket. To offset such massive size, IKEA stores everywhere are divided into three main sections: *showrooms* display furnishings in real-room settings, the *marketplace* houses small items and the *warehouse* makes it easy for customers to pull out their own furniture items in flat-pack boxes and cart them to the checkout. At any IKEA in the world, parents can drop off their children in the IKEA Småland play area and feed the entire family in the snack bar or the three-meal-a-day restaurant, making it easy to hang around and shop for hours.

Although IKEA tries to standardise its operations as much as possible, however, it has learned that, in global marketing, one size rarely fits all. IKEA found this out the hard way in the early 1980s when it opened its first US store in Philadelphia and stocked it by importing the same goods it sold in Europe. Americans weren't much impressed. For example, IKEA carried beds that were too small and too firm for American tastes. Sales suffered, and IKEA considered pulling out of the US market altogether.

Instead, the company made a decision that would become the cornerstone for its expansions into all-new international markets – study the market intensely and adapt accordingly. 'The more far away we go from our culture, the more we need to understand, learn, and adapt', says IKEA's head of research. Fuelled by a better understanding of US consumers, IKEA changed the composition of its mattresses and added king-size beds. After similar changes storewide, sales took off. The United States is now IKEA's second-largest market behind only Germany.

No matter where in the world you shop at IKEA, you'll find huge and familiar blue-and-yellow stores and large selections of Scandinavian-designed furnishings at affordable prices. At the same time, IKEA carefully adapts its merchandise and marketing to the unique needs of customers in specific global markets.

Source: J.K2507/Shutterstock

IKEA now routinely adjusts its product designs and assortments worldwide to meet the distinct needs and tastes of local consumers. For example, although IKEA stores in China carry many of the same items found in other parts of the world, they also heavy up on rice cookers and chopsticks. The Chinese love a good, hard mattress, so IKEA sells mostly firmer ones there. And because the average living space in China's crowded cities is much smaller than in Europe and the United States, Chinese IKEAs stock smaller appliances and products geared toward saving space and organising a household.

But there are limits to how much IKEA can adapt product designs and assortments without increasing costs. Says one analyst, 'The IKEA model, remember, is volume, volume, volume: It needs vast economies of scale to keep costs low, and that means creating one-size-fits-all solutions as often as possible'. So instead of making wholesale product changes around the globe, IKEA often simply adapts its marketing and merchandising to show locals how IKEA's standard products fit with their lives and cultures. 'IKEA has gotten awfully good at showing how the same product can mesh with different regional habitats', says the analyst.

For example, showrooms in Japan and the Netherlands may feature the same beds and cabinets, but the Japanese display might show tatami mats while the Dutch room incorporates slanted ceilings. In the United States, those same beds will be covered with decorative pillows. Similarly, the heavily circulated IKEA catalogue (more than 217 million printed each year) is customised to show standard IKEA products in localised settings. IKEA publishes 67 versions of the catalogue in 32 languages, each one carefully prepared to reflect local tastes and preferences.

Beyond adapting designs, assortments and merchandising, IKEA often adjusts its basic store operations to turn local cultural nuances into competitive advantages. For example, IKEA's Chinese stores are a big draw for up-and-coming Chinese consumers. But IKEA customers in China want a lot more from its stores then just affordable Scandinavian-designed furniture.

In Chinese, IKEA is known as Yi Jia. Translated, it means 'comfortable home', a concept taken literally by the millions of consumers who visit one of IKEA's 20 huge Chinese stores each year. 'Customers come on family outings, hop into display beds and nap, pose for snapshots with the décor, and hang out for hours to enjoy the air conditioning and free soda refills', notes one observer. On a typical Saturday afternoon, for example, display beds and other furniture in a huge Chinese IKEA store are occupied, with customers of all ages lounging or even fast asleep. One Chinese IKEA has even hosted several weddings.

Whereas this might be considered as unwanted loitering in the United States or other Western markets, IKEA managers in China encourage such behaviour, figuring that familiarity with the store will result in later purchasing when shoppers' incomes eventually rise to match their aspirations. 'Maybe if you've been visiting IKEA, eating meatballs, hot dogs, or ice cream for 10 years, then maybe you will consider IKEA when you get yourself a sofa', says the company's Asia-Pacific president. In fact, that seems to be the case. Thanks to such cultural understandings coupled with competitively low prices, China is now IKEA's fastest-growing market. Eight of the world's 10 biggest IKEA stores are in China. What do Chinese consumers think of Swedish meatballs? 'They love them', says IKEA China's marketing director.[1]

In the past, some European companies paid little attention to international trade. If they could pick up some extra sales via exports, that was fine. But the big market was at home, and it teemed with opportunities. The home market was also much safer. Managers did not need to learn other languages, deal with strange and changing currencies, face political and legal uncertainties, or adapt their products to different customer needs and expectations. Today, however, the situation is much different. Organisations of all kinds, from BASF, Google, Fiat and BMW to Michelin and even Champions League Football, have gone global.

Global marketing today

The world is shrinking rapidly with the advent of faster digital communication, transportation and financial flows. Products developed in one country – McDonald's hamburgers, Netflix video service, Samsung electronics, Zara fashions, Caterpillar construction equipment, German BMWs, Facebook social networking – have found enthusiastic acceptance in other countries. It would not be surprising to hear about a German businessman wearing an Italian suit meeting an English friend at a Japanese restaurant who later returns home to drink Russian vodka while watching *The Big Bang Theory* on TV and checking Facebook posts from friends around the world.

International trade has boomed over the past three decades. Since 1990, the number of multinational corporations in the world has more than doubled to more than 65,000. Some of these multinationals are true giants. In fact, of the largest 150 economies in the world, only 88 are countries. The remaining 62 are multinational corporations. Walmart, the world's largest company (based on a weighted average of sales, profits, assets and market value), has annual revenues greater than the gross domestic product (GDP) of all but the world's 26 largest countries.[2] Despite a dip in world trade caused by the recent worldwide recession, the global trade of goods and services last year was valued at €14.1 trillion, about 22 per cent of GDP worldwide.[3]

Author comment

The rapidly changing global environment provides both opportunities and threats. It's difficult to find a marketer today that isn't affected in some way by global developments.

Many European companies have long been successful at international marketing: BMW, Nestlé, IKEA, Siemens, Nokia and dozens of other European firms have made the world their market. However, non-European firms have also become well-established with such names such as McDonald's, Coca-Cola, Starbucks, GE, IBM, Colgate, Caterpillar and Boeing. Other products and services that appear to be European are, in fact, produced or owned by foreign companies, such as Campbell Soups, Asda (now owned by US giant Walmart), Cadbury (the quintessential British chocolate maker), Mulberry (the British lifestyle brand is owned by Singaporean business tycoon Christina Ong), Laura Ashley, Lanvin, Crabtree and Evelyn (all owned by Asian companies), Michelin, the oh-so-French tire manufacturer, now does 34 per cent of its business in North America; And America's own Caterpillar belongs more to the wider world, with 61 per cent of its sales coming from outside the United States. Once all-American McDonald's captures nearly two-thirds of its revenues in foreign markets. And with more than 3,500 products worldwide, American favourite Coca-Cola now lets consumers 'Taste the Feeling' more than 1.9 billion times a day in more than 200 countries.[4]

But as global trade grows, global competition is also intensifying. Foreign firms are expanding aggressively into new international markets, and home markets are no longer as rich in opportunity. Few industries are currently safe from foreign competition. If companies delay taking steps toward internationalising, they risk being shut out of growing markets in Western and Eastern Europe, China and the Pacific Rim, Russia, India, Brazil and elsewhere. Firms that stay at home to play it safe might not only lose their chances to enter other markets but also risk losing their home markets. Domestic companies that never thought about foreign competitors suddenly find these competitors in their own backyards.

Ironically, although the need for companies to go abroad is greater today than in the past, so are the risks. Companies that go global may face highly unstable governments and currencies, restrictive government policies and regulations, and high trade barriers. The recently dampened global economic environment has also created big global challenges. In addition, corruption is an increasing problem; officials in several countries often award business not to the best bidder but to the highest briber.

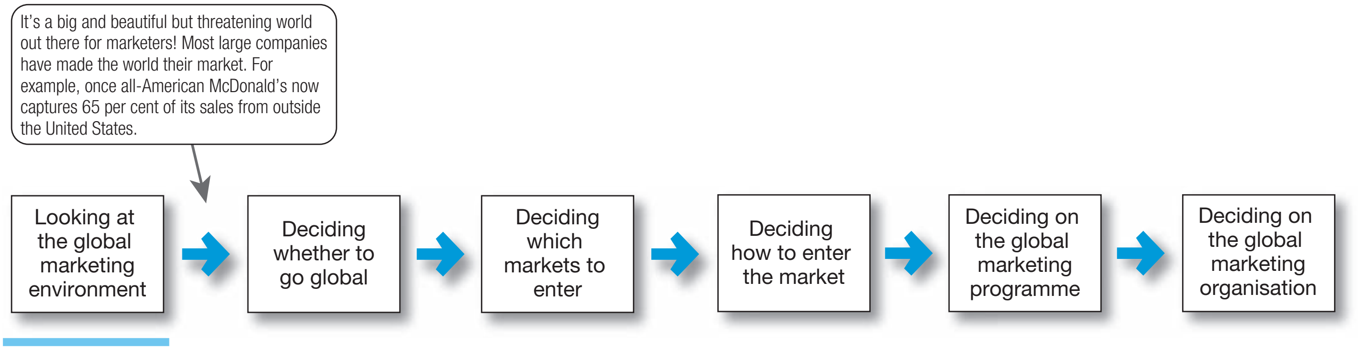

Figure 19.1 Major international marketing decisions

Global firm A firm that, by operating in more than one country, gains R&D, production, marketing and financial advantages in its costs and reputation that are not available to purely domestic competitors.

A **global firm** is one that, by operating in more than one country, gains marketing, production, research and development (R&D), and financial advantages that are not available to purely domestic competitors. Because the global company sees the world as one market, it minimises the importance of national boundaries and develops global brands. The global company raises capital, obtains materials and components, and manufactures and markets its goods wherever it can do the best job.

For example, US-based Otis Elevator, the world's largest elevator maker, is headquartered in Farmington, Connecticut. However, it sells and maintains elevators and escalators in more than 200 countries and achieves more than 80 per cent of its sales from outside the United States. It gets elevator door systems from France, small-geared parts from Spain, electronics from Germany and special motor drives from Japan. It operates manufacturing facilities in the Americas, Europe and Asia, and engineering and test centres in the United States, Austria, Brazil, China, Czech Republic, France, Germany, India, Italy, Japan, Korea and Spain. In turn, Otis Elevator is a wholly owned subsidiary of global commercial and aerospace giant United Technologies Corporation.[5] Many of today's global corporations – both large and small – have become truly borderless.

This does not mean, however, that every firm must operate in dozens of countries to succeed. Smaller firms can practise global niching. But the world is becoming smaller, and every company operating in a global industry – whether large or small – must assess and establish its place in world markets.

The rapid move toward globalisation means that all companies will have to answer some basic questions: What market position should we try to establish in our country, in our economic region and globally? Who will our global competitors be, and what are their strategies and resources? Where should we produce or source our products? What strategic alliances should we form with other firms around the world?

As shown in Figure 19.1, a company faces six major decisions in international marketing. We discuss each decision in detail in this chapter.

Author comment

As if operating within a company's own borders wasn't difficult enough, going global adds many layers of complexities. For example, Coca-Cola markets its products in hundreds of countries around the globe. It must understand the varying trade, economic, cultural and political environments in each market.

Elements of the global marketing environment

Before deciding whether to operate internationally, a company must understand the international marketing environment. That environment has changed a great deal in recent decades, creating both new opportunities and new problems.

The international trade system

Companies looking abroad must start by understanding the international *trade system*. When selling to another country, a firm may face restrictions on trade between nations. Governments may charge *tariffs* or *duties*, taxes on certain imported products designed to raise revenue or protect domestic firms. Tariffs and duties are often used to force favourable trade behaviours from other nations.

For example, the European Union (EU) recently placed import duties on Chinese solar panels after determining that Chinese companies were selling the panels in EU countries at under-market prices. To retaliate, the very next day, the Chinese government placed duties on EU wine exports to China. The duties targeted the wines of Spain, France and Italy but spared Germany, which had taken China's side in the solar panel dispute. The disputes were resolved when Chinese solar panel producers agreed to a minimum price in Europe and Europe agreed to help China develop its own wine industry in return for promoting European wines there.[6]

Countries may set *quotas*, limits on the amount of foreign imports that they will accept in certain product categories. The purpose of a quota is to conserve on foreign exchange and protect local industry and employment. Firms may also encounter *exchange controls*, which limit the amount of foreign exchange and the exchange rate against other currencies.

A company also may face *non-tariff trade barriers*, such as biases against its bids, restrictive product standards, or excessive host-country regulations or enforcement. For example, Walmart recently scaled down its once-ambitious plans to expand into India's huge but fragmented retail market by opening hundreds of Walmart superstores there. Beyond difficult market conditions, such as spotty electricity and poor roads, India is notorious for throwing up non-tariff obstacles to protect the nation's own predominately mom-and-pop retailers, which control 96 per cent of India's €425 billion in retail sales. One such obstacle is a government regulation requiring foreign retailers in India to buy 30 per cent of the merchandise they sell from local small businesses. Such a requirement is nearly impossible for Walmart because small suppliers can't produce the quantities of goods needed by the giant retailer. Further, India's few large domestic retailers are not bound by the same rule, making it difficult for Walmart to compete profitably. Walmart is now looking for a domestic partner that can help it crack the mammoth Indian market.[7]

At the same time, certain other forces can *help* trade between nations. Examples include the World Trade Organization (WTO) and various regional free trade agreements.

The World Trade Organization

The General Agreement on Tariffs and Trade (GATT), established in 1947 and modified in 1994, was designed to promote world trade by reducing tariffs and other international trade barriers. It established the World Trade Organization (WTO), which replaced GATT in 1995 and now oversees the original GATT provisions. WTO and GATT member nations (currently numbering 162) have met in eight rounds of negotiations to reassess trade barriers and establish new rules for international trade. The WTO also imposes international trade sanctions and mediates global trade disputes. Its actions have been productive. The first seven rounds of negotiations reduced the average worldwide tariffs on manufactured goods from 45 per cent to just 5 per cent.[8]

The most recently completed negotiations, dubbed the Uruguay Round, took a long seven years before concluding in 1994. The benefits of the Uruguay Round will be felt for many years, as the accord promoted long-term global trade growth, reduced the world's remaining merchandise tariffs by 30 per cent, extended the WTO to cover trade in agriculture and a wide range of services, and toughened the international protection of copyrights, patents, trademarks and other intellectual property. A new round of global WTO trade talks, the Doha Round, began in Doha, Qatar, in late 2001 and was set to conclude in 2005; however, the discussions still continued through 2016. The Doha round covers a gamut of trade issues from intellectual property to agriculture.[9]

Regional free trade zones

Certain countries have formed *free trade zones* or **economic communities**. These are groups of nations organised to work toward common goals in the regulation of international trade. One such community is the *European Union (EU)*. Formed in 1957, the EU set out to create a single European market by reducing barriers to the free flow of products, services, finances and labour among member countries and developing policies on trade with non-member nations. Today,

Economic community
A group of nations organised to work toward common goals in the regulation of international trade.

The EU represents one of the world's single largest markets.
Source: emasali stock/Shutterstock

the EU represents one of the world's largest single -markets. Currently, it has 28 member countries containing more than half a billion consumers and accounting for almost 16 per cent of the world's imports and exports.[10] The EU offers tremendous trade opportunities for US and other non-European firms.

Over the past decade and a half, 19 EU member nations have adopted the euro as a common currency. Widespread adoption of the euro decreased much of the currency risk associated with doing business in Europe, making member countries with previously weak currencies more attractive markets. However, the adoption of a common currency has also caused problems, as European economic powers such as Germany and France have had to step in recently to prop up weaker economies such as those of Greece, Portugal and Cyprus. This recent ongoing 'euro crisis' has led some analysts to predict the possible breakup of the euro zone as it is now set up.[11]

It is unlikely that the EU will ever go against 2,000 years of tradition and become the 'United States of Europe'. A community with more than two dozen different languages and cultures and a history of sometimes strained relationships will always have difficulty coming together and acting as a single entity. For example, in a national referendum in 2016, the people of the United Kingdom voted to exit the European Union. Although actual British separation from the EU could take many forms and require years of negotiations, the 'Brexit' vote sent aftershocks across Europe and the world, raising substantial concerns about the future of European economic and political unity. Still, with a combined annual GDP approaching €17 trillion, the EU remains a potent economic force.[12]

In 1994, the *North American Free Trade Agreement (NAFTA)* established a free trade zone among the United States, Mexico and Canada. The agreement created a single market of 478 million people who produce and consume €20.75 trillion worth of goods and services annually. Over the past 20 years, NAFTA has eliminated trade barriers and investment restrictions among the three countries. Total trade among the NAFTA countries nearly tripled from €288 billion in 1993 to more than €1.1 trillion a year.[13]

Following the apparent success of NAFTA, in 2005 the Central American Free Trade Agreement (CAFTA-DR) established a free trade zone between the United States and Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras and Nicaragua. Other free trade areas have formed in Latin America and South America. For example, the Union of South American Nations (UNASUR), modelled after the EU, was formed in 2004 and formalised by a constitutional treaty in 2008. Consisting of 12 countries, UNASUR makes up the largest trading bloc after NAFTA and the EU, with a population of more than 418 million and a combined economy of more than €3.5 trillion. Similar to NAFTA and the EU, UNASUR aims to eliminate all tariffs between nations by 2019.[14]

Two other major world trade agreements are the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP). The recently signed TPP promises to lower trade barriers and increase economic cooperation among twelve Pacific Rim countries: the United States, Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam. The companion TTIP agreement between the United States and the European Union is still under negotiation. These major trade agreements will have a significant and sometimes controversial economic and political impact. For example, the 12 TPP countries have a collective population of 800 million people, nearly double that of the EU, and account for 40 per cent of all world trade.[15]

Each nation has unique features that must be understood. A nation's readiness for different products and services and its attractiveness as a market to foreign firms depend on its economic, political-legal and cultural environments.

Economic environment

Coca-Cola's strategy in Africa has been hugely successful.
Source: ERIC LAFFORGUE/Alamy Stock Photo

The international marketer must study each country's economy. Two economic factors reflect the country's attractiveness as a market: its industrial structure and its income distribution.

The country's *industrial structure* shapes its product and service needs, income levels and employment levels. For example, in *subsistence economies*, most people engage in simple agriculture, consume most of their output, and barter the rest for simple goods and services. These economies offer few market opportunities. Many African countries fall into this category. At the other extreme, *industrial economies* are major importers and exporters of manufactured goods and services. Their varied manufacturing activities and large middle classes make them rich markets for all sorts of goods. The United States, Japan and the Western European countries are examples.

Emerging economies are those experiencing rapid economic growth and industrialisation. Examples include the BRIC countries – Brazil, Russia, India and China. Other hot emerging markets include Colombia, Indonesia, Vietnam, Egypt, Turkey and South Africa (CIVETS). Industrialisation typically creates a new rich class and a growing middle class, both demanding new types of goods and services. As more-developed markets stagnate and become increasingly competitive, many marketers are now targeting growth opportunities in emerging markets.

The second economic factor is the country's *income distribution*. Industrialised nations may have low-, medium- and high-income households. In contrast, countries with subsistence economies consist mostly of households with very low family incomes. Still other countries may have households with either very low or very high incomes. Even poor or emerging economies may be attractive markets for all kinds of goods. In recent years, as the weakened global economy has slowed growth in both domestic and emerging markets, many companies are shifting their sights to include a new target – the so-called 'bottom of the economic pyramid', the vast untapped market consisting of the world's poorest consumers.

These days, companies in a wide range of industries – from cars to computers to soft drinks – are increasingly targeting middle-income or low-income consumers in subsistence and emerging economies. For example, as soft drink sales growth has lost its fizz in North America and Europe, Coca-Cola has had to look elsewhere to meet its ambitious growth goals. So the company has set its sights on Africa, with its promising though challenging long-term growth opportunities. Many Western companies view Africa as an untamed final frontier, plagued by poverty, political instability, unreliable transportation, and shortages of fresh water and other essential resources. But Coca-Cola sees plenty of opportunity to justify the risks. The African continent has a growing population of more than 1.1 billion people, a just-emerging middle class, and €2 trillion of GDP and spending power. Six of the world's 10 fastest-growing markets are in Africa:[16]

> Coca-Cola has operated in Africa since 1929 and holds a dominant 29 per cent market share in Africa and the Middle East, compared with Pepsi's 15 per cent share. However, there's still plenty of room for Coca-Cola to grow there. For example, annual per capita consumption of Coke and other soft drinks is about 13 times less in Africa than in North America. Still, marketing in Africa

is very different from marketing in more developed regions. Beyond just marketing through traditional channels in larger African cities, Coca-Cola is now invading smaller communities with more grassroots tactics.

Small stores play a big role in helping Coca-Cola to grow in Africa. In countless poor neighbourhoods across the continent, crowded streets are lined with shops painted Coke red, selling low-priced Coca-Cola products by the bottle out of Coke-provided, refrigerated coolers. Such shops are supplied by a rudimentary but effective network of Coca-Cola distributors, whose crews often deliver crates of Coke products by hand-pulled trolleys or even a crate at a time carried on their heads. Because of the poor roads crowded with traffic, moving drinks by hand is often the best method. The company's first rule is to get its products 'cold and close'. 'If they don't have roads to move products long distances on trucks, we will use boats, canoes, or trolleys', says the president of Coca-Cola South Africa. For example, in Nigeria's Makako district – a maze of stilt houses on the Lagos lagoon – women criss-cross the waterways in canoes selling Coca-Cola directly to residents.

Political-legal environment

Nations differ greatly in their political-legal environments. In considering whether to do business in a given country, a company should consider factors such as the country's attitudes toward international buying, government bureaucracy, political stability and monetary regulations.

Some nations are very receptive to foreign firms; others are less accommodating. For example, India has tended to bother foreign businesses with import quotas, currency restrictions, and other limitations that make operating there a challenge. In contrast, neighbouring Asian countries such as Singapore, Vietnam and Thailand court foreign investors and shower them with incentives and favourable operating conditions. Political and regulatory stability is another issue. For example, Russia is consumed by corruption and governmental red tape, which the government finds difficult to control. The country's recent geopolitical conflicts with Europe, the United States and other countries have made doing business in Russia difficult and risky.[17]

Companies must also consider a country's monetary regulations. Sellers want to take their profits in a currency of value to them. Ideally, the buyer can pay in the seller's currency or in other world currencies. Short of this, sellers might accept a blocked currency – one whose removal from the country is restricted by the buyer's government – if they can buy other goods in that country that they need or can sell elsewhere for a needed currency. In addition to currency limits, a changing exchange rate also creates high risks for the seller.

Most international trade involves cash transactions. Yet many nations have too little hard currency to pay for their purchases from other countries. They may want to pay with other items instead of cash. *Barter* involves the direct exchange of goods or services. For example, Venezuela regularly barters oil, which it produces in surplus quantities, for food on the international market – rice from Guyana; coffee from El Salvador; cattle, sugar, coffee, meat and more from Nicaragua; and beans and pasta from the Dominican Republic. Venezuela has even struck a deal to supply oil to Cuba in exchange for Cuban doctors and medical care for Venezuelans.[18]

Cultural environment

Each country has its own folkways, norms and taboos. When designing global marketing strategies, companies must understand how culture affects consumer reactions in each of its world markets. In turn, they must also understand how their strategies affect local cultures.

The impact of culture on marketing strategy

Sellers must understand the ways that consumers in different countries think about and use certain products before planning a marketing programme. There are often surprises. For example, the average French man uses almost twice as many cosmetics and grooming aids as his wife. The Germans and the French eat more packaged, branded spaghetti than Italians do. Some 49 per cent of Chinese eat on the way to work. Most American women let down their hair and take off make-up at bedtime, whereas 15 per cent of Chinese women style their hair at bedtime and 11 per cent put *on* makeup.[19]

Companies that violate cultural norms and differences can make some very expensive and embarrassing mistakes. Here are just two examples:[20]

Nike inadvertently offended Chinese officials when it ran an ad featuring LeBron James crushing a number of culturally revered Chinese figures in a kung fu–themed television ad. The Chinese government found that the ad violated regulations to uphold national dignity and respect the 'motherland's culture' and yanked the multimillion-euro campaign. With egg on its face, Nike released a formal apology.

Coca-Cola recently stumbled with a Christmas ad posted on Russia's most popular social media site showing a map of Russia decorated with Christmas trees, snowflakes and wrapped Christmas presents and the message 'Ring in the New Year Together with Coca-Cola'. However, the map didn't at first include Crimea, which Russia annexed controversially from Ukraine in 2014. When the ad drew strong criticism from Russians, Coca-Cola quickly redrew the map to include the disputed territory, saying, 'We apologize . . . the map is fixed'. The new map, of course, set off a new flurry of protest in neighbouring Ukraine, where lawmakers called for a boycott of Coke. Coca-Cola finally pulled the offending ad altogether.

Business norms and behaviours also vary from country to country. For example, American executives like to get right down to business and engage in fast and tough face-to-face bargaining. However, Japanese and other Asian businesspeople often find this behaviour offensive. They prefer to start with polite conversation, and they rarely say no in face-to-face conversations. As another example, firm handshakes are a common and expected greeting in most Western countries; in some Middle Eastern countries, however, handshakes might be refused if offered. Microsoft founder Bill Gates once set off a flurry of international controversy when he shook the hand of South Korea's president with his right hand while keeping his left hand in his pocket, something that Koreans consider highly disrespectful. In some countries, when being entertained at a meal, not finishing all the food implies that it was somehow substandard. In other countries, in contrast, wolfing down every last bite might be taken as a mild insult, suggesting that the host didn't supply enough.[21] Business executives need to understand these kinds of cultural nuances before conducting business in another country.

By the same token, companies that understand cultural nuances can use them to their advantage in global markets. For example, when British clothing retailer Marks & Spencer decided to open its first stand-alone lingerie and beauty store, to the surprise of many it bypassed Paris, London and New York and instead chose Saudi Arabia. Operating in Saudi Arabia requires some significant but worthwhile cultural adjustments:[22]

The Saudi retail market is booming, and the country has a fast-growing and affluent consumer class. However, the conservative Islamic kingdom has no end of restrictive cultural and religious rules, especially when it involves retailing to women. In Saudi Arabia, women cover themselves in full-length black cloaks – called *abaya* – when they go out in public and must have a male chaperone, usually a relative. However, because they typically wear Western clothes at home or when travelling abroad, Western-style fashion stores are still very popular.

When selling to Saudi women, Marks & Spencer must adhere to rigorously enforced religious and cultural strictures. For example, by government decree, its lingerie stores must employ an exclusively female sales staff. Because women's faces can't be shown and certain public dress is prohibited, Marks & Spencer uses tamer in-store marketing photos and video displays requiring separate photo shoots. Music is forbidden in Saudi malls and stores, so Marks & Spencer has eliminated the usual background compositions. Thanks to these and many other cultural adaptations, Saudi Arabia has become one of Marks & Spencer's highest-grossing emerging markets, well worth the additional costs of operating there. Marks & Spencer now has six lingerie and beauty stores in Saudi Arabia along with 16 full department stores. It has even gone so far as to use headless female mannequins to display its lingerie. 'Unfortunately', says one Marks & Spencer marketer, 'even the mannequins are not allowed to show faces'.

Thus, understanding cultural traditions, preferences, and behaviours can help companies not only avoid embarrassing mistakes but also take advantage of cross-cultural opportunities.

The impact of marketing strategy on cultures

Whereas marketers worry about the impact of global cultures on their marketing strategies, others may worry about the impact of marketing strategies on global cultures. For example, social critics contend that large American multinationals, such as McDonald's, Coca-Cola, Starbucks, Nike, Google, Disney and Facebook, aren't just globalising their brands; they are Americanising the world's cultures. Other elements of American culture have become pervasive worldwide. For instance, more people now study English in China than speak it in the United States. If you assemble businesspeople from Brazil, Germany and China, they'll likely transact in English. And the thing that binds the world's teens together in a kind of global community, notes one observer, 'is American culture – the music, the Hollywood fare, the electronic games, Google, Facebook, American consumer brands. The . . . rest of the world is becoming [evermore] like us – in ways good and bad.'[23]

'Today, globalization often wears Mickey Mouse ears, eats Big Macs, drinks Coke or Pepsi, and does its computing with Windows', says Thomas Friedman in his book *The Lexus and the Olive Tree: Understanding Globalization*. 'Some Chinese kids' first English word [is] Mickey', notes another writer.[24]

Critics worry that, under such 'McDomination', countries around the globe are losing their individual cultural identities. Teens in Turkey watch MTV, connect with others globally through Facebook and Twitter, and ask their parents for more Westernised clothes and other symbols of American pop culture and values. Grandmothers in small European villas no longer spend each morning visiting local meat, bread and produce markets to gather the ingredients for dinner. Instead, they now shop at Walmart. Women in Saudi Arabia see American films, question their societal roles, and shop at any of the country's growing number of Victoria's Secret boutiques. In China, most people never drank coffee before Starbucks entered the market. Now Chinese consumers rush to Starbucks stores because it symbolises a new kind of lifestyle. Similarly, in China, where McDonald's operates more than 80 restaurants in Beijing alone, nearly half of all children identify the chain as a domestic brand.

Such concerns have sometimes led to a backlash against American globalisation. Well-known US brands have become the targets of boycotts and protests in some international markets. As symbols of American capitalism, companies such

Many European companies have made the world their market by being sensitive to local culture.
Source: dboystudio/Shutterstock

as Coca-Cola, McDonald's, Nike and KFC have been singled out by protestors and governments in hot spots around the world, especially when anti-American sentiment peaks. For example, following Russia's annexation of Crimea and the resulting sanctions by the West, Russian authorities initiated a crackdown on McDonald's franchises (even though most were Russian-owned), forcing some to close for uncertain reasons. McDonald's flagship store in Moscow was shut down for several weeks by the Russian Food Safety Authority. And the three McDonald's in Crimea were permanently shuttered, with at least one becoming a nationalist chain outlet called Rusburger, serving 'Czar Cheeseburgers' where Quarter Pounders once flowed.[25]

Despite such problems, defenders of globalisation argue that concerns of Americanisation and the potential damage to American brands are overblown. US brands are doing very well internationally. In the most recent Millward Brown BrandZ brand value survey of global consumer brands, 19 of the top 25 global brands were American owned, including megabrands such as Google, Apple, IBM, Microsoft, McDonald's, Coca-Cola, GE, Amazon and Walmart.[26]

Many iconic American brands are soaring globally. For example, most international markets covet American fast food. Consider KFC in Japan. On the day that KFC introduced its outrageous Double Down sandwich – bacon, melted cheese and a 'secret sauce' between two deep-fried chicken patties – in one of its restaurants in Japan, fans formed long lines and slept on the sidewalks outside to get a taste. 'It was like the iPhone', says the CMO of KFC International, 'people [were] crazy'. The US limited-time item has since become a runaway success worldwide, from Canada to Australia, the Philippines and Malaysia. More broadly, KFC has become its own cultural institution in Japan. For instance, the brand has long been one of Japan's leading Christmas dining traditions, with the iconic Colonel Sanders standing in as a kind of Japanese Father Christmas:[27]

Non-domestic brands can sometimes be a runaway success in another context.
Source: Frédéric VIELCANET/Alamy Stock Photo

> Japan's KFC Christmas tradition began more than 40 years ago when the company unleashed a 'Kentucky for Christmas' advertising campaign in Japan to help the brand get off the ground. Now, eating Kentucky Fried Chicken has become one of the country's most popular holiday traditions. Each KFC store displays a life-size Colonel Sanders statue, adorned in a traditional fur-trimmed red suit and Santa hat. A month in advance, Japanese customers order their special Christmas meal – a special bucket of fried chicken with wine and cake for about €40. Some 3.6 million Japanese households had a KFC Christmas feast last year. Those who don't pre-order risk standing in lines that snake around the block or having to go without KFC's coveted blend of 11 herbs and spices altogether. Christmas Eve is KFC's most successful sales day of the year in Japan, and December monthly sales run as much as 10 times greater than sales in other months.

More fundamentally, the cultural exchange goes both ways: America gets as well as gives cultural influence. True, Hollywood dominates the global movie market, but British TV originated the programming that was Americanised into such hits as *House of Cards*, *Dancing with the Stars* and *Hell's Kitchen*. Although Chinese and Russian youth are donning NBA superstar jerseys, the increasing popularity of soccer in America has deep international roots. American kids are similarly wearing the football strips of Barcelona, Liverpool and Inter Milan. Even American childhood has been increasingly influenced by European and Asian cultural imports. Most kids know all about imports such as Hello Kitty, Pokémon or any of a host of Nintendo or Sega game characters. And J. K. Rowling's so-very-British Harry Potter books shaped the thinking of a generation of American youngsters, not to mention the millions of American oldsters who fell under their spell as well. For the moment, English remains the dominant language of the internet, and having web and mobile access often means that third-world youth have greater exposure to American popular culture. Yet these same technologies let Eastern European students studying in the United States hear webcast news and music from Poland, Romania or Belarus.

Thus, globalisation is a two-way street. If globalisation has Mickey Mouse ears, it is also wearing a French beret, talking on a Samsung smartphone, buying furniture at IKEA, driving a Toyota Camry and watching England play cricket on a Panasonic OLED TV.

Deciding whether to go global

Not all companies need to venture into international markets to survive. For example, most local businesses need to market well only in their local marketplaces. Operating domestically is easier and safer. Managers don't need to learn another country's language and laws. They don't have to deal with unstable currencies, face political and legal uncertainties, or redesign their products to suit different customer expectations. However, companies that operate in global industries, where their strategic positions in specific markets are affected strongly by their overall global positions, must compete on a regional or worldwide basis to succeed.

Any of several factors might draw a company into the international arena. For example, global competitors might attack the company's home market by offering better products or lower prices. The company might want to counterattack these competitors in their home markets to tie up their resources. The company's customers might be expanding abroad and require international servicing. Or, most likely, international markets might simply provide better opportunities for growth. For example, as noted previously, Coca-Cola has emphasised international growth in recent years to offset stagnant or declining US soft drink sales. Today, non-North America markets account for 80 per cent of Coca-Cola's unit case volume, and the company is making major pushes into 90 emerging markets, such as China, India and the entire African continent.[28]

Before going abroad, the company must weigh several risks and answer many questions about its ability to operate globally. Can the company learn to understand the preferences and buyer behaviour of consumers in other countries? Can it offer competitively attractive products? Will it be able to adapt to other countries' business cultures and deal effectively with foreign nationals? Do the company's managers have the necessary international experience? Has management considered the impact of regulations and the political environments of other countries?

Entering the Chinese market (the biggest toothpaste market) was central to P&G's strategy for the brand.
Source: Zhang Peng/Getty Images

Deciding which markets to enter

Before going abroad, a company should try to define its international *marketing objectives and policies*. It should decide what *volume* of foreign sales it wants. Most companies start small when they go abroad. Some plan to stay small, seeing international sales as a small part of their business. Other companies have bigger plans, however, seeing international business as equal to – or even more important than – their domestic business.

The company also needs to choose in *how many* countries it wants to market. Companies must be careful not to spread themselves too thin or expand beyond their capabilities by operating in too many countries too soon. Next, the company needs to decide on the *types* of countries to enter. A country's attractiveness depends on the product, geographical factors, income and population, political climate and other considerations. In recent years, many major new markets have emerged, offering both substantial opportunities and daunting challenges.

After listing possible international markets, the company must carefully evaluate each one. It must consider many factors. For example, Amazon's decision to expand into India seems like a no-brainer. The online merchant is already doing well in such global markets as Germany, Japan and the United Kingdom, which combined with the United States produce 95 per cent of Amazon's profits. India is now the world's fastest-growing economy, with a population of 1.25 billion people, four times the US population and double Europe's. What's more, only one-quarter of India's population now has access to the internet and only a small proportion of Indians have ever shopped online, leaving explosive room for growth in online shopping.

However, as Amazon considers expanding into new markets such as India, it must ask some important questions. Can it compete effectively with local competitors? Can it master the varied cultural and buying differences of Indian consumers? Will it be able to meet environmental and regulatory hurdles in each country? Can it overcome some daunting infrastructure problems?

In entering India, Amazon faces many challenges. For example, it must confront two established local competitors there – Flipkart and Snapdeal – plus a slew of smaller Indian start-ups. Flipkart, by itself, currently captures 44 per cent of India's e-commerce compared with Amazon's 15 per cent. Amazon also faces a tangle of Indian regulations, including a law that forbids foreign companies from selling directly to Indians. Thus, rather than buying goods and reselling them as it does in the United States, Amazon in India will be only a platform for vendors, similar to its 'fulfilment by Amazon' operations in the West.

Package delivery is another major obstacle. India is characterised by muddy, potholed rural roads or congested city streets with arcane address systems, and there are no reliable delivery services such FedEx, UPS or the postal service. To make speedy deliveries, Amazon has had to set up its own motorcycle delivery service, consisting of thousands of motorbike riders with large black backpacks who race around the country delivering packages. Still another concern is payment. Only 60 per cent of Indians have bank accounts, and only a small fraction of those have credit cards. Most customers pay cash for home-delivered purchases or when they collect their packages from local shops across the country that serve as pick-up and payment points. The small local shops also serve as online ordering spots for the majority of Indian consumers who have no internet connections. Store owners guide customers through Amazon's site, write down their orders, and collect the cash when orders are picked up from the shop.

Thus, Amazon's decision to enter India is, in fact, a no-brainer. 'The size of the opportunity is so large it will be measured in trillions, not billions – trillions of euros, that is, not rupees', says Amazon's senior vice president for international retail. But it's also a very large and complex undertaking. A slogan posted on the wall in Amazon's Hyderabad warehouse sums up the challenge: 'Transforming the way India sells, transforming the way India buys.'[29]

Possible global markets should be ranked on several factors, including market size, market growth, the cost of doing business, competitive advantage and risk level. The goal is to determine the potential of each market, using indicators such as those shown in Table 19.1. Then the marketer must decide which markets offer the greatest long-run return on investment.

Author comment

A company has many options for entering an international market, from simply exporting its products to working jointly with foreign companies to setting up its own foreign-based operations.

Deciding how to enter the market

Once a company has decided to sell in a foreign country, it must determine the best mode of entry. Its choices are *exporting*, *joint venturing*, and *direct investment*. Figure 19.2 shows the three market entry strategies along with the options each one offers. As the figure shows, each succeeding strategy involves more commitment and risk but also more control and potential profits.

Table 19.1 Indicators of market potential

Demographic characteristics	Sociocultural factors
Education Population size and growth Population age composition	Consumer lifestyles, beliefs and values Business norms and approaches Cultural and social norms Languages
Geographic characteristics	**Political and legal factors**
Climate Country size Population density – urban, rural Transportation structure and market accessibility	National priorities Political stability Government attitudes toward global trade Government bureaucracy Monetary and trade regulations
Economic factors	
GDP size and growth Income distribution Industrial infrastructure Natural resources Financial and human resources	

Exporting

Exporting Entering foreign markets by selling goods produced in the company's home country, often with little modification.

The simplest way to enter a foreign market is through **exporting**. The company may passively export its surpluses from time to time, or it may make an active commitment to expand exports to a particular market. In either case, the company produces all its goods in its home country. It may or may not modify them for the export market. Exporting involves the least change in the company's product lines, organisation, investments or mission.

Companies typically start with *indirect exporting*, working through independent international marketing intermediaries. Indirect exporting involves less investment because the firm does not require an overseas marketing organisation or network. It also involves less risk. International marketing intermediaries bring know-how and services to the relationship, so the seller normally makes fewer mistakes. Sellers may eventually move into *direct exporting*, whereby they handle their own exports. The investment and risk are somewhat greater in this strategy, but so is the potential return.

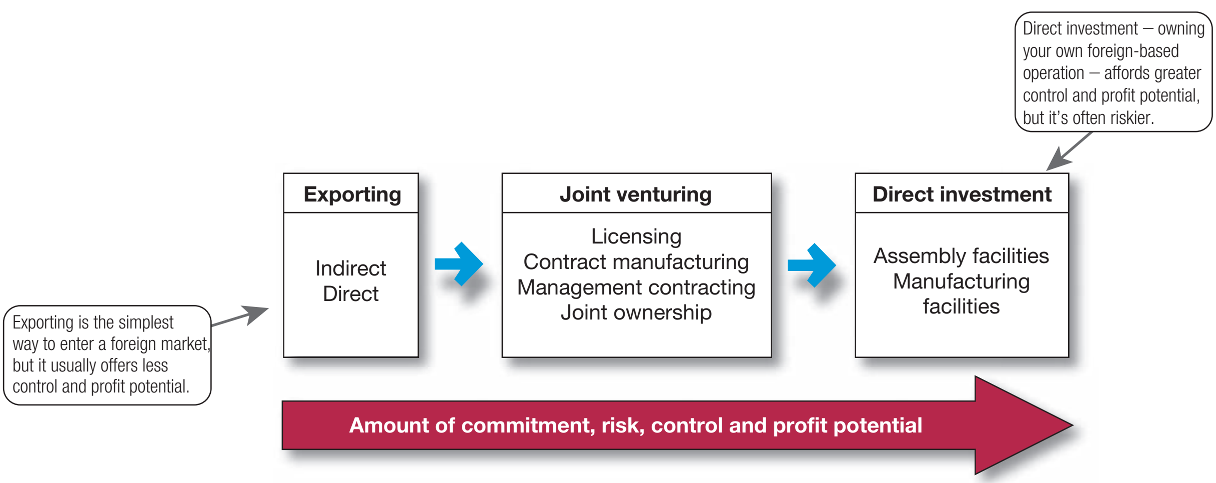

Figure 19.2 Market entry strategies

Joint venturing

A second method of entering a foreign market is by **joint venturing** – joining with foreign companies to produce or market products or services. Joint venturing differs from exporting in that the company joins with a host country partner to sell or market abroad. It differs from direct investment in that an association is formed with someone in the foreign country. There are four types of joint ventures: *licensing*, *contract manufacturing*, *management contracting* and *joint ownership*.

Joint venturing Entering foreign markets by joining with foreign companies to produce or market a product or service.

Licensing

Licensing is a simple way for a manufacturer to enter international marketing. The company enters into an agreement with a licensee in the foreign market. For a fee or royalty payments, the licensee buys the right to use the company's manufacturing process, trademark, patent, trade secret or other item of value. The company thus gains entry into a foreign market at little risk; at the same time, the licensee gains production expertise or a well-known product or name without having to start from scratch.

Licensing Entering foreign markets through developing an agreement with a licensee in the foreign market.

In Japan, Budweiser beer flows from Kirin breweries, and Mizkan produces Sunkist lemon juice, drinks and dessert items. Tokyo Disney Resort is owned and operated by Oriental Land Company under license from The Walt Disney Company. The 45-year licence gives Disney licensing fees plus a percentage of admissions and food and merchandise sales. And Coca-Cola markets internationally by licensing bottlers around the world and supplying them with the syrup needed to produce the product. Its global bottling partners range from the Coca-Cola Bottling Company of Saudi Arabia to beer maker SABMiller in Africa to Europe-based Coca-Cola Hellenic, which bottles and markets 136 Coca-Cola brands to 593 million people in 28 countries, from Italy and Greece to Nigeria and Russia.[30]

Licensing has potential disadvantages, however. The firm has less control over the licensee than it would over its own operations. Furthermore, if the licensee is very successful, the firm has given up these profits, and if and when the contract ends, it may find it has created a competitor.

Contract manufacturing

Another option is **contract manufacturing**, in which the company makes agreements with manufacturers in the foreign market to produce its product or provide its service. For example, P&G serves 650 million consumers across India with the help of nine contract manufacturing sites there. And Volkswagen contracts with Russia's largest car manufacturer, GAZ Group, to make Volkswagen Jettas for the Russian market as well as its Škoda (VW's Czech Republic subsidiary) Octavia and Yeti models sold there.[31] The drawbacks of contract manufacturing are decreased control over the manufacturing process and loss of potential profits on manufacturing. The benefits are the chance to start faster with less risk and the later opportunity either to form a partnership with or buy out the local manufacturer. Contract manufacturing can also reduce plant investment, transportation and tariff costs while at the same time helping to meet the host country's local manufacturing requirements.

Contract manufacturing A joint venture in which a company contracts with manufacturers in a foreign market to produce its product or provide its service.

Management contracting

Under **management contracting**, the domestic firm provides the management know-how to a foreign company that supplies the capital. In other words, the domestic firm exports management services rather than products. Hilton uses this arrangement in managing hotels around the world. For example, the hotel chain operates DoubleTree by Hilton hotels in countries ranging from the UK and Italy to Peru and Costa Rica to China, Russia and Tanzania. The properties are locally owned, but Hilton manages the hotels with its world-renowned hospitality expertise.[32]

Management contracting A joint venture in which the domestic firm supplies the management know-how to a foreign company that supplies the capital; the domestic firm exports management services rather than products.

Management contracting is a low-risk method of getting into a foreign market, and it yields income from the beginning. The arrangement is even more attractive if the contracting firm has an option to buy some share in the managed company later on. The arrangement is not sensible, however, if the company can put its scarce management talent to better uses or if it can make greater profits by undertaking the whole venture. Management contracting also prevents the company from setting up its own operations for a period of time.

Joint ownership

Joint ownership A cooperative venture in which a company creates a local business with investors in a foreign market who share ownership and control.

Joint ownership ventures consist of one company joining forces with foreign investors to create a local business in which they share possession and control. A company may buy an interest in a local firm, or the two parties may form a new business venture. Joint ownership may be needed for economic or political reasons. For example, the firm may lack the financial, physical or managerial resources to undertake the venture alone. Alternatively, a foreign government may require joint ownership as a condition for entry. Disney's Hong Kong Disneyland and Shanghai Disneyland are both joint ownership ventures with the Chinese government-owned Shanghai Shendi Group. Disney owns 43 per cent of the Shanghai resort; the Shanghai Shendi Group owns 57 per cent.[33]

Often, companies form joint ownership ventures to merge their complementary strengths in developing a global marketing opportunity. For example, to increase its presence and local influence in China's mobile phone and tablets markets, chip maker Intel recently paid €1.29 billion for 20 per cent ownership in China's state-run Tsinghua Unigroup, which controls two domestic mobile chipmakers. The joint ownership investment will help Intel to better understand Chinese consumers. It may also help to earn more favourable treatment from Chinese regulators. So far, Intel has gone untouched by China's recent crackdown on foreign technology companies such as competitor Qualcomm and software makers Microsoft and Symantec.[34]

Joint ownership has certain drawbacks, however. The partners may disagree over investment, marketing or other policies. Whereas many European firms like to reinvest earnings for growth, local firms often prefer to take out these earnings; whereas European firms emphasise the role of marketing, local investors may rely on selling.

Direct investment Entering a foreign market by developing foreign-based assembly or manufacturing facilities.

Direct investment

The biggest involvement in a foreign market comes through **direct investment** – the development of foreign-based assembly or manufacturing facilities. For example, in addition to joint ownership ventures in China, Intel has also made substantial investments in its own manufacturing and research facilities there. It recently spent €1.3 billion upgrading its decade-old chip factory in the central Chinese city of Chengdu and another €2.14 billion to build a shiny new fabrication plant in Dalian, a port city in China's northeast. 'China is our fastest-growing major market', says Intel's CEO, 'and we believe it's critical that we invest in markets that will provide for future growth to better serve our customers'.[35]

If a company has gained experience in exporting and if the foreign market is large enough, foreign production facilities offer many advantages. The firm may have lower costs in the form of cheaper labour or raw materials, foreign government investment incentives and freight savings. The firm may also improve its image in the host country because it creates jobs. Generally, a firm develops a deeper relationship with the government, customers, local suppliers and distributors,

Going global: for some firms, going global can be such a success that foreign markets become more lucrative compared to those at home.
Source: Anatolii Babii/Alamy Stock Photo

allowing it to adapt its products to the local market better. Finally, the firm keeps full control over the investment and therefore can develop manufacturing and marketing policies that serve its long-term international objectives.

The main disadvantage of direct investment is that the firm faces many risks, such as restricted or devalued currencies, falling markets or government changes. In some cases, a firm has no choice but to accept these risks if it wants to operate in the host country.

Deciding on the global marketing programme

Companies that operate in one or more foreign markets must decide how much, if at all, to adapt their marketing strategies and programmes to local conditions. At one extreme are global companies that use **standardised global marketing**, essentially using the same marketing strategy approaches and marketing mix worldwide. At the other extreme is **adapted global marketing**. In this case, the producer adjusts the marketing strategy and mix elements to each target market, resulting in more costs but hopefully producing a larger market share and return.

Standardised global marketing A global marketing strategy that basically uses the same marketing strategy and mix in all of the company's international markets.

Adapted global marketing A global marketing approach that adjusts the marketing strategy and mix elements to each international target market, which creates more costs but hopefully produces a larger market share and return.

The question of whether to adapt or standardise the marketing strategy and programme has been much debated over the years. On the one hand, some global marketers believe that technology is making the world a smaller place, and consumer needs around the world are becoming more similar. This paves the way for global brands and standardised global marketing. Global branding and standardisation, in turn, result in greater brand power and reduced costs from economies of scale.

On the other hand, the marketing concept holds that marketing programmes will be more engaging if tailored to the unique needs of each targeted customer group. If this concept applies within a country, it should apply even more across international markets. Despite global convergence, consumers in different countries still have widely varied cultural backgrounds. They still differ significantly in their needs and wants, spending power, product preferences and shopping patterns. Because these differences are hard to change, most marketers today adapt their products, prices, channels and promotions to fit consumer desires in each country.

Author comment

The major global marketing decision usually boils down to this: how much, if at all, should a company adapt its marketing strategy and programmes to local markets? How might the answer differ for Boeing versus Carrefour?

However, global standardisation is not an all-or-nothing proposition. It's a matter of degree. Most international marketers suggest that companies should 'think globally but act locally'. They should seek a balance between standardisation and adaptation, leveraging global brand recognition but adapting their marketing, products and operations to specific markets.

Consider L'Oréal, the world's biggest cosmetics maker. L'Oréal and its brands are truly global in scope and appeal. The company's well-known brands originated in a half-dozen or more different cultures, including French (L'Oréal Paris, Garnier, Lancôme), American (Maybelline, Kiehl's, SoftSheen-Carson, Ralph Lauren, Urban Decay, Clarisonic, Redken), British (The Body Shop), Italian (Giorgio Armani) and Japanese (Shu Uemura). But the company's outstanding international success comes from achieving a global–local balance, one that adapts and differentiates L'Oréal's well-known brands to meet local needs while also integrating them across world markets to optimise their global impact:[36]

> L'Oréal digs deep to understand what beauty means to consumers in different parts of the world, with research insights gained through everything from in-home visits to observations made in 'bathroom laboratories' equipped with high-tech gadgetry. How many minutes does a Chinese woman devote to her morning beauty routine? How do people wash their hair in Bangkok? How many brush strokes does a Japanese woman or a French woman use to apply mascara? L'Oréal then uses such detailed insights to create products and positioning for brands in local markets. For example, more than 260 scientists work in L'Oréal's Shanghai research centre, tailoring products ranging from lipstick to herbal cleansers to cucumber toners for Chinese tastes.
>
> L'Oréal also adapts brand positioning and marketing to international needs and expectations. For example, more than 20 years ago, the company bought stodgy American make-up producer

Maybelline. To reinvigorate and globalise the brand, it moved the unit's headquarters from Tennessee to New York City and added 'New York' to the label. The resulting urban, street-smart, Big Apple image played well with the mid-price positioning of the workaday make-up brand globally. The makeover soon earned Maybelline a 20 per cent market share in its category in Western Europe. The young urban positioning also hit the mark in Asia, where few women realised that the trendy 'New York' Maybelline brand belonged to a French cosmetics giant. L'Oréal's CEO sums up the company's global approach this way: 'We have global brands, but we need to adapt them to local needs.' When a former CEO once addressed a UNESCO conference, nobody batted an eyelid when he described L'Oréal as 'The United Nations of Beauty'.

Collectively, local brands still account for the overwhelming majority of consumer purchases. Most consumers, wherever they live, lead very local lives. So a global brand must engage consumers at a local level, respecting the culture and becoming a part of it. For example, 7-Eleven has become the world's largest convenience store chain by skilfully adapting its operations in each global market to match widely differing local definitions of just what 'convenience' means.

Product

Five strategies are used for adapting product and marketing communication strategies to a global market (see Figure 19.3).[37] We first discuss the three product strategies and then turn to the two communication strategies.

Straight product extension Marketing a product in a foreign market without making any changes to the product.

Straight product extension means marketing a product in a foreign market without making significant changes to the product. Top management tells its marketing people, 'Take the product as is and find customers for it.' The first step, however, should be to find out whether foreign consumers use that product and what form they prefer.

Straight extension has been successful in some cases and disastrous in others. Apple iPads, Gillette razors, and Bosch tools are all sold successfully in about the same form around the world. But when General Foods introduced its standard powdered JELL-O in the British market, it discovered that British consumers prefer a solid wafer or cake form. Likewise, Philips began to make a profit in Japan only after it reduced the size of its coffeemakers to fit into smaller Japanese kitchens and its shavers to fit smaller Japanese hands. And Panasonic's refrigerator sales in China surged 10-fold in a single year after it shaved the width of its appliances by 15 per cent to fit smaller Chinese kitchens.[38] Straight extension is tempting because it involves no additional product development costs, manufacturing changes or new promotion. But it can be costly in the long run if products fail to satisfy consumers in specific global markets.

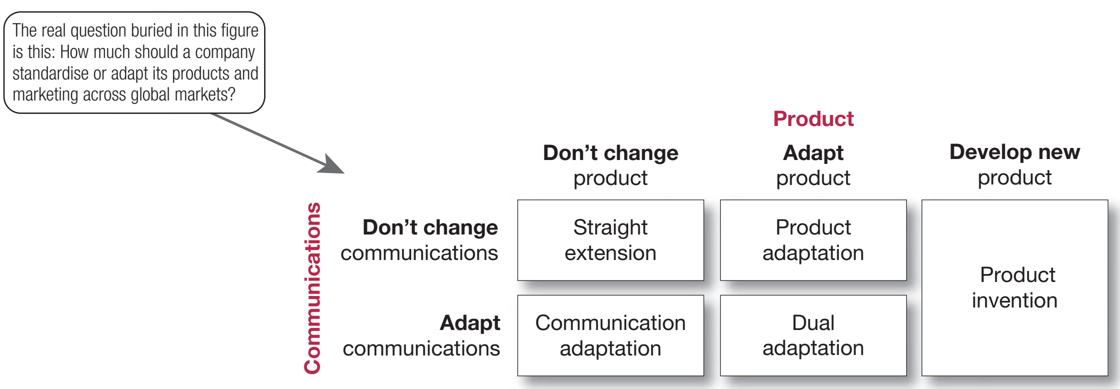

Figure 19.3 Five global product and communications strategies

Product adaptation involves changing the product to meet local requirements, conditions, or wants. For example, as mentioned earlier (in Chapter 9), McDonald's operates in more than 100 countries, with sometimes widely varying local food preferences. So although you'll find its signature burgers and fries in most locations around the world, the chain has added menu items that meet the unique taste buds of customers in local markets. McDonald's serves salmon burgers in Norway, mashed-potato burgers in China, shrimp burgers in Japan, a Samurai Pork Burger in Thailand, chicken porridge in Malaysia, and Spam and eggs in Hawaii. In a German McDonald's, you'll find the Nurnburger (three large bratwurst on a soft roll with lots of mustard, of course); in Israel, there's the McFalafel (chickpea fritters, tomatoes, cucumber and cheese topped with tahini and wrapped in laffa). And menus in Turkey feature a chocolate orange fried pie (Brazil adds banana, Egypt taro and Hawaii pineapple).

Product adaptation Adapting a product to meet local conditions or wants in foreign markets.

In many major global markets, McDonald's adapts more than just its menu. It also adjusts its restaurant design and operations. For example, McDonald's France has redefined itself as a French company that adapts to the needs and preferences of French consumers:[39]

> 'France – the land of haute cuisine, fine wine, and cheese – would be the last place you would expect to find a thriving [McDonald's],' opines one observer. Yet the fast-food giant has turned France into its second-most profitable world market. Although a McDonald's in Paris might at first seem a lot like one in Chicago, McDonald's has carefully adapted its French operations to the preferences of local customers. At the most basic level, although a majority of revenues still come from burgers and fries, McDonald's France has changed its menu to please the French palate. For instance, it offers up burgers with French cheeses such as chevre, cantel, and bleu, topped off with whole-grain French mustard sauce. And French consumers love baguettes, so McDonald's bakes them fresh in its restaurants and sells them in oh-so-French McBaguette sandwiches.
>
> But perhaps the biggest difference isn't in the food, but in the design of the restaurants themselves, which have been adapted to suit French lifestyles. For example, French meal times tend to be longer, with more food consumed per sitting. So McDonald's has refined its restaurant interiors to create a comfortable, welcoming environment where customers want to linger and perhaps order an additional coffee or dessert. McDonald's even provides table service. As a result, the average French McDonald's customer spends about four times what an American customer spends per visit.

Product invention consists of creating something new to meet the needs of consumers in a given country. As markets have gone global, companies ranging from appliance manufacturers and car makers to confectionery and soft drink producers have developed products that meet the special purchasing needs of low-income consumers in developing economies.

Product invention Creating new products or services for foreign markets.

For example, Chinese appliance producer Haier developed sturdier washing machines for rural users in emerging markets, where it found that lighter-duty machines often became clogged with mud when farmers used them to clean vegetables as well as clothes. And solar lighting manufacturer d.light Solar has developed affordable solar-powered home lighting systems for the hundreds of millions of people in the developing world who don't have access to reliable power. d.light's hanging lamps and portable lanterns require no energy source other than the sun and can last up to 15 hours on one charge. The company has already reached 51 million users, is adding 1 million users per month, and plans to reach 100 million users by 2020.[40]

Promotion

Companies can either adopt the same communication strategy they use in the home market or change it for each local market. Consider advertising messages. Some global companies use a standardised advertising theme around the world. For example, Chevrolet swapped out its previous, American-focused 'Chevy Runs Deep' positioning and advertising theme with a more global 'Find New Roads' theme. The new theme is one 'that works in all markets', says a GM marketing executive. 'The theme has meaning in mature markets like the U.S. as well as emerging markets like Russia and India, where the potential for continued growth is the greatest.' The time is right for a more globally consistent Chevy brand message. Chevrolet sells cars in more than 140 countries, and nearly two-thirds of its sales are now outside the United States, compared with only about one-third a decade ago.[41]

Of course, even in highly standardised communications campaigns, some adjustments might be required for language and cultural differences. For example, ads for Pepsi's youthful 'Live for Now' campaign have a similar look worldwide but are adapted in different global markets to feature local consumers, languages and events. Similarly, in Western markets, fast-casual clothing retailer H&M runs fashion ads with models showing liberal amounts of bare skin. But in the Middle East, where attitudes toward public nudity are more conservative, the retailer runs the same ads digitally adapted to better cover its models.

Global companies often have difficulty crossing the language barrier, with results ranging from mild embarrassment to outright failure. Seemingly innocuous brand names and advertising phrases can take on unintended or hidden meanings when translated into other languages. For example, Interbrand of London, the firm that created household names such as Prozac and Acura, recently developed a brand name 'hall of shame' list, which contained these and other foreign brand names you're never likely to see inside a UK supermarket: Krapp toilet paper (Denmark), Plopp chocolate (Scandinavia), Crapsy Fruit cereal (France), Poo curry powder (Argentina), and Pschitt lemonade (France). Similarly, advertising themes often lose – or gain – something in the translation. In Chinese, the KFC slogan 'finger-lickin' good' came out as 'eat your fingers off'. And Motorola's Hello moto ringtone sounds like 'Hello, Fatty' in India.

Marketers must be watchful to avoid such mistakes, taking great care when localising their brand names and messages to specific global markets. In important but culturally different markets such as China, finding just the right name can make or break a brand:

> After a long day's work, an average upscale Beijinger can't wait to dash home, lace on a comfortable pair of Enduring and Persevering, pop the top on a refreshing can of Tasty Fun, then hop into his Dashing Speed and head to the local tavern for a frosty glass of Happiness Power with friends. Translation? In China, those are the brand name meanings for Nike, Coca-Cola, Mercedes and Heineken, respectively. To Westerners, such names sound pretty silly, but to brands doing business in China, they are no laughing matter. Perhaps more than anywhere else in the world, brand names in China take on deep significance.
>
> Ideally, to maintain global consistency, the Chinese name should sound similar to the original while at the same time conveying the brand's benefits in meaningful symbolic terms. Nike's Chinese brand name, Nai ke, does this well. Not only does it sound the same when pronounced in Chinese, its 'enduring and persevering' meaning powerfully encapsulates the 'Just Do It' essence of the Nike brand the world over. Similarly, P&G's Tide is Taizi in China, which translates to 'gets out the dirt,' a perfect moniker for a tough-acting detergent. Other names that wear well on Chinese ears while also conveying a brand's essence include Lay's snack foods – Le shi ('happy things'); Reebok – Rui bu ('quick steps'); and Colgate – Gau lu jie ('revealing superior cleanliness').[42]

Communication adaptation
A global communication strategy of fully adapting advertising messages to local markets.

Rather than standardising their advertising globally, other companies follow a strategy of **communication adaptation**, fully adapting their advertising messages to local markets. For example, in the United States and most Western countries, where running is accepted as a positive, healthful activity, Nike advertising focuses on products and personal performance. In China, however, running is viewed as a boring sport or even a punishment – something rigorous and painful. It's not something that most people in Asia's polluted cities choose to do, especially on streets jammed with pedestrians, bicycles, cars and even rickshaws. 'The joke is that when there's a person running in the city (and it's often a Westerner), people turn to see who's chasing him', quips one observer.

However, China is the largest footwear market in the world, offering huge untapped potential for Nike. So, in China, rather than pushing products and performance, Nike's advertising focuses on just trying to get more Chinese to put on running shoes. Ads and social media feature ordinary people who choose to run on city streets, letting them relate their reasons in their own words. 'I run to make the hidden visible', says one young woman. 'I run to get lost', says another. Salad – a stressed-out office worker who lives and runs in Shanghai – relates: 'The city is always noisy and busy. This adds even more pressure to my day. I guess for me, running is about shutting down the noise.' To make running a more social activity, Nike also sponsors night-time 'Lunar Runs' in big cities like Beijing and marathons in Shanghai, featuring fitness instructors, live music and celebrities to introduce Chinese students and young professionals to running as a fun and rewarding after-class or after-work activity. The goal is to get more people to at least give running a try. But changing basic perceptions of the sport won't be easy. 'It's a very long road for us', says a Nike China marketer.[43]

Media also need to be adapted internationally because media availability and regulations vary from country to country. TV advertising time is very limited in Europe, for instance, ranging from four hours a day in France to none in Scandinavian countries. Advertisers must buy time months in advance, and they have little control over airtimes. However, mobile phone ads are much more widely accepted in Europe and Asia than in the United States. Magazines also vary in effectiveness. For example, magazines are a major medium in Italy but a minor one in Austria. Newspapers are national in the United Kingdom but only local in Spain.[44]

Price

Companies also face many considerations in setting their international prices. For example, how might Makita price its power tools globally? It could set a uniform price globally, but this amount would be too high of a price in poor countries and not high enough in rich ones. It could charge what consumers in each country would bear, but this strategy ignores differences in the actual costs from country to country. Finally, the company could use a standard mark-up of its costs everywhere, but this approach might price Makita out of the market in some countries where costs are high.

Regardless of how companies go about pricing their products, their foreign prices probably will be higher than their domestic prices for comparable products. An Apple iPad Pro that sells for €683 in the United States goes for €849 in the United Kingdom. Why? Apple faces a *price escalation* problem. It must add the cost of transportation, tariffs, importer margin, wholesaler margin and retailer margin to its factory price. Depending on these added costs, a product may have to sell for two to five times as much in another country to make the same profit.

To overcome this problem when selling to less-affluent consumers in developing countries, many companies make simpler or smaller versions of their products that can be sold at lower prices. Others have introduced new, more affordable brands for global markets. For example, Lenovo's Motorola division developed the modestly priced Moto G smartphone. Although not a flashy, high-tech gadget, the latest full-function version of the device sells for as little as €153 in the United States with no contract. Motorola first introduced the phone in Brazil, one of the largest and fastest-growing emerging markets, then in other parts of South America, the Middle East, India and more of Asia. Intended primarily for emerging markets where consumers want low-cost phones, the Moto G may also sell well to cost-conscious consumers in major developed markets, such as the United States and Europe.

The Moto G phone puts pressure on Apple, which has focused on selling older models at reduced prices rather than developing cheaper models. The extremely affordable Moto G is now the most popular smartphone in Brazil, where it is priced at €222 versus iPhones starting at €923. The low-end phone also helped catapult a then-flagging Motorola into the number-four position in the huge Indian smartphone market.[45]

Recent economic and technological forces have had an impact on global pricing. For example, the internet is making global price differences more obvious. When firms sell their wares over the internet, customers can see how much products sell for in different countries. They can even order a given product directly from the company location or dealer offering the lowest price. This is forcing companies toward more standardised international pricing.

Distribution channels

Whole-channel view
Designing international channels that take into account the entire global supply chain and marketing channel, forging an effective global value delivery network.

An international company must take a **whole-channel view** of the problem of distributing products to final consumers. Figure 19.4 shows the two major links between the seller and the final buyer. The first link, *channels between nations*, moves company products from points of production to the borders of countries within which they are sold. The second link, *channels within nations*, moves products from their market entry points to the final consumers. The whole-channel view takes into account the entire global supply chain and marketing channel. It recognises that to compete well internationally, the company must effectively design and manage an entire *global value delivery network*.

Channels of distribution within countries vary greatly from nation to nation. There are large differences in the numbers and types of intermediaries serving each country market and in the transportation infrastructure serving these intermediaries. For example, whereas large-scale retail chains dominate the European scene, most of the retailing in other countries is done by small, independent retailers. In India or Indonesia, millions of retailers operate tiny shops or sell in open markets.

When selling in emerging markets, companies must often overcome distribution infrastructure and supply challenges. For example, in Nigeria, Domino's Pizza has had to dig wells and install water-treatment plants behind many of its restaurants to obtain clean water. Similarly, after having difficulty sourcing quality beef in South Africa, rather than buying scarce beef from scrawny cattle raised by local herdsmen, Burger King finally invested €5 million in its own local cattle ranch.[46] And to serve north-east Brazil's Amazon River basin, which lacks a solid network of good roads, Nestlé has even launched a floating supermarket that takes goods directly to customers. The boat serves 1.5 million consumers in 27 riverside towns with 300 different Nestlé products, spending one day at each stop. Customers can check the floating store's schedule online, call a free phone number or text for more information and plan their shopping accordingly.[47]

Even in world markets containing similar types of sellers, retailing practices can vary widely. For example, you'll find plenty of Walmarts, Carrefours, Tescos and other retail superstores in major Chinese cities. But whereas consumer brands sold in such stores in Western markets rely largely on self-service, brands in China hire armies of uniformed in-store promoters – called 'promoter girls' or 'push girls' – to dispense samples and pitch their products person to person. In a Beijing Walmart, on any given weekend, you'll find 100 or more such promoters acquainting

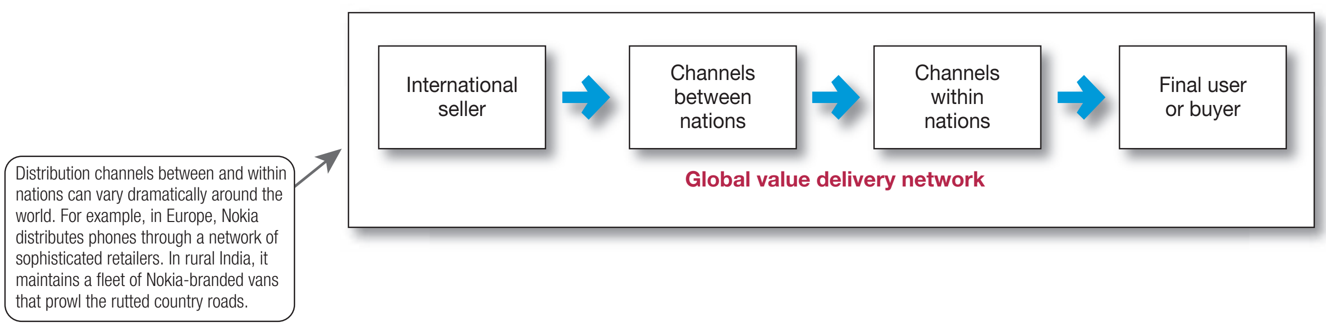

Figure 19.4 Whole-channel concept for international marketing

customers with products from Kraft, Unilever, P&G, Johnson & Johnson and a slew of local competitors. 'Chinese consumers know the brand name through media', says the director of a Chinese retail marketing service, 'but they want to feel the product and get a detailed understanding before they make a purchase'.[48]

Deciding on the global marketing organisation

Companies manage their international marketing activities in at least three different ways: most companies first organise an export department, then create an international division, and finally become a global organisation.

A firm normally gets into international marketing by simply shipping out its goods. If its international sales expand, the company will establish an *export department* with a sales manager and a few assistants. As sales increase, the export department can expand to include various marketing services so that it can actively go after business. If the firm moves into joint ventures or direct investment, the export department will no longer be adequate.

Many companies get involved in several international markets and ventures. A company may export to one country, license to another, have a joint ownership venture in a third and own a subsidiary in a fourth. Sooner or later it will create *international divisions* or subsidiaries to handle all its international activity.

International divisions are organised in a variety of ways. An international division's corporate staff consists of marketing, manufacturing, research, finance, planning and personnel specialists. It plans for and provides services to various operating units, which can be organised in one of three ways. They can be *geographical organisations*, with country managers who are responsible for salespeople, sales branches, distributors and licensees in their respective countries. Or the operating units can be *world product groups*, each responsible for worldwide sales of different product groups. Finally, operating units can be *international subsidiaries*, each responsible for their own sales and profits.

Many firms have passed beyond the international division stage and are truly global organisations. For example, as discussed previously, despite its French origins, L'Oréal no longer has a clearly defined home market. Nor does it have a home-office staff. Instead, the company is famous for building global brand teams around managers who have deep backgrounds in several cultures. L'Oréal managers around the world bring diverse cultural perspectives to their brands as if they were, say, German or American or Chinese – or all three at once. As explained by one Indian-American-French manager of a team that launched a men's skin care line in Southeast Asia: 'I cannot think about things one way. I have a stock of references in different languages: English, Hindi, and French. I read books in three different languages, meet people from different countries, eat food from different [cultures], and so on.'[49]

Global organisations don't think of themselves as national marketers that sell abroad but as global marketers. The top corporate management and staff plan worldwide manufacturing facilities, marketing policies, financial flows and logistical systems. The global operating units report directly to the chief executive or the executive committee of the organisation, not to the head of an international division. Executives are trained in worldwide operations, not just domestic *or* international operations. Global companies recruit management from many countries, buy components and supplies where they cost the least, and invest where the expected returns are greatest.

Today, major companies must become more global if they hope to compete. As foreign companies successfully invade their domestic markets, companies must move more aggressively into foreign markets. They will have to change from companies that treat their international operations as secondary to companies that view the entire world as a single borderless market.

Author comment

Many large companies, regardless of their 'home country', now think of themselves as truly *global* organisations. They view the entire world as a single borderless market. For example, although headquartered in Chicago, Boeing is as comfortable selling planes to Lufthansa or Air China as to American Airlines.

Learning outcomes review

Companies today can no longer afford to pay attention only to their domestic market, regardless of its size. Many industries are global industries, and firms that operate globally achieve lower costs and higher brand awareness. At the same time, global marketing is risky because of variable exchange rates, unstable governments, tariffs and trade barriers, and several other factors. Given the potential gains and risks of international marketing, companies need a systematic way to make their global marketing decisions.

Objective 1 Discuss how the international trade system and the economic, political-legal and cultural environments affect a company's international marketing decisions (pp. 579–589)

A company must understand the *global marketing environment*, especially the international trade system. It should assess each foreign market's *economic*, *political-legal* and *cultural characteristics*. The company can then decide whether it wants to go abroad and consider the potential risks and benefits. It must decide on the volume of international sales it wants, how many countries it wants to market in, and which specific markets it wants to enter. These decisions call for weighing the probable returns against the level of risk.

Objective 2 Describe three key approaches to entering international markets (pp. 589–593)

The company must decide how to enter each chosen market – whether through *exporting*, *joint venturing* or *direct investment*. Many companies start as exporters, move to joint ventures and finally make a direct investment in foreign markets. In *exporting*, the company enters a foreign market by sending and selling products through international marketing intermediaries (indirect exporting) or the company's own department, branch, or sales representatives or agents (direct exporting). When establishing a *joint venture*, a company enters foreign markets by joining with foreign companies to produce or market a product or service. In *licensing*, the company enters a foreign market by contracting with a licensee in the foreign market and offering the right to use a manufacturing process, trademark, patent, trade secret or other item of value for a fee or royalty.

Objective 3 Explain how companies adapt their marketing strategies and mixes for international markets (pp. 593–599)

Companies must also decide how much their marketing strategies and their products, promotion, price and channels should be adapted for each foreign market. At one extreme, global companies use *standardised global marketing* worldwide. Others use *adapted global marketing*, in which they adjust the marketing strategy and mix to each target market, bearing more costs but hoping for a larger market share and return. However, global standardisation is not an all-or-nothing proposition. It's a matter of degree. Most international marketers suggest that companies should 'think globally but act locally' – that they should seek a balance between globally standardised strategies and locally adapted marketing mix tactics.

Objective 4 Identify the three major forms of international marketing organisation (p. 599)

The company must develop an effective organisation for international marketing. Most firms start with an *export department* and graduate to an *international division*. Large companies eventually become *global organisations*, with worldwide marketing planned and managed by the top officers of the company. Global organisations view the entire world as a single, borderless market.

Navigating the key terms

Objective 1
Global firm (p. 580)
Economic community (p. 581)

Objective 2
Exporting (p. 590)
Joint venturing (p. 591)
Licensing (p. 591)
Contract manufacturing (p. 591)
Management contracting (p. 591)
Joint ownership (p. 592)
Direct investment (p. 592)

Objective 3
Standardised global marketing (p. 593)
Adapted global marketing (p. 593)
Straight product extension (p. 594)
Product adaptation (p. 595)
Product invention (p. 595)
Communication adaptation (p. 596)
Whole-channel view (p. 598)

Discussion and critical thinking

Discussing the concepts

19.1 What environmental factors must international marketers consider when entering foreign markets? (AACSB: Communication)

19.2 Name and explain a company's market entry options for international markets. (AACSB: Communication)

19.3 Name and describe the four types of joint ventures as methods for entering another country. How does joint venturing differ from other methods of entering a foreign market? (AACSB: Communication; Reflective thinking)

19.4 Briefly outline the strategies used for adapting products to a global market. Provide an example for each strategy. (AACSB: Communication)

19.5 Explain what is meant by a whole-channel view and why it is important in international marketing. (AACSB: Communication; Reflective thinking)

Critical-thinking exercises

19.6 Visit www.transparency.org and find the most recent Corruption Perceptions Index (CPI) report. What is the most recent CPI for the following countries: Argentina, Denmark, Jamaica, Myanmar, New Zealand, Somalia and the United States? What are the implications of this index for US-based companies doing business in these countries? (AACSB: Communication; Use of IT; Reflective thinking)

19.7 In a small group, identify and research an environmental threat – such as a regulatory threat, a cultural threat or an economic threat – posed to global marketers. Analyse the issues related to this threat, discuss how affected companies are reacting, and make recommendations regarding how these companies should address the threat. (AACSB: Communication; Reflective thinking)

19.8 You have been asked to consult with a small business owner who wants to expand her company overseas. She has asked you to develop a global marketing strategy. You are not certain if the owner thoroughly understands the international expansion process and the challenges involved. Prior to meeting with the owner next week, create a presentation listing the factors she will need to consider prior to her company going global. (AACSB: Communication; Use of IT; Reflective thinking)

Mini-cases and applications

Online, mobile and social media marketing: China's great firewall

China has emerged as an enormous social media market. With more than 1.35 billion people and 635 million internet users, internet usage in China is growing explosively at about 30 per cent annually. That makes it an extremely attractive market for Western social media companies such as Facebook, Google, Twitter and YouTube. However, under what has come to be called the 'Great Firewall of China' – an extensive level of control and censorship of websites and internet activities by the Chinese government – many such Western social media and other online marketers have been largely blocked from operating in China. According to *The Diplomat*, eight of the top 25 most-visited global sites are now blocked in China. However, even with constant government monitoring of internet activities, China has become one of the world's most active social media environments. Chinese consumers can connect through carefully controlled local social networking platforms such as Renren (everyone's website), Baidu (Google-like search engine), Youku (China's answer to YouTube), WeChat (Tencent's instant messaging app), Jiepang (similar to Foursquare), microblogging sites such as Sina Weibo (like Twitter) and Dianping (similar to Yelp).

As more marketers enter the social media landscape in China, strategies to reach consumers must be carefully shaped to the country's culture, consumers, content, platforms and regulations. Online marketers must understand Chinese culture, translations and etiquette to help craft better messages and marketing content that will resonate with Chinese consumers. At the same time, they must navigate under the watchful eye of the Chinese government.

19.9 Research the Great Firewall of China. How will such government control affect social media marketing in China? Report on a Western online company now operating in China. How is it able to work within and around Chinese regulations? (AACSB: Communication; Reflective thinking)

19.10 Suppose that your company is preparing to enter the Chinese market with a product line that you believe will have great success. What is the best mode of entry for your company? Review the economic and political climates. Is the timing right for entering China? (AACSB: Communication; Use of IT; Reflective thinking)

Marketing ethics: global safety standards

India is home to some of the world's deadliest roads. However, international car makers do not provide standard safety features in entry-level cars sold in India that are required in other developed countries. India's death toll on the roads has ranked top in the world for eight straight years, exceeding 130,000 fatalities a year. Despite this, car makers strip safety features such as airbags and anti-lock brakes out of the cars most people in India drive. They argue that Indian consumers cannot afford or are not willing to pay for safety features that could increase the cost of the car by 30 per cent or more. Some manufacturers have begun to offer more safety features as standard in their models. But other producers are offering them only as an option, and some are not offering them at all to maintain price competitiveness.

19.11 Is it right for manufacturers to include product safety features that are known to save lives in countries that require them but to exclude such features in one country where they are not specifically required? (AACSB: Communication; Ethical reasoning)

19.12 Discuss world organisations that assist companies in developing and abiding by global standards to protect consumers worldwide. (AACSB: Communication; reflective Thinking)

Marketing by numbers: Netflix's global expansion

Video-streaming service Netflix is expanding rapidly around the globe. It is currently available in 50 countries with the goal of expanding to 200 countries. Netflix's international slogan is 'Have content, will travel'. There are challenges to international expansion for this type of service, such as inadequate disposable household income and a low percentage of households with high-speed internet needed to stream videos. And even though almost half of France's TV-owning households have internet-connected TVs, cultural restrictions limit English language programme content, requiring Netflix to invest in local content for French customers. The next countries to get Netflix are Italy, Spain and Portugal. Similar to Netflix's other European offerings, the service will be offered at a price of €7.99 per month.

19.13 Refer to Appendix 2 to calculate the annual market sales potential for Spain in euros. There are 18,217,300 television households in Spain, with 75 per cent having high-speed internet. Assume 50 per cent of the households are willing and able to purchase the service and would purchase one subscription at an average price of €7.99 per month. (AACSB: Communication; Analytical reasoning; Reflective thinking)

19.14 Calculate the market sales potential using the current exchange rate between euros and US dollars (see www.xe.com/currencyconverter/). Is the dollar currently strong or weak compared to the euro? Why are US-based international companies concerned when the US dollar is strong compared to other currencies? (AACSB: Communication; Analytic reasoning; Reflective thinking)

Video case — Monster

see www.pearsoned.co.uk/kotler

Monster.com is one of the most visited employment sites in the United States and one of the largest in the world. Now a part of parent company Monster Worldwide, Monster.com pioneered job recruiting on the internet. Today, it is the only online recruitment provider that can service job seekers and job posters on a truly global basis. With a presence in 50 countries around the world, Monster has unparalleled international reach. Even through tough economic times, Monster continued to invest heavily in order to maintain and expand its global presence.

Monster's international expansion included the purchase of ChinaHR.com, giving it a strong presence in the world's largest country. Monster already gets about 45 per cent of its annual revenue of €1.3 billion from outside the United States. But it expects to become even more global in the coming years. To back that geographic expansion, Monster is also investing heavily in search technologies and web design in order to appeal to clients everywhere.

After viewing the video featuring Monster Worldwide, answer the following questions:

19.15 Which of the five strategies for adapting products and promotion for global markets does Monster employ?

19.16 Which factors in the global marketing environment have challenged Monster's global marketing activities most? How has Monster met those challenges?

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Company case

Chang beer: Thainess in a bottle

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Introduction

Over the past five years Chang beer has grown in popularity to become a strong international player in the premium beer market. Established in 1995 the brand is owned by the Thai Beverages company (better known as ThaiBev) whose portfolio includes beer, spirits and whisky. It is brewed and bottled exclusively in Thailand. Outside Thailand it is managed by International Beverage Holdings (IntBev), established in 2006 as the international arm of ThaiBev to develop distinctive premium brands of character. The brand identity is rooted in its home territory, firmly built around Thai culture and associations. It is currently the fastest-growing beer in Thailand, is distributed to 50 countries and is presenting a strong challenge to brand leader Singha, Thailand's oldest beer, brewed by the Boon Rawd Brewery, with the gap between sales of the two halving since 2015. Singha, whose name is derived from the Sanskrit word for 'lion', was the first Thai beer brand and is the most well known outside Thailand, having been exported to many foreign countries for some time.

Appreciation of Thai culture and history is reflected in the fact that Thailand is one of the most popular tourist destinations in the world, welcoming some 37.7 million visitors from many countries with Bangkok consistently ranking among the top cities to visit. Attracted by a rich and vibrant heritage, natural beauty and warm climate, visitors enjoy its many fine beaches, distinctive food, from street to fine dining, and sport and cultural activities.

The global beer market

Worldwide, beer is the leading alcoholic beverage accounting for approximately 75 per cent of the global alcoholic drinks market, valued at $593,024 million in 2017. The international beer market is predicted to see strong growth over the next few years and reach a value of $685,354 million by 2025. Leading countries in beer consumption include USA, China, India, Russia, Germany and Mexico. However, the beer market is typically categorised by geographical region, which is divided into North America, Europe, Asia-Pacific and LAMEA (Latin America, Middle East and Africa). The largest and fastest-growing region is Asia-Pacific which accounts for 37 per cent of the global market share, with Europe the second largest region showing a steady growth rate. The top five international beer brands in 2018 were Budweiser, Heineken, Bud Light, Stella Artois and Corona, all established big players in the market.

Beer products are segmented into six categories: lager, ale, stout and porter, malt and others, with lager and ale the two most consumed globally. Lager, which is brewed at a lower temperature, offers a high return on investment for producers and is acknowledged to have the highest acceptance rate among consumers. Pricing across the categories is divided into popular, premium and super-premium, with premium priced products dominating currently although it is anticipated that the super-premium categories will witness rapid growth.

Factors that are driving growth in beer consumption include increases in urbanisation and disposable income, coupled with an expanding affluent middle class in many countries; growth in the youth (15–24 year olds) population, which is predicted to increase globally by 7 per cent to reach 1.3 billion by 2030; adoption of western culture and habits, which have influenced perception of alcoholic beverages, especially beer; consolidation of international distribution channels; increasing demand for 'craft' ales; and consumer appetite for embracing innovation and experimenting with beer varieties, tastes and flavours. However, health and lifestyle concerns remain an issue for beer as more people seek to adopt 'cleaner' living and engage in sport and activity-based pastimes. Also, heavy taxation, higher excise duties and legal restrictions in some countries may slow the pace of growth. In addition, there are many substitute beverages competing with beer.

The Chang brand

Chang beer was established in 1995 by ThaiBev which is currently the largest beverage company in Thailand and Southeast Asia. Distribution is through multiple retailers (off trade) and licenced wholesalers who sell to the trade such as bars, restaurants, hotels (on trade). It is brewed using the Thai philosophy of craftsmanship – Lamiat. This ancient ideology stresses the importance of pursuing perfection by paying attention to the smaller details and looking beyond the obvious and ordinary, and is an important feature of the strong associations the brand has with Thailand. The breweries are situated where there are deep water wells supplying very good quality water that is soft, free from contaminants and with a low mineral content. Positioned internationally as a premium product with a subtle fruit and hop aroma it is described as a 'refreshing, golden, lager beer', which stands for 'smiles, golden sunshine and sharing good times with friends'. It has won numerous national and international awards including a Monde Selection Gold Quality Award in 2018, a Tastings.com Silver award at the World Beer Championships in 2018 and the Thailand Country Winner in the Lager Beer category at the World Beer awards in 2017.

The Chang logo features two elephants, reflecting the meaning of the word 'chang' in Thai – elephant or elephants, animals with superior strength and the national animal of Thailand. The original recipe was strong and heavier in comparison with competitors with ABV hitting 6.4 per cent and traditionally the bottle was brown in keeping with the product. In late 2015 however, to mark the milestone 21st anniversary of the brand, the bottle was reshaped with a taller neck to create stature and the colour changed to green in order to reflect a more contemporary lighter recipe developed with an ABV of 5.2 per cent under the name Chang Classic. This was rolled out internationally in 2016 and the brand also launched a bigger magnum-sized bottle for sharing. The prominent emerald green colour of the bottle is offset by darker green and gold labels to reinforce the premium positioning. The iconic elephant logo design remains unchanged and retains its central place on the packaging. Signage, glasses and merchandising materials have also been updated.

This initiative was part of a ThaiBev strategy named Vision 2020 to further strengthen and consolidate the organisation as the largest and most profitable beverage company in Southeast Asia. The aim was to rebrand Chang beer more directly toward a global premium beer market in addition to further increasing sales over competitors in Thailand. Underpinning this from a marketing perspective is a theme of authentically Thai cultural moments and an associated universal truth about 'being together in moments as friends'. This has resulted in events focusing around food (Chang Sensory Trails), Muay Thai (Thai boxing) and Southeast Asian music (Chang Urban Pulse). Regional activity has allowed more localised 'experiential activation'. For example, in London shoppers were invited to receive a free Thai massage at the Westfield shopping centre inside a 2m high green bottle installation, with brand ambassadors offering lifts to their free massage in branded Tuk Tuks.

This shift away from its brown-bottled past has been achieved in partnership with its Communications Agency, Iris. Luke Nathans, regional Chief Executive of Iris, explained to global media platform *The Drum* why the 'Thainess' is so important to the brand: 'They have been pretty clear who the brand is: for me the Chang brand and modern Thailand go hand in hand, so it's not that hard, as long as we stay on brief and so long as we can elevate that experience'. Social media platforms are used to share news about events and to encourage consumers worldwide to follow the brand and post pictures and stories of drinking Chang beer with friends. In 2018 the Chang World Facebook page with 1,487,661 followers won the Best Brand Performance award in the Beverage category at the Thailand Social Awards.

Like other brands Chang also uses sponsorship to grow the brand. Sports sponsorship plays an important role in the promotion of beer brands worldwide and in particular the link between football and drinking beer is a strong one. Budweiser is the long-standing Official Beer of the FIFA World Cup and Heineken are the top sponsors of the UEFA Champions League, having sponsored the top club competition in the world since 2005. Arch rival Singha beer are the current sponsors of League One Oxford United in the UK having previously sponsored

Manchester United and Chelsea. Chang has been the official sponsor of the Thai national team for more than ten years and until recently was the long-standing sponsor of Everton football club in the UK Premier League. Although the relationship with Everton will continue through a football-related community project, Chang is now the official Stadium Beer Partner at the King Power Stadium, home to Leicester City football club (winners of the title in 2015/16) under a multi-year global partnership with ThaiBev.

Questions for discussion

1 Analyse the international marketing environment for beer and identify potential sources of opportunity for Chang and any potential problems the brand may face in the global marketplace.

2 Of the five strategies, Chang has adopted a straight product extension approach. Discuss why this has been successful internationally.

3 Discuss the impact of culture on the Chang brand's international expansion.

4 A number of beer brands use licensing effectively to enter foreign markets or regions. Analyse the potential advantages and disadvantages to Chang in adopting such a joint venture.

5 To achieve the ThaiBev Vision 2020, is Chang brand performance in the Thai market more or less important than performance in foreign markets? Explain your answer.

Sources: Allied Market Research, 'Global beer market: opportunities and forecasts 2017–2025', www.alliedmarketresearch.com/beer-market; International Beverage Holdings, 'Chang Beer', http://www.interbevgroup.com/brands-beers-chang.php; 'Chang beer undergoes rebrand to boost regional presence', *Marketing Interactive*, https://www.marketing-interactive.com/chang-beer-undergoes-rebrand-boost-regional-presence/; Charlotte McEleny, 'Brown bottle baggage: how Chang beer has adopted an 'urban pulse' *The Drum*, 10 April 2017, www.thedrum.com/news/2017/04/10/brown-bottle-baggage-how-chang-beer-has-adopted-urban-pulse; 'Beer market share, size – growth trends, industry analysis and forecast 2019–2023, Mordor Intelligence, www.mordorintelligence.com/industry-reports/beer-market; Amy Sandys 'Chang green bottles', *Transform magazine*, www.transformmagazine.net/articles/2016/chang-green-bottles; Darren Smith, 'Chang beer offers massage in a bottle', *The Drinks Business*, www.thedrinksbusiness.com/2016/05/chang-beer-offers-massage-in-a-bottle; 'ThaiBev has good reason to toast success', The Nation, 25 October 2018, https://www.nationmultimedia.com/detail/breakingnews/30357197, accessed May 2019.

Chapter Twenty

Social responsibility and ethics

Chapter preview

In this final chapter, we'll examine the concept of sustainable marketing, meeting the needs of consumers, businesses and society – now and in the future – through socially and environmentally responsible marketing actions. We'll start by defining sustainable marketing and then look at some common criticisms of marketing as it affects individual consumers, as well as public actions that promote sustainable marketing. Finally, we'll see how companies themselves can benefit from proactively pursuing sustainable marketing practices that bring value to not only individual customers but also society as a whole. Sustainable marketing actions are more than just the right thing to do; they're also good for business.

First, let's look at an example of sustainable marketing in action at Unilever, the world's third-largest consumer products company. For 17 years running, Unilever has been named sustainability leader in the food and beverage industry by the Dow Jones Sustainability Indexes. The company recently launched its Sustainable Living Plan, by which it intends to double its size by 2020 while at the same time reducing its impact on the planet and increasing the social benefits arising from its activities. That's an ambitious goal.

Learning outcomes

- **Objective 1** You will be able to define *sustainable marketing* and discuss its importance.
  Sustainable marketing (pp. 611–612)
- **Objective 2** You will be able to identify the major social criticisms of marketing.
  Social criticisms of marketing (pp. 612–620)
- **Objective 3** You will be able to define *consumerism* and *environmentalism* and explain how they affect marketing strategies.
  Consumer actions to promote sustainable marketing (pp. 620–624)
- **Objective 4** You will be able to describe the principles of sustainable marketing.
  Business actions toward sustainable marketing (pp. 624–627)
- **Objective 5** You will be able to explain the role of ethics in marketing.
  Marketing ethics and the sustainable company (pp. 627–630)

Sustainability at Unilever: creating a better future every day

When Paul Polman took over as CEO of Unilever half a dozen years ago, the foods, home and personal care products company was a slumbering giant. Despite its stable of star-studded brands – including the likes of Dove, Axe, Noxzema, Sunsilk, OMO, Hellmann's, Knorr, Lipton and Ben & Jerry's – Unilever had experienced a decade of stagnant sales and profits. The company needed renewed energy and purpose. 'To drag the world back to sanity, we need to know why we are here', said Polman.

To answer the 'why are we here' question and find a more energising mission, Polman looked beyond the usual corporate goals of growing sales, profits and shareholder value. Instead, he asserted, growth results from accomplishing a broader social and environmental mission. Unilever exists 'for consumers, not shareholders', he said. 'If we are in sync with consumer needs and the environment in which we operate, and take responsibility for our [societal impact], then the shareholder will also be rewarded.'

Evaluating and working on sustainability impact is nothing new at Unilever. Prior to Polman taking the reins, the company already had multiple programmes in place to manage the impact of its products and operations. But the existing programmes and results – while good – simply didn't go far enough for Polman. So in late 2010 Unilever launched its Sustainable Living Plan – an aggressive long-term plan that takes capitalism to the next level. Under the plan, the company set out to 'create a better future every day for people around the world: the people who work for us, those we do business with, the billions of people who use our products, and future generations whose quality of life depends on the way we protect the environment today'. According to Polman, Unilever's long-run commercial success depends on how well it manages the social and environmental impact of its actions.

The Sustainable Living Plan sets out three major social and environmental objectives to be accomplished by 2020: '(1) To help more than one billion people take action to improve their health and well-being; (2) to halve the environmental footprint of the making and use of our products; and (3) to enhance the livelihoods of millions of people as we grow our business.' The Sustainable Living Plan pulls together all of the work Unilever had already been doing and sets ambitious new sustainability goals. These goals span the entire value chain, from how the company sources raw materials to how consumers use and dispose of its products. 'Our aim is to make our activities more sustainable and also encourage our customers, suppliers, and others to do the same', says the company.

On the 'upstream supply side', more than half of Unilever's raw materials come from agriculture, so the company is helping suppliers develop sustainable farming practices that meet its own high expectations for environmental and social impact. Unilever assesses suppliers against two sets of standards. The first is the Unilever Supplier Code, which calls for socially responsible actions regarding human rights, labour practices, product safety and care for the environment. Second, specifically for agricultural suppliers, the Unilever Sustainable Agriculture Code details Unilever's expectations for sustainable agriculture practices so that it and its suppliers 'can commit to the sustainability journey together'.

But Unilever's Sustainable Living Plan goes far beyond simply creating more responsible supply and distribution chains. Approximately 68 per cent of the total greenhouse gas footprint of Unilever's products and 50 per cent of the water footprint occur during consumer use. So Unilever is also working with its customers to improve the environmental impact of its products in use. About 2 billion people in 190 markets worldwide use a Unilever product on any given day. Therefore, small everyday consumer actions can add up to a big difference. Unilever sums it up with this equation: 'Unilever brands × small everyday actions × billions of consumers = big difference.'

For example, almost one-third of households worldwide use Unilever laundry products to do their washing – approximately 125 billion washes every year. Therefore, under its Sustainable Living Plan, Unilever is both creating more eco-friendly laundry products and motivating consumers to improve their laundry habits.

Under its Sustainable Living Plan, Unilever is working with billions of customers worldwide to improve the social and environmental impact of its products. 'Small actions. Big difference'.
Source: Action Press/Shutterstock

Around the world, for instance, Unilever is encouraging consumers to wash clothes at lower temperatures and use the correct dosage of detergent. Unilever products such as OMO and Persil Small & Mighty concentrated laundry detergents use less packaging, making them cheaper and less polluting to transport. More important, they've been reformulated to wash efficiently at lower temperatures, using less energy and water. Unilever estimates that these changes have achieved a 15 per cent reduction in greenhouse gas emissions. Another Unilever product, Comfort One Rinse fabric conditioner, was created for hand-washing clothes in developing and emerging markets where water is often in short supply. The innovative product requires only one bucket of water for rinsing rather than three, saving consumers time, effort and 30 litres of water per wash.

Such energy and water savings don't show up on Unilever's income statement, but they will be extremely important to the people and the planet. 'Ultimately,' says the company, 'we will only succeed if we inspire people around the world to take small, everyday actions that can add up to a big difference for the world.' To meet this objective, Unilever has identified 'Five Levers for Change' – things that its marketers can do to inspire people to adopt specific sustainable behaviours. The model helps marketers identify the barriers and triggers for change. The levers for change are: make it understood, make it easy, make it desirable, make it rewarding, and make it a habit.

Will Unilever's Sustainable Living Plan produce results for the company? So far, so good. Unilever is making excellent progress on its overall mission of 'making sustainable living commonplace' and on its 79 aggressive Sustainable Living Plan goals. The company has already achieved 13 specific targets, is right on pace with 57 more and is making good progress on the other nine. And despite volatility in its global markets, Unilever's profits continue to grow.

The sustainability plan is not just the right thing to do for people and the environment, claims Polman, it's also right for Unilever. The quest for sustainability saves money by reducing energy use and minimising waste. It fuels innovation, resulting in new products and new consumer benefits. And it creates new market opportunities: More than half of Unilever's sales are from developing countries, the very places that face the greatest sustainability challenges.

In all, Polman predicts, the sustainability plan will help Unilever double in size while also creating a better future for billions of people without increasing the environmental footprint. 'We do not believe there is a conflict between sustainability and profitable growth', he concludes. 'The daily act of making and selling consumer goods drives economic and social progress. There are billions of people around the world who deserve the better quality of life that everyday products like soap, shampoo, and tea can provide. Sustainable living is not a pipedream. It can be done, and there is very little downside.'[1]

Responsible marketers discover what consumers want and respond with market offerings that create value for buyers and capture value in return. The *marketing concept* is a philosophy of customer value and mutual gain. Its practice leads the economy by an invisible hand to satisfy the many and changing needs of consumers.

Not all marketers follow the marketing concept, however. In fact, some companies use questionable marketing practices that serve their own rather than consumers' interests. Moreover, even well-intentioned marketing actions that meet the current needs of some consumers may cause immediate or future harm to other consumers or the larger society. Responsible marketers must consider whether their actions are sustainable in the longer run.

This chapter examines sustainable marketing and the social and environmental effects of private marketing practices. First, we address the question: What is sustainable marketing, and why is it important?

Sustainable marketing

Sustainable marketing calls for socially and environmentally responsible actions that meet the present needs of consumers and businesses while also preserving or enhancing the ability of future generations to meet their needs. Figure 20.1 compares the sustainable marketing concept with marketing concepts we studied in earlier chapters.

Sustainable marketing
Socially and environmentally responsible marketing that meets the present needs of consumers and businesses while also preserving or enhancing the ability of future generations to meet their needs.

The *marketing concept* recognises that organisations thrive by determining the current needs and wants of target customers and fulfilling them more effectively and efficiently than competitors do. It focuses on meeting the company's short-term sales, growth and profit needs by engaging customers and giving them what they want now. However, satisfying consumers' immediate needs and desires doesn't always serve the future best interests of either customers or the business.

Author comment
Marketers must think beyond immediate customer satisfaction and business performance toward sustainable strategies that preserve the world for future generations.

For example, McDonald's early decisions to market tasty but fat- and salt-laden fast foods created immediate satisfaction for customers as well as sales and profits for the company. However, critics assert that McDonald's and other fast-food chains contributed to a longer-term obesity epidemic, damaging consumer health and burdening the national health system. In turn, many consumers began looking for healthier eating options, causing a slump in the sales and profits of the fast-food industry. Beyond issues of ethical behaviour and social welfare, McDonald's was also criticised for the sizeable environmental footprint of its vast global operations, everything from wasteful packaging and solid waste creation to inefficient energy use in its stores. Thus, McDonald's strategy was not sustainable in the long run in terms of either consumer or company benefit.

Whereas the *societal marketing concept* identified in Figure 20.1 considers the future welfare of consumers and the *strategic planning concept* considers future company needs, the *sustainable marketing concept* considers both. Sustainable marketing calls for socially and environmentally responsible actions that meet both the immediate and future needs of customers and the company.

For example, for more than a decade, McDonald's has responded to these challenges with a more sustainable strategy of diversifying into salads, fruits, grilled chicken, low-fat milk and other healthy fare. The company has also sponsored major education campaigns – such as one to help consumers better understand the keys to living balanced, active lifestyles. And it has announced a list of 'Commitments to Offer Improved Nutrition Choices', including a continuing commitment to children's well-being, expanded and improved nutritionally balanced menu choices, and increased consumer and employee access to nutrition information. McDonald's points out that 80 per cent of the items on its menu fall into its 'favourites under 400 calories' category.[2]

McDonald's sustainability initiatives also address environmental issues. For example, it calls for food-supply sustainability, reduced and environmentally sustainable packaging, reuse and recycling, and more responsible store designs. McDonald's has even developed an environmental scorecard that rates its suppliers' performance in areas such as water use, energy use and solid waste management. Thus, McDonald's is now well positioned for a sustainably profitable future.

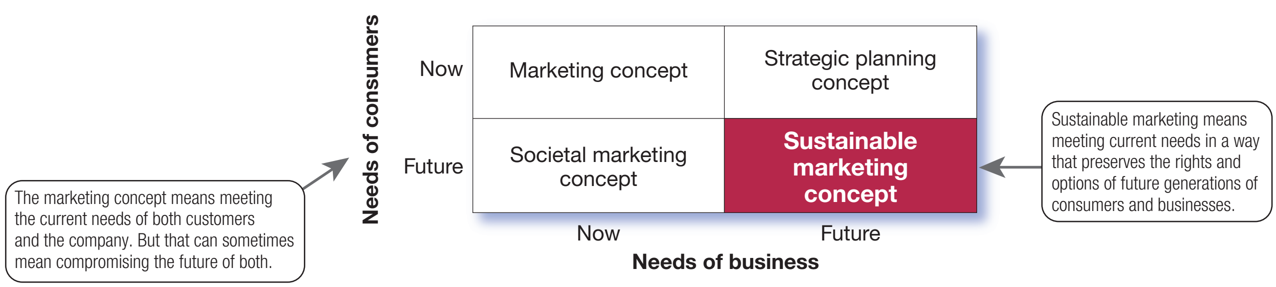


Figure 20.1 Sustainable marketing

Responding to sustainability challenges: 80 per cent of McDonald's menu is now under 400 calories.
Source: Sorbis/Shutterstock

Truly sustainable marketing requires a smooth-functioning marketing system in which consumers, companies, public policy makers and others work together to ensure socially and environmentally responsible marketing actions. Unfortunately, however, the marketing system doesn't always work smoothly. The following sections examine several sustainability questions: What are the most frequent social criticisms of marketing? What steps have private citizens taken to curb marketing ills? What steps have legislators and government agencies taken to promote sustainable marketing? What steps have enlightened companies taken to carry out socially responsible and ethical marketing that creates sustainable value for both individual customers and society as a whole?

Social criticisms of marketing

Marketing receives much criticism. Some of this criticism is justified; much is not. Social critics claim that certain marketing practices hurt individual consumers, society as a whole and other business firms.

Marketing's impact on individual consumers

Author comment

In most ways, we all benefit greatly from marketing activities. However, like most other human endeavours, marketing has its flaws. Here we present both sides of some of the most common criticisms of marketing.

Consumers throughout the world have many concerns about how well the marketing system serves their interests. Surveys usually show that consumers hold mixed or even slightly unfavourable attitudes toward marketing practices. Consumer advocates, government agencies and other critics have accused marketing of harming consumers through high prices, deceptive practices, high-pressure selling, shoddy or unsafe products, planned obsolescence and poor service to disadvantaged consumers. Such questionable marketing practices are not sustainable in terms of long-term consumer or business welfare.

High prices

Many critics charge that the marketing system causes prices to be higher than they would be under more 'sensible' systems. Such high prices are hard to swallow, especially when the economy gets tight. Critics point to three factors – *high costs of distribution*, *high advertising and promotion costs* and *excessive mark-ups*.

A long-standing charge is that greedy marketing channel members mark up prices beyond the value of their services. As a result, distribution costs too much and consumers pay for these excessive costs in the form of higher prices. Resellers respond that intermediaries do work that would otherwise have to be done by manufacturers or consumers. Their prices reflect services that consumers want – more convenience, larger stores and assortments, more service, longer store hours, return policies and others. In fact, they argue, retail competition is so intense that margins are actually quite low. And discounters such as Aldi, Lidl, Costco and others pressure their competitors to operate efficiently and keep their prices down.

Modern marketing is also accused of pushing up prices to finance unneeded advertising, sales promotion and packaging. For example, a heavily promoted national brand sells for much more than a virtually identical store-branded product. Critics charge that much of this promotion and packaging adds only psychological, not functional, value. Marketers respond that although advertising adds to product costs, it also adds value by informing potential buyers of the availability and merits of a brand. Brand name products may cost more, but branding assures buyers of consistent quality. Moreover, although consumers can usually buy functional versions of products at lower prices, they *want* and are willing to pay more for products that also provide psychological benefits – that make them feel wealthy, attractive or special.

Critics also charge that some companies mark up goods excessively. They point to the drug industry, where a pill costing a few pence to make may cost the consumer £2 to buy, and to the high charges for car repairs and other services. Marketers respond that most businesses try to price fairly to consumers because they want to build customer relationships and repeat business. Also, they assert, consumers often don't understand the reasons for high mark-ups. For example, pharmaceutical mark-ups help cover the costs of making and distributing existing medicines plus the high costs of developing and testing new medicines. As pharmaceuticals company GlaxoSmithKline has stated in its ads, 'Today's medicines finance tomorrow's miracles.'

A heavily promoted national brand sells for much more than a virtually identical non-branded or store-branded product. Critics charge that promotion adds only psychological value to the product rather than functional value.

Source: Kevin Britland/Alamy Stock Photo

Deceptive practices

Marketers are sometimes accused of deceptive practices that lead consumers to believe they will get more value than they actually do. Deceptive practices fall into three groups: promotion, packaging and pricing. *Deceptive promotion* includes practices such as misrepresenting the product's features or performance or luring customers to the store for a bargain that is out of stock. *Deceptive packaging* includes exaggerating package contents through subtle design, using misleading labelling or describing size in misleading terms. *Deceptive pricing* includes practices such as falsely advertising 'factory' or 'wholesale' prices or a large price reduction from a phony high retail 'list price'.

Deceptive practices have led to legislation and other consumer protection actions. Different countries have taken different approaches to deceptive practices through laws, regulation and voluntary codes of practice, but despite those expanding bodies of laws and regulations, some critics argue that deceptive pricing or claims are still common, even for well-known brands. In the UK, retailers have been accused of misleading consumers in pricing, sales promotions and discounts. For example, a few years back, a study by the BBC's *Panorama* programme found that all four major UK supermarkets were guilty of making erroneous or untrue assertions regarding product prices, including bogus price drops, promotions offering no savings, and larger 'value' packs being even more expensive than smaller packs.[3] And similarly six UK high-street furniture and carpet retailers were accused of misleading customers with fake prices, such as advertised price cuts not being genuine by the use of inflated 'reference pricing' (a false claim such as that the price 'was' £500 and is 'now' £300).[4]

And in the US, Overstock.com, an American online retailer claiming to be specialising in selling surplus, returned and closeout merchandise with a deep discount, was recently fined $6.8 million by a California court as a result of a fraudulent pricing lawsuit filed by the attorneys general of eight California counties. The suit charged that the online giant routinely advertised its prices as lower than fabricated 'list prices'. It recites one example in which Overstock sold a patio set for $449 while claiming that the list price was $999. When the item was delivered, the customer found that it had a Walmart sticker stating a price of $247.[5]

A more recent and infamous example is the Volkswagen emissions scandal, which involved the car maker cheating on emissions tests. A 'cheat' software was installed in diesel engines and intentionally programmed to activate emission controls only during laboratory emission testing to meet nitrogen oxide emission regulations. However, the engines emit up to 40 times more in real-world

Deceptive practices: Ferrero settled a legal action claiming that ads for its Nutella chocolate-hazelnut spread made deceptive claims that the product was 'healthy' and 'part of a balanced diet'.

Source: Dean bertoncelj/Shutterstock

driving. The unprecedented scandal was widespread globally. The US Federal Trade Commission charged Volkswagen with deceiving consumers with the advertising campaign it used to promote its supposedly 'clean diesel' cars with false environmental claims, and sought a court order requiring Volkswagen to compensate affected consumers.[6] In 2017 Volkswagen agreed to a plea deal and was ordered by a US federal judge to pay a $2.8 billion criminal fine.[7]

The toughest problem often is defining what is 'deceptive'. For instance, an advertiser's claim that its chewing gum will 'rock your world' isn't intended to be taken literally. Instead, the advertiser might claim, it is 'puffery' – innocent exaggeration for effect. However, others claim that puffery and alluring imagery can harm consumers in subtle ways. Think about the popular and long-running MasterCard 'priceless' commercials that painted pictures of consumers fulfilling their priceless dreams despite the costs. The ads suggested that your credit card could make it happen. But critics charge that such imagery by credit card companies encouraged a 'spend-now-pay-later' attitude that caused many consumers to *over* use their cards.

Marketers argue that most companies avoid deceptive practices. Because such practices harm a company's business in the long run, they simply aren't sustainable. Profitable customer relationships are built on a foundation of value and trust. If consumers do not get what they expect, they will switch to more reliable products. In addition, consumers usually protect themselves from deception. Most consumers recognise a marketer's selling intent and are careful when they buy, sometimes even to the point of not believing completely true product claims.

High-pressure selling

Salespeople are sometimes accused of high-pressure selling that persuades people to buy goods they had no intention of buying. It is often said that insurance, property and used cars are *sold*, not *bought*. Salespeople are trained to deliver smooth, scripted talks to entice purchasers. They sell hard because sales contests promise big prizes to those who sell the most. Similarly, TV infomercial pitchmen use 'yell and sell' presentations that create a sense of consumer urgency that only those with strong willpower can resist.

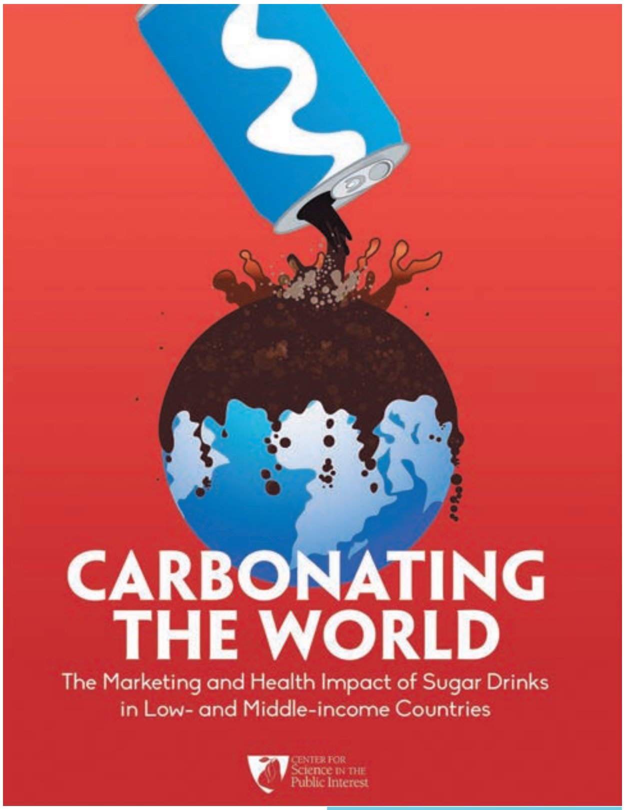
But in most cases, marketers have little to gain from high-pressure selling. Although such tactics may work in one-time selling situations for short-term gain, most selling involves building long-term relationships with valued customers. High-pressure or deceptive selling can seriously damage such relationships. For example, imagine a P&G account manager trying to pressure a Tesco or Carrefour buyer or an IBM salesperson trying to browbeat an information technology manager at GE. It simply wouldn't work.

Shoddy, harmful or unsafe products

Another criticism concerns poor product quality or function. One complaint is that, too often, products and services are not made well or do not perform well. A second complaint concerns product safety. Product safety has been a problem for several reasons, including company indifference, increased product complexity and poor quality control. A third complaint is that many products deliver little benefit or may even be harmful.

For example, think about the soft drink industry. For years, industry critics have blamed the plentiful supply of sugar-laden, high-calorie soft drinks for the obesity epidemic and other health issues, such as diabetes.[8] They are quick to fault what they see as greedy beverage marketers for cashing in on vulnerable consumers, turning us into a nation of 'big gulpers'. Although consumption of soft drinks has dropped in recent years in some developed countries, such as the US, beverage companies are now looking to emerging markets for growth. According to a report by the Washington, D.C. Centre for Science in the Public Interest (CSPI) titled 'Carbonating the World', in 2008 emerging markets such as China, India and Mexico accounted for just over half of global soft drink consumption. But by 2018 nearly 70 per cent of soft drinks will be sold in such markets. The CPSI accuses beverage companies of behaving much like the tobacco industry, marketing their harmful products to countries already struggling to provide health care to their citizens.[9]

Is the soft drink industry being socially irresponsible by aggressively promoting overindulgence to ill-informed or unwary consumers in emerging markets? Or is it simply serving the wants of customers by offering products that appeal to consumer tastes while letting consumers make their own consumption choices? Is it the industry's job to police public tastes? As in many matters of social responsibility, what's right and wrong may be a matter of opinion. Whereas some analysts criticise the industry, others suggest that responsibility lies with consumers. Maybe companies shouldn't sell 'Big Gulps'. Then again, nobody is forced to buy and drink one.



Harmful products: is the soft drink industry being irresponsible by promoting harmful products in emerging markets, or is it simply serving the wants of consumers while letting them make their own consumption choices?

Source: Center for Science in the Public Interest

Most manufacturers *want* to produce quality goods. After all, the way a company deals with product quality and safety problems can harm or help its reputation. Companies selling poor-quality or unsafe products risk damaging conflicts with consumer groups and regulators. Unsafe products can result in product liability suits and large awards for damages. More fundamentally, consumers who are unhappy with a firm's products may avoid future purchases and talk other consumers into doing the same. In today's social media and online review environment, word of poor quality can spread like wildfire. Thus, quality missteps are not consistent with sustainable marketing. Today's marketers know that good quality results in customer value and satisfaction, which in turn create sustainable customer relationships.

Planned obsolescence

Critics also have charged that some companies practise *planned obsolescence*, causing their products to become obsolete before they actually should need replacement. They accuse some producers of using materials and components that will break, wear, rust or rot sooner than they should. And if the products themselves don't wear out fast enough, other companies are charged with *perceived obsolescence* – continually changing consumer concepts of acceptable styles to encourage more and earlier buying. An obvious example is the fast-fashion industry with its constantly changing clothing fashions, which some critics claim creates a wasteful disposable clothing culture. 'Too many garments end up in landfill sites', bemoans one designer. 'They are deemed aesthetically redundant and get discarded at the end of the season when there are often years of wear left.'[10]

Still others are accused of introducing planned streams of new products that make older models obsolete, turning consumers into 'serial replacers'. Critics claim that this occurs in the consumer electronics industries. If you're like most people, you probably have a drawer full of yesterday's hottest technological gadgets – from mobile phones and cameras to iPods and flash drives – now reduced to the status of fossils. It seems that anything more than a year or two old is hopelessly out of date.

Marketers respond that consumers *like* style changes; they get tired of the old goods and want a new look in fashion. Or they *want* the latest high-tech innovations, even if older models still work. No one has to buy a new product, and if too few people like it, it will simply fail. Finally, most companies do not design their products to break down earlier because they do not want to lose customers to other brands. Instead, they seek constant improvement to ensure that products will consistently meet or exceed customer expectations.

Much of the so-called planned obsolescence is the working of the competitive and technological forces in a free society – forces that lead to ever-improving goods and services. For example, if Apple produced a new iPhone or iPad that would last 10 years, few consumers would want it. Instead, buyers want the latest technological innovations. 'Obsolescence isn't something companies are forcing on us', confirms one analyst. 'It's progress, and it's something we pretty much demand. As usual, the market gives us exactly what we want.'[11]

Poor service to disadvantaged consumers

Finally, the marketing system has been accused of poorly serving disadvantaged consumers. For example, critics claim that the urban poor often have to shop in smaller stores that carry inferior goods and charge higher prices. The presence of large national chain stores in low-income neighbourhoods would help to keep prices down. However, the critics accuse major chain retailers of *redlining*, drawing a red line around disadvantaged neighbourhoods and avoiding placing stores there.

In the US, poor areas have 30 per cent fewer supermarkets than affluent areas do. As a result, many low-income consumers find themselves in *food deserts*, which are awash with small markets offering frozen pizzas, Cheetos, Moon Pies and Cokes but where fruits and vegetables or fresh fish and chicken are out of reach. The U.S. Department of Agriculture has identified more than 6,500 food deserts in rural and urban areas of the United States. Currently, some 23.5 million Americans – including 6.5 million children – live in low-income areas that lack stores selling affordable and nutritious foods. In turn, the lack of access to healthy, affordable fresh foods has a negative impact on the health of underserved consumers in these areas.[12] Many national retailing chains in the country have recently agreed to open or expand more stores that bring nutritious and fresh foods to underserved communities. Other retailers have found that they can operate profitably by focusing on low-income areas ignored by other companies.

Clearly, better marketing systems must be built to service disadvantaged consumers. In fact, marketers in many industries profitably target such consumers with legitimate goods and services that create real value. In cases where marketers do not step in to fill the void, the government likely will. For example, the Federal Trade Commission (FTC) in the US has taken action against sellers that advertise false values, wrongfully deny services or charge disadvantaged customers too much. In the UK, the Competition and Markets Authority is responsible for strengthening and promoting business competition and enforcing consumer protection legislation.[13] In specific industries, for example, the UK government has set up Ofcom (The Office for Communication) as the regulatory and competition authority for the broadcasting, telecommunications and postal industries. One of the main responsibilities of Ofcom is to ensure that vulnerable consumers, due to factors such as age, income, illness, life events or geographical location, are not disadvantaged in participating in communications markets and society. It does so by enforcing rules upon communications services providers to protect vulnerable consumers and ensure their equal accessibility to communications services.[14]

Marketing's impact on society as a whole

The marketing system has been accused of adding to several 'evils' in society at large, such as creating too much materialism, too few social goods and a glut of cultural pollution.

False wants and too much materialism

Critics have charged that the marketing system urges too much interest in material possessions, and that consumers' love affair with worldly possessions is not sustainable. Too often, people are judged by what they *own* rather than by who they *are*. The critics do not view this interest in material things as a natural state of mind but rather as a matter of false wants created by marketing. Marketers, they claim, stimulate people's desires for goods and create materialistic models of the good life. Thus, marketers have created an endless cycle of mass consumption based on a distorted interpretation of the value of material and worldly possessions.

In this view, marketing's purpose is to promote consumption, and the inevitable outcome of successful marketing is unsustainable *over* consumption. According to the critics, more is not always better. Some groups have taken their concerns straight to the public. For example, the Centre for a New American Dream is a non-profit organisation founded on a mission to 'help Americans to reduce and shift their consumption to improve quality of life, protect the environment, and promote social justice'. Through educational videos and marketing campaigns such as 'More fun! Less stuff!' the organisation works with individuals, institutions, communities and businesses to help conserve natural resources, counter the commercialisation of culture, and promote positive changes in the way goods are produced and consumed.[15]

Marketers respond that such criticisms overstate the power of business to create needs. They claim people have strong defences against advertising and other marketing tools. Marketers are most effective when they appeal to existing wants rather than when they attempt to create new ones. Furthermore, people seek information when making important purchases and often do not rely on single sources. Even minor purchases that may be affected by advertising messages lead to repeat purchases only if the product delivers the promised customer value. Finally, the high failure rate of new products shows that companies are not able to control demand.

On a deeper level, our wants and values are influenced not only by marketers but also by family, peer groups, religion, cultural background and education. If Europeans and Americans are highly materialistic, these values arose out of basic socialisation processes that go much deeper than business and marketing could produce alone. Consumption patterns and attitudes are also subject to larger forces, such as the economy. As discussed in Chapter 1, the recent Great Recession put a damper on materialism and conspicuous spending.

These days consumers are also more supportive of environmental and social sustainability efforts by companies. As a result, instead of encouraging today's more sensible and conscientious consumers to overspend or spend wastefully, many marketers are working to help them find greater value with less. An example is the 'shwopping' movement started by British retailing giant Marks & Spencer, in which it urges customers to drop off an old item of clothing, even if it's not from M&S, each time they buy something new. Shwopped items go to Oxfam International, a non-profit organisation that resells, recycles or forwards them to raise money and help people around the world overcome poverty. 'We hope to collect as many clothes as we sell and change the way we all shop forever', says Marks & Spencer.[16]

M&S and Oxfam launched Shwopping to urge customers to drop off an old item of clothing, even if it's not from M&S, each time they buy something new.
Source: Jeffrey Blackler/Alamy Stock Photo

Too few social goods

Business has been accused of overselling private goods at the expense of public goods. As private goods increase, they require more public services that are usually not forthcoming. For example, private car ownership (private good) requires roads, traffic control, parking spaces and police services (public goods). The overselling of private goods results in social costs. For cars, some of the social costs include traffic congestion, fuel shortages and air pollution. For example, traffic congestion costs the European Union more than 1 per cent of gross domestic product – or over

€100 billion per year.[17] American travellers lose, on average, 42 hours a year in traffic jams, costing the United States more than $160 billion a year – $960 per commuter. In the process, they waste 3.1 billion gallons of fuel (enough to fill the New Orleans Superdome more than four times).[18]

A way must be found to restore a balance between private and public goods. One option is to make producers bear the full social costs of their operations. For example, the government is requiring car manufacturers to build cars with more efficient engines and better pollution-control systems. Car makers will then raise their prices to cover the extra costs. If buyers find the price of some car models too high, these models will disappear. Demand will then move to those producers that can support the sum of the private and social costs.

A second option is to make consumers pay the social costs. For example, many cities around the world are now levying congestion tolls and other charges in an effort to reduce traffic congestion. The island nation of Singapore has taken such measures to extremes: [19]

> To control traffic congestion and pollution, Singapore's government makes car ownership very expensive. New car purchases are taxed at 100 per cent or more of their market value and buyers must purchase a 'certificate of entitlement', which costs tens of thousands of dollars. As a result, a Toyota Corolla purchased in Singapore runs close to £74,000; a Toyota Prius goes for about £118,000. That plus the high cost of fuel and 'Electronic Road Pricing' tolls collected automatically as cars are driven around the country makes car ownership prohibitively expensive for most Singaporeans. Only about 15 per cent of the population owns a car, keeping congestion, pollution and other motoring evils to a minimum and making Singapore one of the greenest urban areas in Asia.

To unclog its streets, the city of London levies a congestion charge of £11.50 per day per car to drive in an eight-square-mile area of the city. The charge has not only stopped the growth in traffic congestion within the zone, and increased bicycling, but also raises money to shore up London's public transport system.[20]

Cultural pollution

Critics charge the marketing system with creating *cultural pollution*. They feel our senses are being constantly assaulted by marketing and advertising. Commercials interrupt serious programmes; pages of ads obscure magazines; advertising hoardings mar beautiful scenery; spam fills our email inboxes; flashing display ads intrude on our online and mobile screens. What's more, the critics claim, these interruptions continually pollute people's minds with messages of materialism, sex, power or status. Some critics call for sweeping changes.

Marketers answer the charges of commercial noise with these arguments: First, they hope that their ads primarily reach the target audience. But because of mass-communication channels, some ads are bound to reach people who have no interest in the product and are therefore bored or annoyed. People who buy magazines they like or who opt in to email, social media or mobile marketing programmes rarely complain about the ads because they involve products and services of interest.

Second, because of ads, many television, radio, online and social media sites are free to users. Ads also help keep down the costs of magazines and newspapers. Many people think viewing ads is a small price to pay for these benefits. In addition, consumers find many television commercials entertaining and seek them out; for example, the John Lewis Christmas ads. Finally, today's consumers have alternatives. For example, they can zip or zap TV commercials on recorded programmes or avoid them altogether on many paid cable, satellite and online streaming channels. Thus, to hold consumer attention, advertisers are making their ads more entertaining and informative.

Marketing's impact on other businesses

Critics also charge that a company's marketing practices can harm other companies and reduce competition. They identify three problems: acquisitions of competitors, marketing practices that create barriers to entry, and unfair competitive marketing practices.

Critics claim that firms are harmed and competition is reduced when companies expand by acquiring competitors rather than by developing their own new products. The large number of acquisitions and the rapid pace of industry consolidation over the past several decades have caused concern that vigorous young competitors will be absorbed, thereby reducing competition. In virtually every major industry – retailing, entertainment, financial services, utilities, transportation, automotive, telecommunications, health care – the number of major competitors is shrinking.

Acquisition is a complex subject. In some cases, acquisitions can be good for society. The acquiring company may gain economies of scale that lead to lower costs and lower prices. In addition, a well-managed company may take over a poorly managed company and improve its efficiency. An industry that was not very competitive might become more competitive after the acquisition. But acquisitions can also be harmful and therefore are closely regulated by the government.

Critics have also charged that marketing practices bar new companies from entering an industry. Large marketing companies can use patents and heavy promotion spending, or tie up suppliers or dealers to keep out or drive out competitors. Those concerned with antitrust recognise that some barriers are the natural result of the economic advantages of doing business on a large scale. Existing and new laws can challenge other barriers. For example, some critics have proposed a progressive tax on advertising spending to reduce the role of selling costs as a major barrier to entry.

Finally, some firms have, in fact, used unfair competitive marketing practices with the intention of hurting or destroying other firms. They may set their prices below costs, threaten to cut off business with suppliers, discourage the buying of a competitor's products, or use their size and market dominance to unfairly damage rivals. Although various laws work to prevent such predatory competition, it is often difficult to prove that the intent or action was really predatory. It's often difficult to differentiate predatory practices from effective competitive strategy and tactics.

In recent years, search giant Google has been accused of using predatory practices at the expense of smaller competitors. For example, the European Commission recently accused Google of abusing its web-search dominance, harming both competitors and consumers in European Union markets.[21] The commission also investigated antitrust issues related to Google's Android mobile operating system. Google's web-search engine claims a commanding 95 per cent European market share; the Android operating system dominates with an 80 per cent share.

The European Commission formally accused Google of manipulating its search-engine results to favour its own shopping services at the expense of rivals. According to the commission, such 'conduct may therefore artificially divert traffic from rival comparison shopping services and hinder their ability to compete, to the detriment of consumers, as well as stifling innovation'. The commission's future antitrust investigations could expand beyond Google's shopping services into areas such as online and mobile searches for travel services and restaurants. For its part, however, Google contends that

Competitive marketing practices: the European Commission recently accused Google of abusing its web-search dominance, harming both competitors and consumers in European Union markets. Google claims that its practices constitute fair and effective competition. The European Commission has fined Google €4.34 billion for breaching EU antitrust rules.

Source: JOHN THYS/Stringer/Getty images its web-search and mobile operations constitute fair and effective competition that serves the best interests of consumers. In 2018, the European Commission fined Google €4.34 billion for breaching EU antitrust rules.[22]

Consumer actions to promote sustainable marketing

Sustainable marketing calls for more responsible actions by both businesses and consumers. Because some people view businesses as the cause of many economic and social ills, grassroots movements have arisen from time to time to keep businesses in line. Two major movements have been *consumerism* and *environmentalism*.

Consumerism

Consumerism An organised movement of citizens and government agencies designed to improve the rights and power of buyers in relation to sellers.

Consumerism is an organised movement of citizens and government agencies to improve the rights and power of buyers in relation to sellers. Traditional *sellers' rights* include the following:

- The right to introduce any product in any size and style, provided it is not hazardous to personal health or safety, or, if it is, to include proper warnings and controls.
- The right to charge any price for the product, provided no discrimination exists among similar kinds of buyers.
- The right to spend any amount to promote the product, provided it is not defined as unfair competition.
- The right to use any product message, provided it is not misleading or dishonest in content or execution.
- The right to use buying incentive programmes, provided they are not unfair or misleading.

Traditional *buyers' rights* include the following:

- The right not to buy a product that is offered for sale.
- The right to expect the product to be safe.
- The right to expect the product to perform as claimed.

In comparing these rights, many believe that the balance of power lies on the seller's side. True, the buyer can refuse to buy. But critics feel that the buyer has too little information, education and protection to make wise decisions when facing sophisticated sellers. Consumer advocates call for the following additional consumer rights:

- The right to be well informed about important aspects of the product.
- The right to be protected against questionable products and marketing practices.
- The right to influence products and marketing practices in ways that will improve 'quality of life'.
- The right to consume now in a way that will preserve the world for future generations of consumers.

Author comment

Sustainable marketing isn't something that only businesses and governments do. Through consumerism and environmentalism, consumers themselves can play an important role.

Each proposed right has led to more specific proposals by consumerists and consumer protection actions by the government. The right to be informed includes the right to know the true interest on a loan (truth in lending), the true cost per unit of a brand (unit pricing), the ingredients in a product (ingredient labelling), the nutritional value of foods (nutritional labelling), product freshness (sell-by dating) and the true benefits of a product (truth in advertising).

Proposals related to consumer protection include strengthening consumer rights in cases of business fraud and financial protection, requiring greater product safety, ensuring information privacy and giving more power to government agencies. Proposals relating to quality of life include controlling the ingredients that go into certain products and packaging, and reducing the level of advertising 'noise'. Proposals for preserving the world for future consumption include promoting the use of sustainable ingredients, recycling and reducing solid wastes, and managing energy consumption.

Sustainable marketing applies not only to businesses and governments but also to consumers. Consumers have not only the *right* but also the *responsibility* to protect themselves instead of leaving this function to the government or someone else. Consumers who believe they got a bad deal have several remedies available, including contacting the company; making their case through the media or social media; contacting compliance and enforcement agencies; and going to small-claims courts. Consumers should also make good consumption choices, rewarding companies that act responsibly while punishing those that don't. Ultimately, the move from irresponsible consumption to sustainable consumption is in the hands of consumers.

Environmentalism

Whereas consumerists consider whether the marketing system is efficiently serving consumer wants, environmentalists are concerned with marketing's effects on the environment and the environmental costs of serving consumer needs and wants. **Environmentalism** is an organised movement of concerned citizens, businesses and government agencies to protect and improve people's current and future living environment.

Environmentalism An organised movement of concerned citizens, businesses and government agencies to protect and improve people's current and future living environment.

Environmentalists are not against marketing and consumption; they simply want people and organisations to operate with more care for the environment. They call for doing away with what sustainability advocate and Unilever CEO Paul Polman calls 'mindless consumption'. According to Polman, 'The road to well-being doesn't go via reduced consumption. It has to be done via more responsible consumption.'[23] The marketing system's goal, environmentalists assert, should not be to maximise consumption, consumer choice or consumer satisfaction but rather to maximise life quality. Life quality means not only the quantity and quality of consumer goods and services but also the quality of the environment, now and for future generations.

Environmentalism is concerned with damage to the ecosystem caused by global warming, resource depletion, toxic and solid wastes, litter, the availability of fresh water, and other problems. Other issues include the loss of recreational areas and the increase in health problems caused by bad air, polluted water and chemically treated food.

Over the past several decades, such concerns have resulted in laws and regulations governing industrial commercial practices affecting the environment. Some companies have strongly resented and resisted such environmental regulations, claiming that they are too costly and have made their industries less competitive. These companies responded to consumer environmental concerns by doing only what was required to avert new regulations or keep environmentalists quiet.

In recent years, however, most companies have accepted responsibility for doing no harm to the environment. They have shifted from protest to prevention and from regulation to responsibility. More and more companies are now adopting policies of **environmental sustainability**. Simply put, environmental sustainability is about generating profits while helping to save the planet. Today's enlightened companies are taking action not because someone is forcing them to or to reap short-run profits but because it's the right thing to do – because it's for their customers' well-being, the company's well-being and the planet's environmental future. For example, fast-food chain Chipotle, originating from the US with several branches in London, has successfully built its core mission around environmental sustainability – its aim is to serve 'Food With Integrity'.

Environmental sustainability A management approach that involves developing strategies that both sustain the environment and produce profits for the company.

Figure 20.2 shows a grid that companies can use to gauge their progress toward environmental sustainability. It includes both internal and external *greening* activities that will pay off for the firm and environment in the short run and *beyond greening* activities that will pay off in the longer term.

At the most basic level, a company can practise *pollution prevention*. This involves more than pollution control – cleaning up waste after it has been created. Pollution prevention means eliminating or minimising waste *before* it is created. Companies emphasising prevention have responded with internal green marketing programmes – designing and developing ecologically safer products, recyclable and biodegradable packaging, better pollution controls and more energy-efficient operations.

Figure 20.2
Environmental sustainability and sustainable value

Source: based on Stuart L. Hart, 'Sustainable Value', www.stuartlhart.com/sustainablevalue.html, October 2016.

	Today: greening	Tomorrow: beyond greening
Internal	**Pollution prevention** Eliminating or reducing waste before it is created	**New clean technology** Developing new sets of environmental skills and capabilities
External	**Product stewardship** Minimizing environmental impact throughout the entire product life cycle	**Sustainability vision** Creating a strategic framework for future sustainability

How does 'environmental sustainability' relate to 'marketing sustainability'? Environmental sustainability involves preserving the natural environment, whereas marketing sustainability is a broader concept that involves both the natural and social environments – pretty much everything in this chapter.

For example, in creating new products, athletic shoe and apparel maker Adidas considers their environmental impact before ever producing them. This results in low-waste footwear and apparel, such as Element Soul shoes, which yield both performance and sustainability benefits. With their simplified design – only 12 parts instead of the typical 50 – the lightweight shoes give athletes a more natural run while at the same time cutting down on materials, waste and energy use in production. On a broader scale, Adidas has developed a restricted substances list for product design and manufacturing: no PVCs, no materials from endangered or threatened species, and fewer materials from non-sustainable sources. Adidas has also set ambitious internal goals for reducing greenhouse emissions and energy, water and paper consumption in its operations. And it has set up Green Teams at locations around the world whose members promote Adidas' environmental programmes internally and urge their colleagues to 'think green', such as reducing office waste going to landfills.[24]

At the next level, companies can practise *product stewardship* – minimising not only pollution from production and product design but also all environmental impacts throughout the full product life cycle while at the same time reducing costs. Many companies have adopted *design for environment (DFE)* and *cradle-to-cradle* practices. This involves thinking ahead to design products that are easier to recover, reuse, recycle or safely return to nature after usage, thus becoming part of the ecological cycle. DFE and cradle-to-cradle practices not only help to sustain the environment, but they can also be highly profitable for the company.

For example, more than a decade ago, IBM started a business – IBM Global Asset Recovery Services – designed to reuse and recycle parts from returned mainframe computers and other equipment. Last year, IBM processed more than 24.6 million kilograms of end-of-life products and product waste worldwide, stripping down old equipment to recover chips and valuable metals. Since 2002 it has processed more than 0.5 billion kilograms of machines, parts and material. IBM Global Asset Recovery Services finds uses for more than 99 per cent of what it takes in, sending less than 1 per cent to landfills and incineration facilities. What started out as an environmental effort has now grown into a multibillion-dollar IBM business that profitably recycles electronic equipment at sites worldwide.[25]

Environmental sustainability: Adidas sets ambitious goals for sustainable products and operations. In creating new products, the company considers their environmental impact before ever producing them.

Source: 2p2play/Shutterstock

Today's *greening* activities focus on improving what companies already do to protect the environment. The *beyond greening* activities identified in Figure 20.2 look to the future. First, internally, companies can plan for *new clean technology*. Many organisations that have made good sustainability headway are still limited by existing technologies. To create fully sustainable strategies, they will need to develop innovative new technologies.

For example, by 2020, Coca-Cola has committed to reclaiming and recycling the equivalent of all the packaging it uses around the world. It has also pledged to dramatically reduce its overall environmental footprint. To accomplish these goals, the company invests heavily in new clean technologies that address a host of environmental issues, such as recycling, resource usage and distribution:[26]

> First, to attack the solid waste problem caused by its plastic bottles, Coca-Cola invested heavily to build the world's largest state-of-the-art plastic-bottle-to-bottle recycling plant. As a more permanent solution, Coke is researching and testing new bottles made from aluminum, corn or bioplastics. It has been steadily replacing its PET plastic bottles with PlantBottle packaging, which incorporates 30 per cent plant-based materials. The company is also designing more eco-friendly distribution alternatives. Currently, some 10 million vending machines and refrigerated coolers gobble up energy and use potent greenhouse gases called hydrofluorocarbons (HFCs) to keep Cokes cold. To eliminate them, the company has been installing sleek new HFC-free coolers that use 30 to 40 per cent less energy – so far more than 1.4 million have been installed. Coca-Cola has even developed a line of 'eKO-Cool' solar-powered coolers that not only conserve energy resources but are also functional in rural areas of emerging economies such as India, where conventional power sources are often unreliable. And Coca-Cola is now almost 100 per cent 'water neutral', giving back to communities and nature the equivalent of all the fresh water that its bottlers use in the production of Coca-Cola beverages.

Finally, companies can develop a *sustainability vision*, which serves as a guide to the future. It shows how the company's products and services, processes and policies must evolve and what new technologies must be developed to get there. This vision of sustainability provides a framework for pollution control, product stewardship and new environmental technology for the company and others to follow. It addresses not just challenges in the natural environment but also strategic opportunities for using environmental strategies to create sustainable value for the firm and its markets.

Most companies today focus on the upper-left quadrant of the grid in Figure 20.2, investing most heavily in pollution prevention. Some forward-looking companies practise product stewardship and are developing new environmental technologies. However, emphasising only one or two quadrants in the environmental sustainability grid can be short-sighted. Investing only in the left half of the grid puts a company in a good position today but leaves it vulnerable in the future. In contrast, a heavy emphasis on the right half suggests that a company has good environmental vision but lacks the skills needed to implement it. Thus, companies should work at developing all four dimensions of environmental sustainability.

The North Face, for example, is doing just that through its own environmental sustainability actions and its impact on the actions of suppliers and consumers:[27]

> The North Face's new headquarters building in Alameda, California, comes complete with solar panels and wind turbines that generate more electricity than the building uses. The building employs an evaporating cooling system that eliminates the need for emissions-heavy coolants. The company's other regional headquarters and distribution centres also incorporate solar-powered or water-saving features. In manufacturing, The North Face works closely with suppliers to achieve its goal to use polyester – which makes up 80 per cent of its clothing lines – from 100 per cent recycled content. The North Face also partners with suppliers to reduce waste and chemical, water and energy usage in their mills. Since 2010, The North Face's suppliers have removed more than 100 tanker trucks of chemicals and more than 230 Olympic swimming pools of water from their manufacturing processes.
>
> In addition, The North Face has dedicated itself to inspiring customers to reduce the waste generated by today's fast-fashion era. The company's lifetime apparel and gear warranty results in the return and repair of more than 80,000 products annually. The North Face also runs a programme called 'Clothes the Loop', by which it collects worn-out or unwanted used clothing of any brand from customers for

Sustainability vision: at The North Face, sustainability is about more than just doing the right thing – it also makes good business sense. Sustainability efforts such as its 'Clothes the Loop' programme are good for the company, its customers *and* the planet.

Source: The North Face/Tim Kemple

recycling or renewal. Items dropped in its collection bins are sent to a recycling centre where they are carefully sorted, then repurposed for reuse to extend their life or recycled into raw materials for use in making other products. Proceeds from the programme benefit the Conservation Alliance, which funds community-based campaigns to protect shared wilderness and recreation areas.

For The North Face, being environmentally sustainable is about more than just doing the right thing. It also makes good business sense. More efficient operations and less wasteful products not only are good for the environment but also save The North Face money, helping it to deliver more value to customers. It's a winning combination. 'At the heart of The North Face is a mission to inspire a global movement of outdoor exploration and conservation', says The North Face's president. 'We believe the success of our business is fundamentally linked to having a healthy planet.'[28]

Public actions to regulate marketing

Citizen concerns about marketing practices will usually lead to public attention and legislative proposals. Many of the laws that affect marketing were identified in Chapter 3. The task is to translate these laws into a language that marketing executives understand as they make decisions about competitive relations, products, price, promotion and distribution channels. Figure 20.3 illustrates the major legal issues facing marketing management.

Author comment

In the end, marketers themselves must take responsibility for sustainable marketing. That means operating in a responsible and ethical way to bring both immediate and future value to customers.

Business actions toward sustainable marketing

At first, many companies opposed consumerism, environmentalism and other elements of sustainable marketing. They thought the criticisms were either unfair or unimportant. But by now, most companies have grown to embrace sustainability principles as a way to create both immediate and future customer value and strengthen customer relationships.

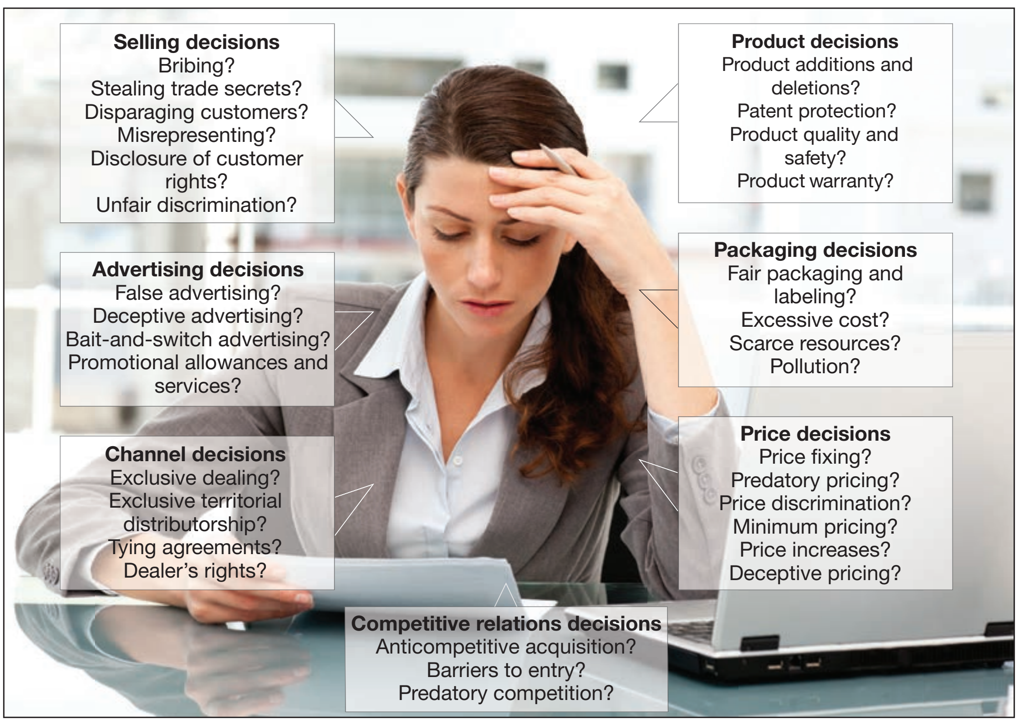


Figure 20.3 Major marketing decision areas that may be called into question under the law

Sustainable marketing principles

Under the sustainable marketing concept, a company's marketing should support the best long-run performance of the marketing system. It should be guided by five sustainable marketing principles: *consumer-oriented marketing*, *customer value marketing*, *innovative marketing*, *sense-of-mission marketing* and *societal marketing*.

Consumer-oriented marketing

Consumer-oriented marketing means that the company should view and organise its marketing activities from the consumer's point of view. It should work hard to sense, serve and satisfy the needs of a defined group of customers – both now and in the future. The good marketing companies that we've discussed throughout this text have had this in common: an all-consuming passion for delivering superior value to carefully chosen customers. Only by seeing the world through its customers' eyes can the company build sustainable and profitable customer relationships.

Consumer-oriented marketing A company should view and organise its marketing activities from the consumer's point of view.

Customer value marketing

According to the principle of **customer value marketing**, the company should put most of its resources into customer value-building marketing investments. Many things marketers do – one-shot sales promotions, cosmetic product changes, direct-response advertising – may raise sales in the short run but add less *value* than would actual improvements in the product's quality, features or convenience. Enlightened marketing calls for building long-run consumer engagement, loyalty and relationships by continually improving the value consumers receive from the firm's market offering. By creating value *for* consumers, the company can capture value *from* consumers in return.

Customer value marketing A company should put most of its resources into customer-value-building marketing investments.

Innovative marketing A company should seek real product and marketing improvements.

Innovative marketing

The principle of **innovative marketing** requires that the company continuously seek real product and marketing improvements. The company that overlooks new and better ways to do things will eventually lose customers to another company that has found a better way.

Innovative marketers never stop looking for new and better ways to create customer value. For example, fast and dependable delivery is highly important to online shoppers. So Amazon delighted customers by being the first to innovate with free shipping on orders over $50 in the US and more recently £20 in the UK. But Amazon didn't stop there. It next introduced Amazon Prime, by which subscribed customers could receive their packages within only two days for no extra charge or in one day for a small additional fee. Still not satisfied, Amazon innovated with Amazon Prime Now, which offers super-fast same-day delivery – or even one-hour delivery – on tens of thousands of items in major metropolitan areas. In its never-ending quest to shorten delivery times, Amazon has even invested heavily in research on drones, driverless vehicles and robots. This and a seemingly endless list of other innovations over the years – from Recommendations for You, Customer Reviews and 1-Click Ordering features to the Amazon Marketplace, Kindle

Innovative marketing: Amazon never stops looking for new ways to create customer value, such as Amazon Prime Now, which gives same-day – or even one-hour – delivery of customer orders.

Source: Creativep/Alamy Stock Photo

e-readers and Amazon Cloud services – have helped Amazon to enhance the shopping customer experience and dominate online retailing.

Sense-of-mission marketing

Sense-of-mission marketing A company should define its mission in broad social terms rather than narrow product terms.

Sense-of-mission marketing means that the company should define its mission in broad *social* terms rather than narrow *product* terms. When a company defines a social mission, employees feel better about their work and have a clearer sense of direction. Brands linked with broader missions can serve the best long-run interests of both the brand and consumers.

For example, successful home furnishings retailer IKEA has a deeply ingrained sense of mission – called 'The IKEA Way' – to create a better everyday life for people by 'offering well-designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them'. Johnson & Johnson's flagship Johnson's Baby brand dedicates itself to a mission of understanding babies and the special nurturing they require, then uses that knowledge to provide parents with safe and effective baby-care products. The company's recently launched 'Our Promise' advertising and social media campaign – which will include some 40 videos featuring and shared by Johnson's Baby brand employees – assures parents that 'It's a responsibility we take seriously as we continue to apply our knowledge and research to bring you safe, innovative products that live up to our pure, mild, and gentle promise.' The first 'Our Promise' video states that 'We are moms and dads just like you. We'll always listen and be here for you. Promise.' Sense-of-mission marketing has made Johnson's Baby the world's leading baby-care brand, with a nearly 25 per cent worldwide market share.[29]

Some companies define their overall corporate missions in broad societal terms. For example, under its buy-one-give-one model, shoe maker TOMS seeks both profits and to make the world a better place. Thus, at TOMS, 'doing good' and 'doing well' go hand in hand. To achieve its social-change mission, TOMS has to make money. At the same time, the brand's social mission gives customers a powerful reason to buy.

However, having a *double bottom line* of values and profits isn't easy. Over the years, brands such as Ben & Jerry's, Timberland, The Body Shop and Lush – all known and respected for putting 'principles before profits' – have at times struggled with less-than-stellar financial returns. In recent years, however, a new generation of social entrepreneurs has emerged, well-trained business managers who know that to *do good*, they must first *do well* in terms of profitable business operations.

Moreover, today, socially responsible business is no longer the sole province of small, socially conscious entrepreneurs. Many large, established companies and brands – from Tesco and Nike to Starbucks, Coca-Cola and Boots – have adopted substantial social and environmental responsibility missions. Rather than being at odds with revenues and profits, purpose-driven missions can drive them.

Societal marketing A company should make marketing decisions by considering consumers' wants, the company's requirements, consumers' long-run interests and society's long-run interests.

Societal marketing

Following the principle of **societal marketing**, a company makes marketing decisions by considering consumers' wants, the company's requirements, consumers' long-run interests and society's long-run interests. Companies should be aware that neglecting consumer and societal long-run interests is a disservice to consumers and society. Alert companies view societal problems as opportunities.

Sustainable marketing calls for products that are not only pleasing but also beneficial. The difference is shown in Figure 20.4. Products can be classified according to their degree of immediate consumer satisfaction and long-run consumer benefit.

Deficient products Products that have neither immediate appeal nor long-run benefits.

Pleasing products Products that give high immediate satisfaction but may hurt consumers in the long run.

Salutary products Products that have low immediate appeal but may benefit consumers in the long run

Deficient products, such as bad-tasting and ineffective medicine, have neither immediate appeal nor long-run benefits. **Pleasing products** give high immediate satisfaction but may hurt consumers in the long run. Examples include cigarettes and junk food. **Salutary products** have low immediate appeal but may benefit consumers in the long run, for instance, bicycle helmets or some insurance products.

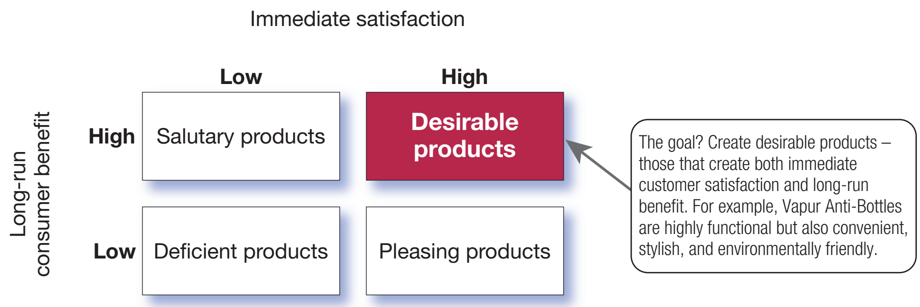


Figure 20.4 Societal classification of products

Desirable products give both high immediate satisfaction and high long-run benefits, such as a tasty *and* nutritious breakfast food.

Desirable products Products that give both high immediate satisfaction and high long-run benefits

Companies should try to turn all of their products into desirable products. The challenge posed by pleasing products is that they sell very well but may end up hurting the consumer. The product opportunity, therefore, is to add long-run benefits without reducing the product's pleasing qualities. The challenge posed by salutary products is to add some pleasing qualities so that they will become more desirable in consumers' minds.

Consider method, the 'people against dirty' brand of household and personal cleaning products. Many effective household cleaning products contain chemicals or even toxic ingredients that can be harmful to people and the environment. But Method products are formulated with naturally derived, biodegradable, non-toxic ingredients. 'We prefer ingredients that come from plants, not chemical plants', says the brand. Method also uses recycled and recyclable packaging, and it works with suppliers to reduce the carbon intensity of producing its products. Method uses renewable energy sources such as wind turbines and solar trees to help power its manufacturing facility. In all, 'method cleaners put the hurt on dirt without doing harm to people, creatures, or the planet', says the company. As Method co-founder and 'chief greenskeeper' puts it: 'Beautiful design and environmental responsibility are equally important when creating a product and we shouldn't have to trade functionality for sustainability.'

Marketing ethics

Good ethics are a cornerstone of sustainable marketing. In the long run, unethical marketing harms customers and society as a whole. Further, it eventually damages a company's reputation and effectiveness, jeopardising its very survival. Thus, the sustainable marketing goals of long-term consumer and business welfare can be achieved only through ethical marketing conduct.

Conscientious marketers face many moral dilemmas. The best thing to do is often unclear. Because not all managers have fine moral sensitivity, companies need to develop *corporate marketing ethics policies* – broad guidelines that everyone in the organisation must follow. These policies should cover distributor relations, advertising standards, customer service, pricing, product development and general ethical standards.

The finest guidelines cannot resolve all the difficult ethical situations the marketer faces. Table 20.1 lists some difficult ethical issues marketers could face during their careers. If marketers choose immediate-sales-producing actions in all of these cases, their marketing behaviour might well be described as immoral or even amoral. If they refuse to go along with *any* of the actions, they might be ineffective as marketing managers

Desirable products: Method's cleaning products are both effective and beneficial. 'method cleaners put the hurt on dirt without doing harm to people, creatures, or the planet,' so you can 'fear no mess'.

Source: Sara Stathas/Alamy Stock Photo

Table 20.1 Some morally difficult situations in marketing

Your R&D department has changed one of your company's products slightly. It is not really 'new and improved', but you know that putting this statement on the package and in advertising will increase sales. What would you do?
You have been asked to add a stripped-down model to your line that could be advertised to pull customers into the store. The product won't be very good but salespeople will be able to switch buyers who come into the store up to higher-priced units. You are asked to give the green light for the stripped-down version. What would you do?
You are thinking of hiring a product manager who has just left a competitor's company. She would be more than happy to tell you all the competitor's plans for the coming year. What would you do?
One of your top dealers in an important territory has recently had family troubles and his sales have slipped. It looks like it will take him a while to straighten out his family problems. Meanwhile, you are losing many sales. Legally, on performance grounds, you can terminate the dealer's franchise and replace him. What would you do?
You have a chance to win a big account in another country that will mean a lot to you and your company. The purchasing agent hints that a 'gift' would influence the decision. Such gifts are common in that country and some of your competitors will probably make one. What would you do?
You have heard that a competitor has a new product feature that will make a big difference in sales. The competitor will demonstrate the feature in a private dealer meeting at the annual trade show. You can easily send a snooper to this meeting to learn about the new feature. What would you do?
You have to choose between three advertising and social media campaigns outlined by your agency. The first (a) is a soft-sell, honest, straight-information campaign. The second (b) uses sex-loaded emotional appeals and exaggerates the product's benefits. The third (c) involves a noisy, somewhat irritating commercial that is sure to gain audience attention. Pre-tests show that the campaigns are effective in the following order: c, b, and a. What would you do?
You are interviewing a capable female applicant for a job as salesperson. She is better qualified than the men who have been interviewed. Nevertheless, you know that in your industry some important customers prefer dealing with men and you will lose some sales if you hire her. What would you do?

and unhappy because of the constant moral tension. Managers need a set of principles that will help them figure out the moral importance of each situation and decide how far they can go in good conscience.

But *what* principle should guide companies and marketing managers on issues of ethics and social responsibility? One philosophy is that the free market and the legal system should decide such issues. Under this principle, companies and their managers are not responsible for making moral judgements. Companies can in good conscience do whatever the market and legal systems allow. However, history provides an endless list of examples of company actions that were legal but highly irresponsible.

A second philosophy puts responsibility not on the system but in the hands of individual companies and managers. This more enlightened philosophy suggests that a company should have a social conscience. Companies and managers should apply high standards of ethics and morality when making corporate decisions, regardless of 'what the system allows'.

Each company and marketing manager must work out a philosophy of socially responsible and ethical behaviour. Under the societal marketing concept, each manager must look beyond what is legal and allowed and develop standards based on personal integrity, corporate conscience and long-run consumer welfare. Dealing with issues of ethics and social responsibility in a proactive, open and forthright way helps to build and maintain strong customer relationships based on honesty and trust.

As with environmentalism, the issue of ethics presents special challenges for international marketers. Business standards and practices vary a great deal from one country to the next. Countries like the UK and the US have stringent and actively enforced laws prohibiting bribery. For example, the 2011 Bribery Act in Britain creates a new offence of failure to prevent bribery by people working on behalf of a business, in addition to the existing criminal offence to give, promise or offer a bribe at home or abroad. Penalties for bribery are increased to ten years imprisonment and an unlimited fine. British anti-corruption law is now more sweeping than its American counterpart.[30] Similarly, bribes and kickbacks are illegal for US firms. In addition, a variety of treaties against bribery and corruption have been signed and ratified by more than 60 countries. Yet these are still standard business practices in many countries.

The World Bank estimates that bribes totalling more than $1 trillion per year are paid out worldwide. One study showed that the most flagrant bribe-paying firms were from Indonesia, Mexico, China and Russia. Other countries where corruption is common include Sierra Leone, Kenya and Yemen. The least corrupt were companies from Australia, Denmark, Finland and Japan.[31] The question arises as to whether a company must lower its ethical standards to compete effectively in countries with lower standards. The answer is no. Companies should make a commitment to a common set of shared standards worldwide.

Many industrial and professional associations have suggested codes of ethics, and many companies are now adopting their own codes. For example, the American Marketing Association, an international association of marketing managers and scholars, developed a code of ethics that calls on marketers to adopt the following ethical norms:[32]

- *Do no harm.* This means consciously avoiding harmful actions or omissions by embodying high ethical standards and adhering to all applicable laws and regulations in the choices we make.
- *Foster trust in the marketing system.* This means striving for good faith and fair dealing so as to contribute toward the efficacy of the exchange process as well as avoiding deception in product design, pricing, communication, and delivery or distribution.
- *Embrace ethical values.* This means building relationships and enhancing consumer confidence in the integrity of marketing by affirming these core values: honesty, responsibility, fairness, respect, transparency, and citizenship.

Companies are also developing programmes to teach managers about important ethical issues and help them find the proper responses. They hold ethics workshops and seminars and create ethics committees. Furthermore, many major companies have appointed high-level ethics officers to champion ethical issues and help resolve ethics problems and concerns facing employees. And most companies have established their own codes of ethical conduct.

Google is a good example. Its official Google Code of Conduct is the mechanism by which the company puts its well-known 'Don't be evil' motto into practice. The detailed code's core message is simple: Google employees (known inside as 'Googlers') must earn users' faith and trust by holding themselves to the highest possible standards of ethical business conduct. The Google Code of Conduct is 'about providing our users unbiased access to information, focusing on their needs, and giving them the best products and services that we can. But it's also about doing the right thing more generally – following the law, acting honorably, and treating each other with respect'.

Google requires all Googlers – from board members to the newest employee – to take personal responsibility for practising both the spirit and letter of the code and encouraging other Googlers to do the same. It urges employees to report violations to their managers, to human resources representatives or using an Ethics & Compliance hotline. 'If you have a question or ever think that one of your fellow Googlers or the company as a whole may be falling short of our commitment, don't be silent', states the code. 'We want – and need – to hear from you.'[33]

Still, written codes and ethics programmes do not ensure ethical behaviour. Ethics and social responsibility require a total corporate commitment. They must be a component of the overall corporate culture. As the Google Code of Conduct concludes: 'It's impossible to spell out every possible ethical scenario we might face. Instead, we rely on one another's good judgment to uphold a high standard of integrity for ourselves and our company. Remember . . . don't be evil. If you see something that isn't right, speak up!'

The sustainable company

At the foundation of marketing is the belief that companies that fulfil the needs and wants of customers will thrive. Companies that fail to meet customer needs or that intentionally or unintentionally harm customers, others in society, or future generations will decline.

Says one observer, 'Sustainability is an emerging business megatrend, like electrification and mass production, that will profoundly affect companies' competitiveness and even their survival.' Says another, 'increasingly, companies and leaders will be assessed not only on immediate results but also on . . . the ultimate effects their actions have on societal well-being. This trend has been coming in small ways for years but now is surging. So pick up your recycled cup of fair-trade coffee, and get ready'.[34]

Sustainable companies are those that create value for customers through socially, environmentally and ethically responsible actions. Sustainable marketing goes beyond caring for the needs and wants of today's customers. It means having concern for tomorrow's customers in ensuring the survival and success of the business, shareholders, employees and the broader world in which they all live. It means pursuing the mission of shared value and a triple bottom line: people, planet and profits. Sustainable marketing provides the context in which companies can engage customers and build profitable relationships with them by creating value *for* customers in order to capture value *from* customers in return – now and in the future.

Learning outcomes review

In this chapter, we addressed many of the important *sustainable marketing* concepts related to marketing's sweeping impact on individual consumers, other businesses and society as a whole. Sustainable marketing requires socially, environmentally and ethically responsible actions that bring value to not only present-day consumers and businesses but also future generations and society as a whole. Sustainable companies are those that act responsibly to create value for customers in order to capture value from customers in return – now and in the future.

Objective 1 Define *sustainable marketing* and discuss its importance (pp. 611–612)

Sustainable marketing calls for meeting the present needs of consumers and businesses while preserving or enhancing the ability of future generations to meet their needs. Whereas the marketing concept recognises that companies thrive by fulfilling the day-to-day needs of customers, sustainable marketing calls for socially and environmentally responsible actions that meet both the immediate and future needs of customers and the company. Truly sustainable marketing requires a smooth-functioning marketing system in which consumers, companies, public policy makers and others work together to ensure responsible marketing actions.

Objective 2 Identify the major social criticisms of marketing (pp. 612–620)

Marketing's *impact on individual consumer welfare* has been criticised for its high prices, deceptive practices, high-pressure selling, shoddy or unsafe products, planned obsolescence and poor service to disadvantaged consumers. Marketing's *impact on society* has been criticised for creating false wants and too much materialism, too few social goods, and cultural pollution. Critics have also denounced marketing's *impact on other businesses* for harming competitors and reducing competition through acquisitions, practices that create barriers to entry, and unfair competitive marketing practices. Some of these concerns are justified; some are not.

Objective 3 Define *consumerism* and *environmentalism* and explain how they affect marketing strategies (pp. 620–624)

Concerns about the marketing system have led to citizen action movements. *Consumerism* is an organised social movement intended to strengthen the rights and power of consumers relative to sellers. Alert marketers view it as an opportunity to serve consumers better by providing more consumer information, education and protection. *Environmentalism* is an organised social movement seeking to minimise the harm done to the environment and quality of life by marketing practices. Most companies are now accepting responsibility for doing no environmental harm. They are adopting policies of *environmental sustainability* – developing strategies that both sustain the environment and produce profits for the company. Both consumerism and environmentalism are important components of sustainable marketing.

Objective 4 Describe the principles of sustainable marketing (pp. 624–627)

Many companies originally resisted these social movements and laws, but most now recognise a need for positive consumer information, education and protection. Under the sustainable marketing concept, a company's marketing should support the best long-run performance of the marketing system. It should be guided by five sustainable marketing principles: *consumer-oriented marketing*, *customer value marketing*, *innovative marketing*, *sense-of-mission marketing* and *societal marketing*.

Objective 5 Explain the role of ethics in marketing (pp. 627–630)

Increasingly, companies are responding to the need to provide company policies and guidelines to help their managers deal with questions of *marketing ethics*. Of course, even the best guidelines cannot resolve all the difficult ethical decisions that individuals and firms must make. But there are some principles from which marketers can choose. One principle states that the free market and the legal system should decide such issues. A second and more enlightened principle puts responsibility not on the system but in the hands of individual companies and managers. Each firm and marketing manager must work out a philosophy of socially responsible and ethical behaviour. Under the sustainable marketing concept, managers must look beyond what is legal and allowable and develop standards based on personal integrity, corporate conscience and long-term consumer welfare.

Navigating the key terms

Objective 1
Sustainable marketing (p. 611)

Objective 3
Consumerism (p. 620)
Environmentalism (p. 621)
Environmental sustainability (p. 621)

Objective 4
Consumer-oriented marketing (p. 625)
Customer value marketing (p. 625)
Innovative marketing (p. 625)
Sense-of-mission marketing (p. 626)
Societal marketing (p. 626)
Deficient products (p. 626)
Pleasing products (p. 626)
Salutary products (p. 626)
Desirable products (p. 627)

Discussion and critical thinking

Discussing the concepts

20.1 Compare and contrast how the marketing concept, the societal marketing concept and the sustainable marketing concept meet the needs of consumers and companies. (AASCB: Communication)

20.2 What are the major social criticisms of marketing? How do marketers respond to these criticisms? (AACSB: Communication; Reflective thinking)

20.3 Discuss the two major grassroots movements that work to keep companies' sustainability efforts in line. (AACSB: Communication)

20.4 What is environmental sustainability? How should companies gauge their progress toward achieving it? (AACSB: Communication)

20.5 Describe the sustainability principles marketers can use to operate in a responsible and ethical manner. (AACSB: Communication)

Critical-thinking exercises

20.6 Figure 20.4 outlines a societal classification of products. Identify two products for each of the four categories and explain why they are deficient, pleasing, salutary or desirable products. (AACSB: Communication; Reflective thinking)

20.7 Suppose that you are leading PepsiCo's environmental sustainability efforts. How would you gauge the effectiveness of these programmes? How would you communicate your efforts to loyal consumers of your brand? (AACSB: Communication; Use of IT; Reflective thinking)

20.8 In a small group, discuss each of the morally difficult situations in marketing presented in Table 20.1. Which ethics philosophy is guiding your decision in each situation? (AACSB: Communication; Ethical reasoning)

Mini-cases and applications

Online, mobile and social media marketing: teenagers and social media

In 2013, Facebook announced that it would let teenagers' posts become public. Before the change, Facebook would allow only 13- to 17-year-old users' posts to be seen by their 'friends' and 'friends of friends'. Now, however, their posts can be seen by anyone on the network if they choose to make their posts 'public'. Twitter, another social medium gaining popularity with teenagers, has always let users, including teenagers, share tweets publicly. But because of Facebook's vast reach, privacy advocates are very concerned about this latest development, particularly when it comes to children's safety. Online predators and bullying are real safety issues facing youth. Other criticisms of Facebook's decision boil down to money – some argue that this is just about monetising kids. Facebook will be able to offer a younger demographic to advertisers wanting to reach them. Facebook defends its actions, saying the change in policy is due to teenagers wanting the ability to post publicly, primarily for fundraising and promoting extracurricular activities such as sports and other school student organisations. Facebook has added precautions, such as a pop-up warning before teenagers can post publicly and setting 'seen only by friends' as the default that must be changed if the teenager desires posts to be public.

20.9 Is Facebook acting responsibly or merely trying to monetise kids as critics claim? (AACSB: Communication; Ethical reasoning)

20.10 Come up with creative ways marketers can reach this demographic on Facebook without alienating teenagers' parents. (AACSB: Communication; Reflective thinking)

Marketing ethics: milking the international market

Since the 1970s, Nestlé and other companies have faced criticism about their marketing of infant formula to families in underdeveloped countries. Their marketing has positioned formula as superior to breast milk and as a more modern way of feeding babies despite emerging research findings that breast milk usually leads to healthier outcomes for babies. Third-world women grew dependent on infant formula to feed their babies but began watering it down to make it last longer and save money, often with contaminated water. This too often resulted in child malnourishment and other serious health problems, and even death in some cases.

Nestlé has been accused by some child watchdog groups of using overly aggressive marketing tactics to sell its infant formula products. Nestlé targeted many new mothers with tactics such as providing samples, promoting products directly in hospitals and communities, and giving gifts to healthcare workers and new moms. Other infant formula companies even hired salesgirls in nurses' uniforms to drop into homes unannounced to persuade potential customers to use baby formula rather than breastfeeding.

In April 2012, Nestlé acquired Pfizer's infant nutrition unit, making it the biggest player in the infant formula market. According to *The Guardian*, this business unit generates approximately 85 per cent of its revenues from emerging markets, demonstrating that Nestlé and other infant formula companies are still capitalising on consumers in emerging economies. An International Nestlé Boycott Committee was started in 1984 to address this global issue and is still active today.

20.11 In a small group, conduct research on this topic and formulate a sustainable, responsible marketing plan for marketing infant formula across the globe. Present your plan. (AACSB: Communication; Use of IT; Ethical reasoning)

20.12 Is it wrong for marketers to create wants where none exist in the marketplace in order to make profits? Support your answer. (AACSB: Communication; Ethical reasoning)

Marketing by numbers: the cost of sustainability

In the United States, Kroger, the country's leading grocery-only chain, added a line of private-label organic and natural foods called Simple Truth to its stores. If you've bought organic foods, you know they are more expensive. For example, a dozen conventionally farmed grade-A eggs at Kroger costs consumers $1.70, whereas Simple Truth eggs are priced at $3.50 per dozen. One study found that, overall, the average price of organic foods is 85 per cent more than conventional foods. However, if prices get too high, consumers will not purchase the organic options. One element of sustainability is organic farming, which costs much more than conventional farming, and those higher costs are passed on to consumers. Suppose that a conventional egg farmer's average fixed costs per year for conventionally farmed eggs are $1 million per year, but an organic egg farmer's fixed costs are three times that amount. The organic farmer's variable costs of $1.80 per dozen are twice as much as conventional farmer's variable costs. Refer to Appendix 2 to answer the following questions.

20.13 Most large egg farmers sell eggs directly to retailers. Using Kroger's prices, what is the farmer's price per dozen to the retailer for conventional and organic eggs if Kroger's margin is 20 per cent based on its retail price? (AACSB: Communication; Analytical reasoning)

20.14 How many dozen eggs does a conventional farmer need to sell to break even? How many does an organic farmer need to sell to break even? (AACSB: Communication; Analytical reasoning)

Video case

Honest Tea

see www.pearsoned.co.uk/kotler

Honest Tea, the Coca-Cola brand that produced $130 million in global revenues last year, got its start because co-founder Seth Goldman didn't like the options in the beverage coolers at convenience stores. So with the help of a former professor, he launched Honest Tea – the USA's first fully organic bottled tea.

But the company's drive for success was not based as much on profits as on a desire to change the world. With social responsibility steeped deep into its business model, Honest Tea set out to help develop the economic structure of impoverished nations. Honest Tea purchased raw ingredients from Native American and South African farmers and invested in its supplier-farmers to help them become self-reliant. Although Honest Tea has been a wholly owned subsidiary of the Coca- Cola Company since 2011, it continues to operate on the principles of social responsibility established by its founders.

After viewing the video featuring Honest Tea, answer the following questions:

20.15 List as many examples as you can showing how Honest Tea defies the common social criticisms of marketing.

20.16 How does Honest Tea practise sustainable marketing?

20.17 With all its efforts to do good, can Honest Tea continue to do well? Explain.

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Company case

Innocent Drinks: golden wind egg or red herring?

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On 24 November 2017, the European NGO FoodWatch, which describes itself as 'a citizen-based watchdog in the food sector', announced the nominees for its annual award for the most misleading food advertising in the Netherlands, called the *Gouden Windei* (golden wind egg, roughly translating as 'empty promise'). One of the seven nominees for that year was a 'Raspberry & Cherry Super Juice' by the famous smoothies and juice brand, Innocent Drinks. In its typical tongue-in-cheek style, FoodWatch stated:

As if Superman tears up his red-and-blue suit and a tired office slave appears from underneath, so did this self-appointed 'superjuice' appear more super than it really is. 'Superjuice Raspberry & Cherry' and 'boosted with goji berry' actually consists of more than three quarters apple juice, sweetened with some grapes.

The nomination featured a prominent picture of the product's label, which listed the first two ingredients as '5 pressed apples, 13 pressed white grapes'. This theme of actual ingredients being (seemingly) inconsistent with the name of the product was, in fact, common to all nominees, which included a 'veal liver sausage' that did not seem to contain any veal liver and a 'wholegrain sponge cake' that seemed to contain only 6 per cent wholegrain.

The 'Golden Wind Egg' award, which FoodWatch has issued since 2010, usually generates substantial publicity in the Netherlands, with both the announcement of the nominees and the announcement of the eventual 'winner' being featured in national newspapers and on national TV. The winner is determined by a vote in which anyone can participate.

Innocent's history and relationship with The Coca-Cola Company

Interestingly, Innocent's nomination for the 'Golden Wind Egg' ended with a reference to Innocent's parent company: 'Who would dare to do that so boldly? Innocent is a brand of … The Coca-Cola Company'. In fact, Innocent Drinks is 90 per cent owned by The Coca-Cola Company (TCCC), while 10 per cent of its shares remain in the hands of its three founders. TCCC's (partial) ownership of Innocent was the result of a gradual process. Innocent Drinks was founded in the UK in 1998, by three Cambridge University graduates. After great initial success, the global financial crisis in 2008 created financial problems for them, and in 2009, the founders sold 20 per cent of their stake to TCCC, which was gradually increased to 90 per cent in 2013. Furthermore, Innocent was and remains a brand that is quite active in the area of CSR, and annually donates at least 10 per cent of its profits to charity. In the UK, one of its well-known CSR activities is the annual 'Big Knit', a cause marketing campaign in which Innocent asks consumers to knit little woollen hats that are then placed on the bottles to be sold. For each of these bottles sold, the brand donates an amount to charity.

Update to the nomination

On 27 November 2017, three days after the nominations were announced, FoodWatch updated its nomination of Innocent Drinks, adding the following statement to the top of the text (in bold):

> **** Update 27/11: Innocent has changed the name of this drink. It is now called 'Superjuice Apple juice, Raspberry & Cherry', which is more truthful. They had already made this change by the time of our nomination.**

In fact, FoodWatch provided a similar update to all of the other nominees, except for one (which turned out to be the 'winner'). For example, the manufacturer of the 'wholegrain sponge cake', which apparently contained only 6 per cent wholegrain, explained to FoodWatch after the nomination that there was a mistake on the label and that the product actually contained 35 per cent wholegrain. Most of the other nominees had announced after the nomination that they would change the product's ingredients and/or the label. Innocent was the only nominee for which the update acknowledged that the change had in fact already been made *before* the nomination.

Announcement of the 'winner'

On 14 December of the same year, FoodWatch announced the 'winner' of the annual award. It turned out to be the only product for which no updates had been published, which was a 'Fair Farmer's Cornbread' that did not seem to contain any corn flour. This product received 31 per cent of the 15,000 votes. In its press release announcing the results, FoodWatch mentioned the runner-up (which was the veal liver sausage without veal liver), but not the other nominees. Moreover, it suggested that the winner's refusal to adjust its product and/or the label was the reason why it received the most votes:

> **In total, six of the seven nominees indicated that their product was, or is being, adjusted. Only Jumbo stood firm, which was clearly not appreciated by the voters.**

Interview in *Down to Earth* magazine

On 8 January 2018, less than a month after the announcement of the winner, the monthly magazine of Dutch environmental NGO Milieudefensie (Environmental Defence), *Down to Earth*, published an interview with Benjamin van der Kloet, marketing manager at Innocent Drinks. This interview was part of the monthly series '*Onder Vuur*' ('Under Fire')', in which a company that has received criticism for its environmental activities (or lack thereof) has the opportunity to provide its perspective on the matter. In the interview, the manager explained that the law allows labelling on the front of food packaging to focus on either the main ingredient or on the main taste of the product, adding:

> **And that seems rather logical to us: a strawberry dessert also contains much more yoghurt than strawberry, but one informs people about the taste that they are looking for.**

In addition, the manager countered the implicit accusation that the nominated product's main ingredient was apple juice for cost-saving reasons, by explaining that 'because of the bad harvest, apples are currently very expensive'. Regarding the timing of the change of the product name and label to 'Superjuice Apple juice, Raspberry & Cherry', he confirmed that the label had indeed already been adjusted in stores by the time of the nomination. Asked for the reason for this (seemingly unprompted) change, the manager stated that it came from internal considerations:

> **The reason was that we ourselves found that with 82 per cent apple juice, this ingredient should also be mentioned on the front, even though it is not the most striking ingredient of the recipe. We were too late with our adjustment for the first shipment, so we started it immediately for the next one. By the way, this adjustment does not apply to all other countries where this juice is sold. In each country we make a separate consideration.**

Finally, when asked about how he had experienced the nomination, the manager stated that it was annoying to receive the nomination without any prior dialogue and without checking for accuracy, and concluded as follows:

> **. . . it is not good journalism, but it gets picked up by other media as truth. Let me say first and foremost that we very much approve of criticism about deception and other marketing drivel. But a little more due diligence before sounding the alarm would then be appropriate.**

Questions for discussion

1 What aspects of Innocent Drinks' communication in this case do you consider to be ethical (if any), and what aspects less ethical (if any)? These aspects could relate to:

- The initial labelling of the product.
- The response to the nomination.
- The broader communication by the brand (e.g., its CSR activities).

2 What aspects of FoodWatch's communication in this case do you consider to be ethical (if any), and what aspects less ethical (if any)? These aspects could relate to:

- The initial nomination.
- The update to the nomination.
- The announcement of the results.

3 How could Innocent Drinks potentially prevent a similar nomination in the future?

4 If Innocent Drinks could *not* prevent a similar nomination in the future, how could it limit the negative effects of such a nomination?

Source: Translated from: http://web.archive.org/web/20180117220608/https://www.foodwatch.org/nl/onze-campagnes/onderwerpen/misleidende-marketing/het-gouden-windei/nu-stemmen-gouden-windei-2017/innocent-superjuice/; Translated from: https://www.foodwatch.org/nl/onze-campagnes/onderwerpen/misleidende-marketing/actuele-nieuwsberichten/jumbo-maisbrood-zonder-maismeel-wint-het-gouden-windei/; Translated from: https://downtoearthmagazine.nl/vuur-foodwatch-vs-innocent-drinks/; https://www.foodwatch.org/en/about-us/; https://en.wikipedia.org/wiki/Innocent_Drinks, accessed June 2019.

Appendix 1
Marketing plan

The marketing plan: an introduction

As a marketer, you will need a good marketing plan to provide direction and focus for your brand, product or company. With a detailed plan, any business will be better prepared to launch a new product or build sales for existing products. Non-profit organisations also use marketing plans to guide their fundraising and outreach efforts. Even government agencies put together marketing plans for initiatives such as building public awareness of proper nutrition and stimulating area tourism.

The purpose and content of a marketing plan

Unlike a business plan, which offers a broad overview of the entire organisation's mission, objectives, strategy and resource allocation, a marketing plan has a more limited scope. It serves to document how the organisation's strategic objectives will be achieved through specific marketing strategies and tactics, with the customer as the starting point. It is also linked to the plans of other departments within the organisation. Suppose, for example, a marketing plan calls for selling 200,000 units annually. The production department must gear up to make that many units, the finance department must arrange funding to cover the expenses, the human resources department must be ready to hire and train staff, and so on. Without the appropriate level of organisational support and resources, no marketing plan can succeed.

Although the exact length and layout will vary from company to company, a marketing plan usually contains the sections described in Chapter 2. Smaller businesses may create shorter or less formal marketing plans, whereas corporations frequently require highly structured marketing plans. To guide implementation effectively, every part of the plan must be described in considerable detail. Sometimes a company will post its marketing plans on an intranet site, which allows managers and employees in different locations to consult specific sections and collaborate on additions or changes.

The role of research

Marketing plans are not created in a vacuum. To develop successful strategies and action programmes, marketers need up-to-date information about the environment, the competition and the market segments to be served. Often, analysis of internal data is the starting point for assessing the current marketing situation, supplemented by marketing intelligence and research investigating the overall market, the competition, key issues, and threats and opportunities. As the plan is put into effect, marketers use a variety of research techniques to measure progress toward objectives and identify areas for improvement if results fall short of projections.

Finally, marketing research helps marketers learn more about their customers' requirements, expectations, perceptions and satisfaction levels. This deeper understanding provides a foundation for building competitive advantage through well-informed segmenting, targeting, differentiating and positioning decisions. Thus, the marketing plan should outline what marketing research will be conducted and how the findings will be applied.

The role of relationships

The marketing plan shows how the company will establish and maintain profitable customer relationships. In the process, however, it also shapes a number of internal and external relationships. First, it affects how marketing personnel work with each other and with other departments to deliver value and satisfy customers. Second, it affects how the company works with suppliers, distributors and strategic alliance partners to achieve the objectives listed in the plan. Third, it influences the company's dealings with other stakeholders, including government regulators, the media and the community at large. All of these relationships are important to the organisation's success, so they should be considered when a marketing plan is being developed.

From marketing plan to marketing action

Companies generally create yearly marketing plans, although some plans cover a longer period. Marketers start planning well in advance of the implementation date to allow time for marketing research, thorough analysis, management review and coordination between departments. Then, after each action programme begins, marketers monitor ongoing results, compare them with projections, analyse any differences and take corrective steps as needed. Some marketers also prepare contingency plans for implementation if certain conditions emerge. Because of inevitable and sometimes unpredictable environmental changes, marketers must be ready to update and adapt marketing plans at any time.

For effective implementation and control, the marketing plan should define how progress toward objectives will be measured. Managers typically use budgets, schedules and performance standards for monitoring and evaluating results. With budgets, they can compare planned expenditures with actual expenditures for a given week, month or other period. Schedules allow management to see when tasks were supposed to be completed – and when they were actually completed. Performance standards track the outcomes of marketing programmes to see whether the company is moving toward its objectives. Some examples of performance standards are market share, sales volume, product profitability and customer satisfaction.

Sample marketing plan: Chill Beverage Company

Executive summary

The Chill Beverage Company is preparing to launch a new line of vitamin-enhanced water called NutriWater in the US. Although the bottled water market is maturing, the functional water category – and more specifically the vitamin-enhanced water category – is still growing. NutriWater will be positioned by the slogan 'Expect more' – indicating that the brand offers more in the way of desirable product features and benefits at a competitive price. Chill Beverage is taking advantage of its existing experience and brand equity among its loyal current customer base of Millennials who consume its Chill Soda soft drink. NutriWater will target similar Millennials who are maturing and looking for an alternative to soft drinks and high-calorie sugared beverages.

The primary marketing objective is to achieve first-year US sales of €50 million, roughly 2 per cent of the functional water market. Based on this market share goal, the company expects to sell more than 26 million units the first year and break even in the final quarter of the year.

Current marketing situation

The Chill Beverage Company – founded in 2010 – markets niche and emerging products in the beverage industry. Rather than directly challenging established beverage giants like the Coca-Cola Company and PepsiCo, the Chill Beverage Company has focused on the fringes of the industry. Its Chill Soda soft drink brand hit the market with six unique flavours in glass bottles. The company now markets dozens of Chill Soda flavours, many unique to the brand. Over the past few years, Chill has successfully introduced new lines including energy drinks, natural juice drinks and iced teas. Chill Beverage has grown its business every year since it was founded. In the most recent year, it achieved €230 million in revenue and net profits of €18.6 million. As part of its future growth strategy, Chill Beverage has plans to introduce new lines of beverages to continue to take advantage of emerging trends in the industry. Currently, it is preparing to launch a line of vitamin-enhanced waters in the very competitive US market.

For years, US consumers have imbibed more carbonated soft drinks than any other bottled beverage. But concerns over health and obesity have taken the fizz out of the soda market – sales have declined for the past 11 years in a row. Meanwhile, bottled water consumption is on a growth trajectory that shows no sign of slowing down. Currently, the average person in the United States consumes more than 36.5 gallons of bottled water every year (compared with 42 gallons for carbonated soft drinks), a 7 per cent year-over-year increase and more than double the figure just 15 years ago. A €15 billion market, bottled water sales in the US are expected to increase by 35 per cent over the next four years. Already ahead of milk, beer and coffee, experts predict that bottled water sales will surpass carbonated soft drink sales within the next year.

Competition is more intense now than ever as the industry consolidates and new types of bottled water emerge. The US market is dominated by three global corporations. With a global portfolio of more than 50 brands (including Poland Spring, Nestlé Pure Life, Arrowhead, Deer Park and Ice Mountain), Nestlé leads the market for 'plain' bottled water. However, when all subcategories of bottled water are included (sparkling, functional water, flavoured water and so on), Coca-Cola leads the US market with a 22.9 per cent share. Nestlé is number two at 21.5 per cent of the total bottled water market followed by PepsiCo with 16.2 per cent.

While bottled water as a whole is strong, the market for the subcategory of functional waters is even stronger, growing by 12 per cent for the most recent year. In the current market environment, functional waters have thrived based on the promise of incremental benefits for health-conscious consumers, based on the infusion of ingredients such as vitamins, minerals (including electrolytes), herbs and other additives. Functional waters, therefore, carry the standard benefits of taste and convenience with an increased appeal to lifestyle and well-being. Most functional waters are sweetened and flavoured, and are distinguished from sports drinks that have the primary purpose of maximising hydration by replenishing electrolytes.

To break into this market, dominated by huge global corporations and littered with dozens of other small players, Chill Beverage must carefully target specific segments with features and benefits valued by those segments.

Market description

The bottled water market consists of many different types of water. Varieties of plain water include spring, purified, mineral and distilled. Although these different types of water are sold as consumer products, they also serve as the core ingredient for the various types of functional waters. The flexibility of bottled water as a category seems to be endless.

Although some consumers may not perceive much of a difference between brands, others are drawn to specific product features and benefits provided by different brands. For example, some consumers may perceive spring water as healthier than other types of water. Some may look for water that is optimised for hydration. Others seek additional nutritional benefits claimed by bottlers that enhance their brands with vitamins, minerals, herbs and other additives. Still other consumers make selections based on flavour. The industry as a whole has positioned bottled water of all kinds as a low-calorie, healthy alternative to soft drinks, sports drinks, energy drinks and other types of beverages.

Bottled water brands also distinguish themselves by size and type of container, multipacks and refrigeration at point of sale. Chill Beverage's market for NutriWater consists of consumers of single-serving-sized bottled beverages who are looking for a healthy yet flavourful alternative. *Healthy* in this context means both low-calorie and enhanced nutritional content. This market includes traditional soft drink consumers who want to improve their health as well as non-soft drink consumers who want an option other than plain bottled water. Specific segments that Chill Beverage will target during the first year include athletes, the health conscious, the socially responsible and Millennials who favour independent corporations. The Chill Soda brand has established a strong base of loyal customers, primarily among Millennials. This generational segment is becoming a prime target as it matures and seeks alternatives to full-calorie soft drinks. Table A1.1 shows how NutriWater addresses the needs of targeted consumer segments.

Product review

Chill Beverage's new line of NutriWater vitamin-enhanced water offers the following features:

- Six new-age flavours: peach mango, berry pomegranate, kiwi dragonfruit, mandarin orange, blueberry grape and Key lime.
- Single-serving size, 20-ounce, PET-recyclable bottles.
- Formulated for wellness, replenishment and optimum energy.
- Full recommended daily allowance (RDA) of essential vitamins and minerals (including electrolytes).
- Higher vitamin concentration – vitamin levels are 2 to 10 times higher than market-leading products, with more vitamins and minerals than any other brand.
- Additional vitamins – vitamins include A, E, and B2 as well as folic acid – none of which are contained in the market-leading products.
- All natural – no artificial flavours, colours or preservatives.
- Sweetened with pure cane sugar and Stevia, a natural zero-calorie sweetener.
- 25 cents from each purchase will be donated to Vitamin Angels, a non-profit organisation with a mission to prevent vitamin deficiency in at-risk children.

Table A1.1 Segment needs and corresponding features/benefits of NutriWater

Targeted segment	Customer need	Corresponding features/benefits
Athletes	• Hydration and replenishment of essential minerals • Energy to maximise performance	• Electrolytes and carbohydrates • B vitamins, carbohydrates
Health conscious	• Maintain optimum weight • Optimise nutrition levels • Avoid harmful chemicals and additives • Desire to consume a tastier beverage than water	• Half the calories of fully sugared beverages • Higher levels of vitamins A, B, C, E, zinc, chromium and folic acid than other products; vitamins unavailable in other products • All-natural ingredients • Six new-age flavours
Socially conscious	• Support causes that help solve the world's social problems	• 25-cent donation from each purchase to Vitamin Angels
Millennials	• Aversion to mass-media advertising/ technologically savvy • Counterculture attitude • Diet enhancement due to fast-paced lifestyle	• Less-invasive online and social networking promotional tactics • Small, privately held company • Full RDA levels of essential vitamins and minerals

Competitive review

As sales of bottled waters entered a strong growth phase in the 1990s, the category began to expand. In addition to the various types of plain water, new categories emerged. These included flavoured waters – such as Aquafina's Flavorsplash – as well as functional waters. Functional waters emerged to bridge the gap between soft drinks and waters, appealing to people who knew they should drink more water and fewer soft drinks but still wanted flavour. Initially, development of brands for this product variation occurred in start-up and boutique beverage companies like SoBe and Glacéau, creator of Vitaminwater. In the 2000s, major beverage corporations acquired the most successful smaller brands, providing the bigger firms with a solid market position in this category and diversification in bottled waters in general. Backed by the marketing expertise and budgets of the leading beverage companies, functional water grew at a rate exceeding that of plain water.

At one point, Coca-Cola's Vitaminwater was the fourth-largest bottled water brand, behind Nestlé Pure Life, Coca-Cola's Dasani and Pepsi's Aquafina. After taking a hit in the press for the low amounts of vitamins and high amount of sugar contained in most brands of vitamin-enhanced waters, sales for vitamin water brands temporarily slipped. But Coca-Cola lost no ground as sales for Smartwater – Vitaminwater's non-flavoured sibling – rose to the fourth-largest brand. Currently, functional water sales account for approximately 20 per cent of the total bottled water market, and industry insiders expect sales to outpace non-functional waters in the coming years.

The fragmentation of this category, combined with domination by the market leaders, has created a severely competitive environment. Although there is indirect competition posed by all types of bottled waters and even other types of beverages (soft drinks, energy drinks, juices, teas and flavour drops), this competitive analysis focuses on direct competition from leading functional water brands. Functional water brands are either sweetened and flavoured, just flavoured, or neither sweetened nor flavoured. Sweetened varieties blend traditional sugars with zero-calorie sweeteners. The types of sweeteners used create a point of differentiation. The result is a range of sugar content, carbohydrates and calories as high as half that of regular soft drinks and other sweetened beverages, and as low as zero.

Pricing for this product is consistent across brands and varies by type of retail outlet, with convenience stores typically charging more than grocery stores. The price for a 20-ounce bottle ranges from €1.00 to €1.89, with some niche brands costing slightly more. While Smartwater is the leading functional water brand, it is a plain still water enhanced with electrolytes. Chill Beverage's NutriWater will focus on competition posed by flavoured and enhanced water brands, include the following:

- *Vitaminwater*: Created in 2000 as a new product for Energy Brands' Glacéau, which was also the developer of Smartwater (distilled water with electrolytes). Coca-Cola purchased Energy Brands for €4.1 billion in 2007. Vitaminwater is sold in regular and zero-calorie versions. With 18 bottled varieties – 9 regular and 9 zero-calorie – as well as availability in fountain form and drops, Vitaminwater offers more options than any brand on the market. Whereas Vitaminwater varieties are distinguished by flavour, they are named to invoke perceptions of benefits such as Refresh, Power-C, Focus and Revive. The brand's current slogan is 'Hydrate the Hustle'. Vitaminwater is vapour distilled, de-ionised and/or filtered, and is sweetened with crystalline fructose (corn syrup) and cane sugar or erythritol and stevia. Vitaminwater exceeds €700 million in annual sales and commands 34 per cent of the functional water market.
- *Propel*: Gatorade created Propel in 2000, just one year prior to PepsiCo's purchase of this leading sports drink marketer. Marketed as 'The Workout Water', Propel was originally available in regular and zero-calorie varieties. However, it is now available only as a zero-calorie beverage. Propel comes in 10 varieties, each containing the same blend of B vitamins, vitamin C, vitamin E, antioxidants and electrolytes. It is sweetened with sucralose. Propel is available in a wide variety of sizes, with 16.9-, 20- and 24-ounce PET bottles and multipacks. Propel is also marketed in powder form and as a liquid enhancer to be added to bottled water. With €183 million in revenues, Propel is the number-three functional water brand with approximately 9 per cent of the functional water market.

- *SoBe Lifewater*: PepsiCo bought SoBe in 2000. SoBe introduced Lifewater in 2008 with a hit Super Bowl ad as an answer to Coca-Cola's Vitaminwater. The Lifewater line includes six zero-calorie varieties. Each variety is infused with a formulation of vitamins, minerals and herbs designed to provide a claimed benefit. Sweetened with Stevia-based PureVia, Lifewater makes the claim to be 'all natural'. It contains no artificial flavours or colours. Lifewater is sold in 20-ounce PET bottles and multipacks. With €144 million in annual revenues, Lifewater is the fourth-largest functional water brand with a 7 per cent share.
- *Niche brands*: The market for functional waters includes companies that market their wares on a small scale through independent retailers: Assure, Ex Aqua Vitamins, Ayala Herbal Water and Skinny Water. Some brands feature exotic additives and/or artistic glass bottles.

Despite the strong competition, NutriWater believes it can create a relevant brand image and gain recognition among the targeted segments. The brand offers strong points of differentiation with higher and unique vitamin content, all-natural ingredients and support for a relevant social cause. With other strategic assets, Chill Beverage is confident that it can establish a competitive advantage that will allow NutriWater to grow in the market. Table A1.2 shows a sample of competing products.

Channels and logistics review

With the three main brands now owned by Coca-Cola and PepsiCo, there is a huge hole in the independent distributor system. NutriWater will be distributed through an independent distributor to a network of retailers in the United States. This strategy will avoid some of the head-on competition for shelf space with the Coca-Cola and PepsiCo brands and will also directly target likely NutriWater customers. As with the rollout of the core Chill Soda brand, this strategy will focus on placing coolers in retail locations that will exclusively hold NutriWater. These retailers include:

- *Grocery chains*: Regional grocery chains such as HyVee in the Midwest, Wegman's in the East and WinCo in the West.
- *Health and natural food stores:* Chains such as Whole Foods as well as local health food co-ops.
- *Fitness centres*: National fitness centre chains such as 24 Hour Fitness, Gold's Gym and other regional chains.

As the brand gains acceptance, channels will expand into larger grocery chains, convenience stores and unique locations relevant to the target customer segment.

Table A1.2 Sample of competing products

Competitor	Brand	Features
Coca-Cola	Vitaminwater	Regular and zero-calorie versions; 18 varieties; each flavour provides a different function based on blend of vitamins and minerals; vapour distilled, de-ionised and/or filtered; sweetened with crystalline fructose and cane sugar; 20-ounce single-serve or multipack, fountain and drops.
PepsiCo	Propel	Zero-calorie only; 10 flavours; fitness positioning based on 'Replenish + Energise + Protect'; B vitamins, vitamin C, vitamin E, antioxidants and electrolytes; sweetened with sucralose; 16.9-ounce, 20-ounce and 24-ounce PET bottles and multipacks; powdered packets; liquid enhancer.
PepsiCo	SoBe Lifewater	Six zero-calorie versions; vitamins, minerals and herbs; Pure – mildly flavoured, sweetened with Stevia; 'all natural'; 20-ounce single-serve and multipacks.

Strengths, weaknesses, opportunities and threat analysis

NutriWater has several powerful strengths on which to build, but its major weakness is lack of brand awareness and image. Major opportunities include a growing market and consumer trends targeted by NutriWater's product traits. Threats include barriers to entry posed by limited retail space, as well as image issues for the bottled water industry. Table A1.3 summarises NutriWater's main strengths, weaknesses, opportunities and threats.

Table A1.3 NutriWater's strengths, weaknesses, opportunities and threats

Strengths	Weaknesses
• Superior quality • Expertise in alternative beverage marketing • Social responsibility • Antiestablishment image	• Lack of brand awareness • Limited budget
Opportunities	**Threats**
• Market growth • Gap in the distribution network • Health trends • Anti-establishment image	• Limited shelf space • Image of enhanced waters • Environmental issues

Strengths

NutriWater can rely on the following important strengths:

1. *Superior quality*: NutriWater boasts the highest levels of added vitamins of any enhanced water, including full RDA levels of many vitamins. It is all natural with no artificial flavours, colours or preservatives. It is sweetened with both pure cane sugar and the natural zero-calorie sweetener Stevia.
2. *Expertise in alternative beverage marketing*: The Chill Soda brand went from nothing to a successful and rapidly growing soft drink brand with fiercely loyal customers in less than a decade. This success was achieved by starting small and focusing on gaps in the marketplace.
3. *Social responsibility*: Every customer will have the added benefit of helping malnourished children throughout the world. Although the price of NutriWater is in line with other competitors, low promotional costs allow for the substantial charitable donation of 25 cents per bottle while maintaining profitability.
4. *Anti-establishment image*: The big brands have decent products and strong distribution relationships. But they also carry the image of the large, corporate establishments. Chill Beverage has achieved success with an underdog image while remaining privately held. Vitaminwater, Propel and SoBe were built on this same image but are now owned by major multinational corporations.

Weaknesses

1. *Lack of brand awareness*: As an entirely new brand, NutriWater will enter the market with limited or no brand awareness. The affiliation with Chill Soda will be kept at a minimum in order to prevent associations between NutriWater and soft drinks. This issue will be addressed through promotion and distribution strategies.
2. *Limited budget*: As a smaller company, Chill Beverage has much smaller funds available for promotional and research activities.

Opportunities

1. *Market growth*: Functional water as a category is growing at a rate of about 12 per cent annually. Of the top six beverage categories, soft drinks, beer, milk and fruit drinks experienced declines. The growth for coffee was less than 1 per cent.
2. *Gap in the distribution network*: The market leaders distribute directly to retailers. This gives them an advantage in large national chains. However, no major enhanced water brands are currently being sold through independent distributors.
3. *Health trends*: Weight and nutrition continue to be issues for consumers in the United States. The country has the highest obesity rate for developed countries at 34 per cent, with well over 60 per cent of the population officially 'overweight'. Those numbers continue to rise. Additionally, Americans get 21 per cent of their daily calories from beverages, a number that has tripled in the past three decades. Consumers still desire flavoured beverages but look for lower-calorie alternatives.
4. *Anti-establishment image*: Millennials (born between 1977 and 2000) maintain a higher aversion to mass marketing messages and global corporations than do Gen Xers and baby boomers.

Threats

1. *Limited shelf space*: Whereas competition is generally a threat for any type of product, competition in retail beverages is particularly high because of limited retail space. Carrying a new beverage product requires retailers to reduce shelf or cooler space already occupied by other brands.
2. *Image of enhanced waters*: The image of enhanced waters took a hit as Coca-Cola recently fought a class-action lawsuit accusing it of violating FDA regulations by promoting the health benefits of Vitaminwater. The lawsuit exposed the number-one functional water brand as basically sugar water with minimal nutritional value. Each of the major brands is strengthening its zero-calorie lines. They no longer promote health benefits on the labels. While this is potentially a threat, it is also an opportunity for Chill to exploit.
3. *Environmental issues*: Environmental groups continue to educate the public on the environmental costs of bottled water, including landfill waste, carbon emissions from production and transportation, and harmful effects of chemicals in plastics.

Objectives and issues

Chill Beverage has set aggressive but achievable objectives for NutriWater for the first and second years of market entry.

First-year objectives

During the initial year on the market, Chill Beverage aims for NutriWater to achieve a 2 per cent share of the functional water market, or approximately €50 million in sales, with break-even achieved in the final quarter of the year. With an average retail price of €1.89, that equates with a sales goal of 26,455,026 bottles.

Second-year objectives

During the second year, Chill Beverage will unveil additional NutriWater flavours, including zero-calorie varieties. The second-year objective is to double sales from the first year, to €100 million.

Issues

In launching this new brand, the main issue is the ability to establish brand awareness and a meaningful brand image based on positioning that is relevant to target customer segments. Chill Beverage will invest in non-traditional means of promotion to accomplish these goals and to spark word of mouth. Establishing distributor and retailer relationships will also be critical in order to make the product available and provide point-of-purchase communications. Brand awareness and knowledge will be measured in order to adjust marketing efforts as necessary.

Marketing strategy

NutriWater's marketing strategy will involve developing a 'more for the same' positioning based on extra benefits for the price. The brand will also establish channel differentiation, as it will be available in locations where major competing brands are not. NutriWater will focus on a primary target segment of Millennials, specifically young adults aged 16 to 39. Subsets of this generational segment include athletes, the health conscious and the socially responsible.

Positioning

NutriWater will be positioned on an 'Expect more' value proposition. This will allow for differentiating the brand based on product features (expect more vitamin content and all-natural ingredients), desirable benefits (expect greater nutritional benefits), and values (do more for a social cause). Marketing will focus on conveying that NutriWater is more than just a beverage: It gives customers much more for their money in a variety of ways.

Product strategy

NutriWater will be sold with all the features described in the Product review section. As awareness takes hold and retail availability increases, more varieties will be made available. A zero-calorie version will be added to the product line, providing a solid fit with the health benefits sought by consumers. Chill Beverage's considerable experience in brand building will be applied as an integral part of the product strategy for NutriWater. All aspects of the marketing mix will be consistent with the brand.

Pricing

There is little price variation in the enhanced waters category, particularly among leading brands. For this reason, NutriWater will follow a competition-based pricing strategy. Given that NutriWater claims superior quality, it must be careful not to position itself as a lower-cost alternative. Manufacturers do not quote list prices on this type of beverage, and prices vary considerably based on type of retail outlet and whether the product is refrigerated. Regular prices for single 20-ounce bottles of competing products are as low as €1.00 in discount-retailer stores and as high as €1.89 in convenience stores. Because NutriWater will not be targeting discount retailers and convenience stores initially, this will allow Chill Beverage to set prices at the average to higher end of the range for similar products in the same outlets. For grocery chains, this should be approximately €1.59 per bottle, with that price rising to €1.99 at health food stores and fitness centres, where prices tend to be higher.

Distribution strategy

NutriWater will employ a selective distribution strategy with well-known regional grocers, health and natural food stores, and fitness centres. This distribution strategy will be executed through a network of independent beverage distributors, as there are no other major brands of enhanced water following this strategy. Chill Beverage gained success for its core Chill Soda soft drink line using this method. It also placed coolers with the brand logo in truly unique venues such as skate, surf and snowboarding shops; tattoo and piercing parlours; fashion stores; and music stores – places that would expose the brand to target customers. Then the soft drink brand expanded by getting contracts with retailers such as Panera, Barnes & Noble, Target and Starbucks. This same approach will be taken with NutriWater by starting small, then expanding into larger chains. NutriWater will not target all the same stores used originally by Chill Soda, as many of those outlets were unique to the positioning and target customer for the Chill Soda soft drink brand.

Marketing communication strategy

As with the core Chill Soda brand, the marketing communication strategy for NutriWater will not follow a strategy based on traditional mass-communication advertising. Initially, there will be no broadcast or print advertising. Promotional resources for NutriWater will focus on three areas:

- *Online and mobile marketing*: The typical target customer for NutriWater spends more time online than with traditional media channels. A core component for this strategy will be building web and mobile brand sites and driving traffic to those sites by creating a presence on social networks, including Facebook, Twitter, Instagram and Snapchat. The NutriWater brand will also incorporate location-based services by Foursquare and Facebook to help drive traffic to retail locations. A mobile phone ad campaign will provide additional support to the online efforts.
- *Trade promotions*: Like the core Chill Soda brand, NutriWater's success will rely on relationships with retailers to create product availability. Primary incentives to retailers will include point-of-purchase displays, branded coolers, and volume incentives and contests. This push marketing strategy will combine with the other pull strategies.
- *Event marketing*: NutriWater will deploy teams in brand-labelled RVs to distribute product samples at events such as skiing and snowboarding competitions, golf tournaments and concerts.

Marketing research

To remain consistent with the online promotional approach, as well as using research methods that will effectively reach target customers, Chill Beverage will monitor online discussions. In this manner, the company will gauge customer perceptions of the brand, the products and general satisfaction. For future development of the product and new distribution outlets, crowdsourcing methods will be utilised.

Action programmes

NutriWater will be introduced in February. The following are summaries of action programmes that will be used during the first six months of the year to achieve the stated objectives.

- *January*: Chill Beverage representatives will work with both independent distributors and retailers to educate them on the trade promotional campaign, incentives and advantages for selling NutriWater. Representatives will also ensure that distributors and retailers are educated on product features and benefits as well as instructions for displaying point-of-purchase materials and coolers. The brand website and other sites such as Facebook will present teaser information about the product as well as availability dates and locations. Buzz will be enhanced by providing product samples to selected product reviewers, opinion leaders, influential bloggers and celebrities.
- *February*: On the date of availability, product coolers and point-of-purchase displays will be placed in retail locations. The full brand website and social network campaign will launch

with full efforts on Facebook, Twitter, Instagram and Snapchat. This campaign will drive the 'Expect more' slogan as well as illustrate the ways that NutriWater delivers more than expected on product features, desirable benefits and values by donating to Vitamin Angels and the social cause of battling vitamin deficiency in children.

- *March*: To enhance the online and social marketing campaign, location-based services Foursquare and Facebook Location Services will be employed to drive traffic to retailers. Point-of-purchase displays and signage will be updated to support these efforts and to continue supporting retailers. The message of this campaign will focus on all aspects of 'Expect more'.
- *April*: A mobile ad campaign will provide additional support, driving traffic to the brand website and social network sites as well as driving traffic to retailers.
- *May*: A trade sales contest will offer additional incentives and prizes to the distributors and retailers that sell the most NutriWater during a four-week period.
- *June*: An event marketing campaign will mobilise a team of NutriWater representatives in NutriWater RVs to concerts and sports events. This will provide additional visibility for the brand as well as giving customers and potential customers the opportunity to sample products.

Budgets

Chill Beverage has set a first-year retail sales goal of €50 million with a projected average retail price of €1.89 per unit for a total of 26,455,026 units sold. With an average wholesale price of 95 cents per unit, this provides revenues of €25.1 million. Chill Beverage expects to break even during the final quarter of the first year. A break-even analysis assumes per-unit wholesale revenue of 95 cents per unit, a variable cost per unit of 22 cents, and estimated first-year fixed costs of €12,500,000. Based on these assumptions, the break-even calculation is:

$$\frac{€12{,}500{,}000}{€0.95/\text{unit} - €0.22/\text{unit}} = 17{,}123{,}287$$

Controls

Chill Beverage is planning tight control measures to closely monitor product quality, brand awareness, brand image and customer satisfaction. This will enable the company to react quickly in correcting any problems that may occur. Other early warning signals that will be monitored for signs of deviation from the plan include monthly sales (by segment and channel) and monthly expenses. Given the market's volatility, contingency plans are also in place to address fast-moving environmental changes such as shifting consumer preferences, new products and new competition.

Sources: Hadley Malcolm, 'Bottled water about to beat soda as most consumed beverage', *USA Today*, 8 June 2016, www.usatoday.com/story/money/2016/06/08/americans-cut-calories-drinking-more-bottled-water/85554612/; Elizabeth Crawford, 'Functional and sparkling bottled water sales are "Very Hot in the US", analyst says', *Food Navigator-USA*, 23 May 2016, www.foodnavigator-usa.com/Manufacturers/Functional-sparking-bottled-water-sales-are-very-hot-in-the-US; 'Channel Check', *Bevnet*, June 2016, p. 26; '2016 state of the industry: bottled water market has potential to surpass CSDs', *Beverage Industry*, 11 July 2016, www.bevindustry.com/articles/89424-state-of-the-industry-bottled-water-market-has-potential-to-surpass-csds; 'U.S. bottled water market grows by 6.4 percent in 2015', *Beverage Industry*, 26 February 2016, www.bevindustry.com/articles/89123-us-bottled-water-market-grows-64-percent-in-2015; and product and market information obtained from www.sobe.com, www.vitaminwater.com, www.propelwater.com, and www.nestle-waters.com, accessed May 2019.

Appendix 2
Marketing by numbers

Marketing managers are facing increased accountability for the financial implications of their actions. This appendix provides a basic introduction to measuring marketing financial performance. Such financial analysis guides marketers in making sound marketing decisions and in assessing the outcomes of those decisions.

The appendix is built around a hypothetical manufacturer of consumer electronics products – Mills&Tabs. The company is introducing a device that plays videos and television programming streamed over the internet on multiple devices in a home, including high-definition televisions, tablets and mobile phones. In this appendix, we will analyse the various decisions Mills&Tabs's marketing managers must make before and after the new-product launch.

The appendix is organised into *three sections*. The *first section* introduces pricing, break-even and margin analysis assessments that will guide the introduction of Mills&Tabs's new product. The *second section* discusses demand estimates, the marketing budget and marketing performance measures. It begins with a discussion of estimating market potential and company sales. It then introduces the marketing budget, as illustrated through a *pro forma* profit-and-loss statement followed by the actual profit-and-loss statement. Next, we discuss marketing performance measures, with a focus on helping marketing managers to better defend their decisions from a financial perspective. In the *third section*, we analyse the financial implications of various marketing tactics.

Each of the three sections ends with a set of quantitative exercises that provide you with an opportunity to apply the concepts you learned to situations beyond Mills&Tabs.

Pricing, break-even and margin analysis

Pricing considerations

Determining price is one of the most important marketing-mix decisions. The limiting factors are demand and costs. Demand factors, such as buyer-perceived value, set the price ceiling. The company's costs set the price floor. In between these two factors, marketers must consider competitors' prices and other factors such as reseller requirements, government regulations and company objectives.

Most current competing internet streaming products sell at retail prices between €100 and €500. We first consider Mills&Tabs's pricing decision from a cost perspective. Then, we consider consumer value, the competitive environment and reseller requirements.

Determining Costs

Fixed costs Costs that do not vary with production or sales level.

Recall from Chapter 10 that there are different types of costs. **Fixed costs** do not vary with production or sales level and include costs such as rent, interest, depreciation, and clerical and management salaries. Regardless of the level of output, the company must pay these costs. Whereas total fixed costs remain constant as output increases, the fixed cost per unit (or average fixed cost) will decrease as output increases because the total fixed costs are spread across more units of output. **Variable costs** vary directly with the level of production and include costs related to the direct production of the product (such as costs of goods sold – COGS) and many of the marketing costs associated with selling it. Although these costs tend to be uniform for each unit produced, they are called variable because their total varies with the number of units produced. **Total costs** are the sum of the fixed and variable costs for any given level of production.

Variable costs Costs that vary directly with the level of production.

Total costs The sum of the fixed and variable costs for any given level of production.

Mills&Tabs has invested €10 million in refurbishing an existing facility to manufacture the new video streaming product. Once production begins, the company estimates that it will incur fixed costs of €20 million per year. The variable cost to produce each device is estimated to be €125 and is expected to remain at that level for the output capacity of the facility.

Setting price based on costs

Mills&Tabs starts with the cost-based approach to pricing discussed in Chapter 10. Recall that the simplest method, **cost-plus pricing** (or **mark-up pricing**), simply adds a standard mark-up to the cost of the product. To use this method, however, Mills&Tabs must specify expected unit sales so that total unit costs can be determined. Unit variable costs will remain constant regardless of the output, but *average unit fixed costs* will decrease as output increases.

Cost-plus pricing (or mark-up pricing) A standard markup to the cost of the product.

To illustrate this method, suppose Mills&Tabs has fixed costs of €20 million and variable costs of €125 per unit, and expects unit sales of 1 million players. Thus, the cost per unit is given by:

$$\text{Unit cost} = \text{variable cost} + \frac{\text{fixed costs}}{\text{unit sales}} = €125 + \frac{€20{,}000{,}000}{1{,}000{,}000} = €145$$

Note that we do *not* include the initial investment of €10 million in the total fixed cost figure. It is not considered a fixed cost because it is not a *relevant* cost. **Relevant costs** are those that will occur in the future and that will vary across the alternatives being considered. Mills&Tabs's investment to refurbish the manufacturing facility was a one-time cost that will not reoccur in the future. Such past costs are *sunk costs* and should not be considered in future analyses.

Relevant costs Costs that will occur in the future and that will vary across the alternatives being considered.

Also notice that if Mills&Tabs sells its product for €145, the price is equal to the total cost per unit. This is the **break-even price** – the price at which unit revenue (price) equals unit cost and profit is zero.

Break-even price The price at which total revenue equals total cost and profit is zero.

Suppose Mills&Tabs does not want to merely break even but rather wants to earn a 25 per cent mark-up on sales. Mills&Tabs's mark-up price is:[1]

$$\text{Mark-up price} = \frac{\text{unit cost}}{(1 - \text{desired return on sales})} = \frac{€145}{1 - 0.25} = €193.33$$

This is the price at which Mills&Tabs would sell the product to resellers such as wholesalers or retailers to earn a 25 per cent profit on sales.

Another approach Mills&Tabs could use is called **return on investment (ROI) pricing** (or **target-return pricing**). In this case, the company *would* consider the initial €10 million investment, but only to determine the euro profit goal. Suppose the company wants a 30 per cent return on its investment. The price necessary to satisfy this requirement can be determined by:

Return on investment (ROI) pricing (or target-return pricing) A cost-based pricing method that determines price based on a specified rate of return on investment.

$$\text{ROI price} = \text{unit cost} + \frac{\text{ROI} \times \text{investment}}{\text{unit sales}} = €145 + \frac{0.3 \times €10{,}000{,}000}{1{,}000{,}000} = €148$$

That is, if Mills&Tabs sells its product for €148, it will realise a 30 per cent return on its initial investment of €10 million.

In these pricing calculations, unit cost is a function of the expected sales, which were estimated to be 1 million units. But what if actual sales were lower? Then the unit cost would be higher because the fixed costs would be spread over fewer units, and the realised percentage mark-up on sales or ROI would be lower. Alternatively, if sales are higher than the estimated 1 million units, unit cost would be lower than €145, so a lower price would produce the desired mark-up on sales or ROI. It's important to note that these cost-based pricing methods are *internally* focused and do not consider demand, competitors' prices or reseller requirements.

Because Mills&Tabs will be selling this product to consumers through wholesalers and retailers offering competing brands, the company must consider mark-up pricing from this perspective.

Setting price based on external factors

Whereas costs determine the price floor, Mills&Tabs also must consider external factors when setting price. Mills&Tabs does not have the final say concerning the final price of its product to consumers – retailers do. So, it must start with its suggested retail price and work back. In doing so, Mills&Tabs must consider the mark-ups required by resellers that sell the product to consumers.

Mark-up The difference between a company's selling price for a product and its cost to manufacture or purchase it.

In general, a **mark-up** is the difference between a company's selling price for a product and its cost to manufacture or purchase it. For a retailer, then, the mark-up is the difference between the price it charges consumers and the cost the retailer must pay for the product. Thus, for any level of reseller:

$$\text{Euro mark-up} = \text{selling price} - \text{cost}$$

Mark-ups are usually expressed as a percentage, and there are two different ways to compute mark-ups – on *cost* or on *selling price*:

$$\text{Mark-up percentage on cost} = \frac{\text{euro mark-up}}{\text{cost}}$$

$$\text{Mark-up percentage on selling price} = \frac{\text{euro mark-up}}{\text{selling price}}$$

To apply reseller margin analysis, Mills&Tabs must first set the suggested retail price and then work back to the price at which it must sell the product to a wholesaler. Suppose retailers expect a 30 per cent margin and wholesalers want a 20 per cent margin based on their respective selling prices. And suppose that Mills&Tabs sets a manufacturer's suggested retail price (MSRP) of €299.99 for its product.

Mills&Tabs selected the €299.99 MSRP because it is lower than most competitors' prices but is not so low that consumers might perceive it to be of poor quality. And the company's research shows that it is below the threshold at which more consumers are willing to purchase the product. By using buyers' perceptions of value and not the seller's cost to determine the MSRP, Mills&Tabs is using **value-based pricing**. For simplicity, we will use an MSRP of €300 in further analyses.

Value-based pricing Offering just the right combination of quality and good service at a fair price.

Mark-up chain The sequence of mark-ups used by firms at each level in a channel.

To determine the price Mills&Tabs will charge wholesalers, we must first subtract the retailer's margin from the retail price to determine the retailer's cost (€300 − (€300 × 0.30) = €210). The retailer's cost is the wholesaler's price, so Mills&Tabs next subtracts the wholesaler's margin (€210 − (€210 × 0.20) = €168). Thus, the **mark-up chain** representing the sequence of mark-ups used by firms at each level in a channel for Mills&Tabs's new product is:

Suggested retail price:	€300
minus retail margin (30%):	−€90
Retailer's cost/wholesaler's price:	€210
minus wholesaler's margin (20%):	−€42
Wholesaler's cost/Mills&Tabs's price:	€168

By deducting the mark-ups for each level in the mark-up chain, Mills&Tabs arrives at a price for the product to wholesalers of €168.

Break-even and margin analysis

The previous analyses derived a value-based price of €168 for Mills&Tabs's product. Although this price is higher than the break-even price of €145 and covers costs, that price assumed a demand of 1 million units. But how many units and what level of euro sales must Mills&Tabs

achieve to break even at the €168 price? And what level of sales must be achieved to realise various profit goals? These questions can be answered through break-even and margin analysis.

Determining break-even unit volume and dollar sales

Based on an understanding of costs, consumer value, the competitive environment and reseller requirements, Mills&Tabs has decided to set its price to wholesalers at €168. At that price, what sales level will be needed for Mills&Tabs to break even or make a profit on its product? **Break-even analysis** determines the unit volume and euro sales needed to be profitable given a particular price and cost structure. At the break-even point, total revenue equals total costs and profit is zero. Above this point, the company will make a profit; below it, the company will lose money. Mills&Tabs can calculate break-even volume using the following formula:

Break-even analysis Analysis to determine the unit volume and euro sales needed to be profitable given a particular price and cost structure.

$$\text{Break-even volume} = \frac{\text{fixed costs}}{\text{price} - \text{unit variable cost}}$$

The denominator (price – unit variable cost) is called **unit contribution** (sometimes called contribution margin). It represents the amount that each unit contributes to covering fixed costs. Break-even volume represents the level of output at which all (variable and fixed) costs are covered. In Mills&Tabs's case, break-even unit volume is:

Unit contribution The amount that each unit contributes to covering fixed costs – the difference between price and variable costs.

$$\text{Break-even volume} = \frac{\text{fixed costs}}{\text{price} - \text{variable cost}} = \frac{€20{,}000{,}000}{€168 - €125} = 465{,}116.2 \text{ units}$$

Thus, at the given cost and pricing structure, Mills&Tabs will break even at 465,117 units.

To determine the break-even euro sales, simply multiply unit break-even volume by the selling price:

$$\text{BE sales} = \text{BE}_{\text{vol}} \times \text{price} = 465{,}117 \times €168 = €78{,}139{,}656$$

Another way to calculate euro break-even sales is to use the percentage contribution margin (hereafter referred to as **contribution margin**), which is the unit contribution divided by the selling price:

Contribution margin The unit contribution divided by the selling price.

$$\text{Contribution margin} = \frac{\text{price} - \text{variable costs}}{\text{price}} = \frac{€168 - €125}{€168} = 0.256 \text{ or } 25.6\%$$

Then,

$$\text{Break-even sales} = \frac{\text{fixed costs}}{\text{contribution margin}} = \frac{€20{,}00{,}000}{0.256} = €78{,}125{,}000$$

Note that the difference between the two break-even sales calculations is due to rounding.

Such break-even analysis helps Mills&Tabs by showing the unit volume needed to cover costs. If production capacity cannot attain this level of output, then the company should not launch this product. However, the unit break-even volume is well within Mills&Tabs's capacity. Of course, the bigger question concerns whether Mills&Tabs can sell this volume at the €168 price. We'll address that issue a little later.

Understanding contribution margin is useful in other types of analyses as well, particularly if unit prices and unit variable costs are unknown or if a company (say, a retailer) sells many products at different prices and knows the percentage of total sales variable costs represent. Whereas unit contribution is the difference between unit price and unit variable costs, total contribution is the difference between total sales and total variable costs. The overall contribution margin can be calculated by:

$$\text{Contribution margin} = \frac{\text{total sales} - \text{total variable costs}}{\text{total sales}}$$

Regardless of the actual level of sales, if the company knows what percentage of sales is represented by variable costs, it can calculate contribution margin. For example, Mills&Tabs's unit variable cost is €125, or 74 per cent of the selling price (€125 ÷ €168 = 0.74). That means for every €1 of sales revenue for Mills&Tabs, €0.74 represents variable costs, and the difference (€0.26) represents contribution to fixed costs. But even if the company doesn't know its unit price and unit variable cost, it can calculate the contribution margin from total sales and total variable costs or from knowledge of the total cost structure. It can set total sales equal to 100 per cent regardless of the actual absolute amount and determine the contribution margin:

$$\text{Contribution margin} = \frac{100\% - 74\%}{100} = \frac{1 - 0.74}{1} = 1 - 0.74 = 0.26 \text{ or } 26\%$$

Note that this matches the percentage calculated from the unit price and unit variable cost information. This alternative calculation will be very useful later when analysing various marketing decisions.

Determining 'break even' for profit goals

Although it is useful to know the break-even point, most companies are more interested in making a profit. Assume Mills&Tabs would like to realise a €5 million profit in the first year. How many units must it sell at the €168 price to cover fixed costs and produce this profit? To determine this, Mills&Tabs can simply add the profit figure to fixed costs and again divide by the unit contribution to determine unit sales:

$$\text{Unit volume} = \frac{\text{fixed costs} + \text{profit goal}}{\text{price} - \text{variable cost}} = \frac{€20{,}000{,}000 + €5{,}000{,}000}{€168 - €125} = 581{,}395.3 \text{ units}$$

Thus, to earn a €5 million profit, Mills&Tabs must sell 581,396 units. Multiply by the price to determine euro sales needed to achieve a €5 million profit:

$$\text{Euro sales} = 581{,}396 \text{ units} \times €168 = €97{,}674{,}528$$

Or use the contribution margin:

$$\text{Sales} = \frac{\text{fixed costs} + \text{profit goal}}{\text{contribution margin}} = \frac{€20{,}000{,}000 + €5{,}000{,}000}{0.256} = €97{,}656{,}250$$

Again, note that the difference between the two break-even sales calculations is due to rounding. As we saw previously, a profit goal can also be stated as a return on investment goal. For example, recall that Mills&Tabs wants a 30 per cent return on its €10 million investment. Thus, its absolute profit goal is €3 million (€10,000,000 × 0.30). This profit goal is treated the same way as in the previous example:[2]

$$\text{Unit volume} = \frac{\text{fixed costs} + \text{profit goal}}{\text{price} - \text{variable cost}} = \frac{€20{,}000{,}000 + €3{,}000{,}000}{€168 - €125} = 534{,}884 \text{ units}$$

$$\text{Euro sales} = 534{,}884 \text{ units} \times €168 = €89{,}860{,}512$$

Or

$$\text{Euro sales} = \frac{\text{fixed costs} + \text{profit goal}}{\text{contribution margin}} = \frac{€20{,}000{,}000 + €3{,}000{,}000}{0.256} = €89{,}843{,}750$$

Finally, Mills&Tabs can express its profit goal as a percentage of sales, which we also saw in previous pricing analyses. Assume Mills&Tabs desires a 25 per cent return on sales. To determine the unit and sales volume necessary to achieve this goal, the calculation is a little different from the previous two examples. In this case, we incorporate the profit goal into the unit contribution as an additional variable cost. Look at it this way: If 25 per cent of each sale must go toward profits, that leaves only 75 per cent of the selling price to cover fixed costs. Thus, the equation becomes:

$$\text{Unit volume} = \frac{\text{fixed costs}}{\text{price} - \text{variable cost} - (0.25 \times \text{price})} \text{ or } \frac{\text{fixed costs}}{(0.75 \times \text{price}) - \text{variable cost}}$$

So,

$$\text{Unit volume} = \frac{€20{,}000{,}000}{(0.75 \times €168) - €125} = 20{,}000{,}000 \text{ units}$$

$$\text{Euro sales necessary} = 20{,}000{,}000 \text{ units} \times €168 = €3{,}360{,}000{,}000$$

Thus, Mills&Tabs would need more than €3 billion in sales to realise a 25 per cent return on sales given its current price and cost structure! Could it possibly achieve this level of sales? The major point is this: although break-even analysis can be useful in determining the level of sales needed to cover costs or to achieve a stated profit goal, it does not tell the company whether it is *possible* to achieve that level of sales at the specified price. To address this issue, Mills&Tabs needs to estimate demand for this product.

Before moving on, however, let's stop here and practise applying the concepts covered so far. Now that you have seen pricing and break-even concepts in action as they relate to Mills&Tabs's new product, here are several exercises for you to apply what you have learned in other contexts.

Marketing by numbers exercise set 1

Now that you've studied pricing, break-even and margin analysis as they relate to Mills&Tabs's new product launch, use the following exercises to apply these concepts in other contexts.

1.1. Elkins, a manufacturer of ice makers, realises a cost of €250 for every unit it produces. Its total fixed costs equal €5 million. If the company manufactures 500,000 units, compute the following:
(a) unit cost;
(b) mark-up price if the company desires a 10 per cent return on sales;
(c) ROI price if the company desires a 25 per cent return on an investment of €1 million.

1.2. A gift shop owner purchases items to sell in her store. She purchases a chair for €125 and sells it for €275. Determine the following:
(a) euro mark-up;
(b) mark-up percentage on cost;
(c) mark-up percentage on selling price.

1.3. A consumer purchases a coffee maker from a retailer for €90. The retailer's mark-up is 30 per cent, and the wholesaler's mark-up is 10 per cent, both based on selling price. For what price does the manufacturer sell the product to the wholesaler?

1.4. A lawnmower manufacturer has a unit cost of €140 and wishes to achieve a margin of 30 per cent based on selling price. If the manufacturer sells directly to a retailer who then adds a set margin of 40 per cent based on selling price, determine the retail price charged to consumers.

1.5. Advanced Electronics manufactures DVDs and sells them directly to retailers who typically sell them for €20. Retailers take a 40 per cent margin based on the retail selling price. Advanced's cost information is as follows:

DVD package and disc	€2.50/DVD
Royalties	€2.25/DVD
Advertising and promotion	€500,000
Overhead	€200,000

Calculate the following:
(a) Contribution per unit and contribution margin.
(b) Break-even volume in DVD units and euros.
(c) Volume in DVD units and euro sales necessary if Advanced's profit goal is 20 per cent profit on sales.
(d) Net profit if 5 million DVDs are sold.

Demand estimates, the marketing budget and marketing performance measures

Market potential and sales estimates

Mills&Tabs has now calculated the sales needed to break even and to attain various profit goals on its new product. However, the company needs more information regarding demand in order to assess the feasibility of attaining the needed sales levels. This information is also needed for production and other decisions. For example, production schedules need to be developed and marketing tactics need to be planned.

Total market demand The total volume that would be bought by a defined consumer group, in a defined geographic area, in a defined time period, in a defined marketing environment, under a defined level and mix of industry marketing effort.

Market potential The upper limit of market demand.

The **total market demand** for a product or service is the total volume that would be bought by a defined consumer group, in a defined geographic area, in a defined time period, in a defined marketing environment, under a defined level and mix of industry marketing effort. Total market demand is not a fixed number but a function of the stated conditions. For example, next year's total market demand for this type of product will depend on how much other producers spend on marketing their brands. It also depends on many environmental factors, such as government regulations, economic conditions and the level of consumer confidence in a given market. The upper limit of market demand is called **market potential**.

One general but practical method that Mills&Tabs might use for estimating total market demand uses three variables: (1) the number of prospective buyers, (2) the quantity purchased by an average buyer per year and (3) the price of an average unit. Using these numbers, Mills&Tabs can estimate total market demand as follows:

$$Q = n \times q \times p$$

Where

Q = total market demand
n = number of buyers in the market
q = quantity purchased by an average buyer per year
p = price of an average unit

Chain ratio method Estimating market demand by multiplying a base number by a chain of adjusting percentages.

A variation of this approach is the **chain ratio method**. This method involves multiplying a base number by a chain of adjusting percentages. For example, Mills&Tabs's product is designed to stream high-definition video on high-definition televisions (HDTVs) as well as play other video content streamed from the internet to multiple devices in a home. Thus, consumers who do not own a high-definition television will not likely purchase this player. Additionally, only households with broadband internet access will be able to use the product. Finally, not all HDTV-owning internet households will be willing and able to purchase this product. Mills&Tabs can estimate demand using a chain of calculations like the following:

Total number of European households
× the percentage of HDTV-owning European households with broadband internet access
× the percentage of these households willing and able to buy this device

Mills&Tabs's research indicates that 60 per cent of households own at least one HDTV and have broadband internet access. Finally, the company's research also revealed that 30 per cent of households possess the discretionary income needed and are willing to buy a product such as this. Then the total number of households willing and able to purchase this product is:

$$115 \text{ million households} \times 0.60 \times 0.30 = 20.7 \text{ million households}$$

Households only need to purchase one device because it can stream content to other devices throughout the household. Assuming the average retail price across all brands is €350 for this product, the estimate of total market demand is as follows:

$$20.7 \text{ million households} \times 1 \text{ device per household} \times €350 = €7{,}245{,}000{,}000$$

This simple chain of calculations gives Mills&Tabs only a rough estimate of potential demand. However, more detailed chains involving additional segments and other qualifying factors would yield more accurate and refined estimates. Still, these are only *estimates* of market potential. They rely heavily on assumptions regarding adjusting percentages, average quantity and average price. Thus, Mills&Tabs must make certain that its assumptions are reasonable and defendable. As can be seen, the overall market potential in euro sales can vary widely given the average price used. For this reason, Mills&Tabs will use unit sales potential to determine its sales estimate for next year. Market potential in terms of units is 20.7 million (20.7 million households × 1 device per household).

Assuming that Mills&Tabs forecasts it will have a 3.6 per cent market share in the first year after launching this product, then it can forecast unit sales at 20.7 million units × 0.036 = 745,200 units. At a selling price of €168 per unit, this translates into sales of €125,193,600 (745,200 units × €168 per unit). For simplicity, further analyses will use forecasted sales of €125 million.

This unit volume estimate is well within Mills&Tabs's production capacity and exceeds not only the break-even estimate (465,117 units) calculated earlier but also the volume necessary to realise a €5 million profit (581,396 units) or a 30 per cent return on investment (534,884 units). However, this forecast falls well short of the volume necessary to realise a 25 per cent return on sales (20 million units!) and may require that Mills&Tabs revise expectations.

To assess expected profits, we must now look at the budgeted expenses for launching this product. To do this, we will construct a pro forma profit-and-loss statement.

The profit-and-loss statement and marketing budget

All marketing managers must account for the profit impact of their marketing strategies. A major tool for projecting such profit impact is a **pro forma** (or **projected**) **profit-and-loss statement** (also called an **income statement** or **operating statement**). A pro forma statement shows projected revenues less budgeted expenses and estimates the projected net profit for an organisation, product or brand during a specific planning period, typically a year. It includes direct product production costs, marketing expenses budgeted to attain a given sales forecast and overhead expenses assigned to the organisation or product. A profit-and-loss statement typically consists of several major components (see Table A2.1):

Pro forma (or projected) profit-and-loss statement (or income statement or operating statement) A statement that shows projected revenues less budgeted expenses and estimates the projected net profit for an organisation, product or brand during a specific planning period, typically a year.

Table A2.1 Pro forma profit-and-loss statement for the 12-month period ended 31 December 2019

			% of sales
Net sales		€125,000,000	100
Cost of goods sold		62,500,000	50
Gross margin		€62,500,000	50
Marketing expenses			
Sales expenses	€17,500,000		
Promotion expenses	15,000,000		
Freight	12,500,000	45,000,000	36
General and administrative expenses			
Managerial salaries and expenses	€2,000,000		
Indirect overhead	3,000,000	5,000,000	4
Net profit before income tax		€12,500,000	10

- *Net sales* – gross sales revenue minus returns and allowances (for example, trade, cash, quantity and promotion allowances). Mills&Tabs's net sales for 2019 are estimated to be €125 million, as determined in the previous analysis.
- *Cost of goods sold* – (sometimes called *cost of sales*) – the actual cost of the merchandise sold by a manufacturer or reseller. It includes the cost of inventory, purchases and other costs associated with making the goods. Mills&Tabs's cost of goods sold is estimated to be 50 per cent of net sales, or €62.5 million.
- *Gross margin (or gross profit)* – the difference between net sales and cost of goods sold. Mills&Tabs's gross margin is estimated to be €62.5 million.
- *Operating expenses* – the expenses incurred while doing business. These include all other expenses beyond the cost of goods sold that are necessary to conduct business. Operating expenses can be presented in total or broken down in detail. Here, Mills&Tabs's estimated operating expenses include *marketing expenses* and *general and administrative expenses*.

Marketing expenses include sales expenses, promotion expenses and distribution expenses. The new product will be sold through Mills&Tabs's sales force, so the company budgets €5 million for sales salaries. However, because sales representatives earn a 10 per cent commission on sales, Mills&Tabs must also add a variable component to sales expenses of €12.5 million (10 per cent of €125 million net sales), for a total budgeted sales expense of €17.5 million. Mills&Tabs sets its advertising and promotion to launch this product at €10 million. However, the company also budgets 4 per cent of sales, or €5 million, for cooperative advertising allowances to retailers who promote Mills&Tabs's new product in their advertising. Thus, the total budgeted advertising and promotion expenses are €15 million (€10 million for advertising plus €5 million in co-op allowances). Finally, Mills&Tabs budgets 10 per cent of net sales, or €12.5 million, for freight and delivery charges. In all, total marketing expenses are estimated to be €17.5 million + €15 million + €12.5 million = €45 million.

General and administrative expenses are estimated at €5 million, broken down into €2 million for managerial salaries and expenses for the marketing function and €3 million of indirect overhead allocated to this product by the corporate accountants (such as depreciation, interest, maintenance, and insurance). Total expenses for the year, then, are estimated to be €50 million (€45 million marketing expenses + €5 million in general and administrative expenses).

- *Net profit before taxes* – profit earned after all costs are deducted. Mills&Tabs's estimated net profit before taxes is €12.5 million.

In all, as Table A2.1 shows, Mills&Tabs expects to earn a profit on its new product of €12.5 million in 2019. Also note that the percentage of sales that each component of the profit-and-loss statement represents is given in the right-hand column. These percentages are determined by dividing the cost figure by net sales (that is, marketing expenses represent 36 per cent of net sales determined by €45 million ÷ €125 million). As can be seen, Mills&Tabs projects a net profit return on sales of 10 per cent in the first year after launching this product.

Marketing performance measures

Now let's fast-forward a year. Mills&Tabs's product has been on the market for one year and management wants to assess its sales and profit performance. One way to assess this performance is to compute performance ratios derived from Mills&Tabs's **profit-and-loss statement** (or **income statement** or **operating statement**).

Profit-and-loss statement (or income statement or operating statement)
A statement that shows actual revenues less expenses and net profit for an organisation, product or brand during a specific planning period, typically a year.

Whereas the pro forma profit-and-loss statement shows *projected* financial performance, the statement given in **Table A2.2** shows Mills&Tabs's *actual* financial performance based on actual sales, cost of goods sold, and expenses during the past year. By comparing the profit-and-loss statement from one period to the next, Mills&Tabs can gauge performance against goals, spot favorable or unfavorable trends, and take appropriate corrective action.

The profit-and-loss statement shows that Mills&Tabs lost €1 million rather than making the €12.5 million profit projected in the pro forma statement. Why? One obvious reason is that net sales

Table A2.2 Profit-and-loss statement for the 12-month period ended 31 December 2019

			% of sales
Net sales		€100,000,000	100
Cost of goods sold		55,000,000	55
Gross margin		€45,000,000	45
Marketing expenses			
Sales expenses	€15,000,000		
Promotion expenses	14,000,000		
Freight	10,000,000	39,000,000	39
General and administrative expenses			
Managerial salaries and expenses	€2,000,000		
Indirect overhead	5,000,000	7,000,000	7
Net profit before income tax		−€1,000,000	−1

fell €25 million short of estimated sales. Lower sales translated into lower variable costs associated with marketing the product. However, both fixed costs and the cost of goods sold as a percentage of sales exceeded expectations. Hence, the product's contribution margin was 21 per cent rather than the estimated 26 per cent. That is, variable costs represented 79 per cent of sales (55 per cent for cost of goods sold, 10 per cent for sales commissions, 10 per cent for freight and 4 per cent for co-op allowances). Recall that contribution margin can be calculated by subtracting that fraction from one ($1 - 0.79 = 0.21$). Total fixed costs were €22 million, €2 million more than estimated. Thus, the sales that Mills&Tabs needed to break even given this cost structure can be calculated as:

$$\text{Break-even sales} = \frac{\text{fixed costs}}{\text{contribution margin}} = \frac{€22{,}000{,}000}{0.21} = €104{,}761{,}905$$

If Mills&Tabs had achieved another €5 million in sales, it would have earned a profit.

Although Mills&Tabs's sales fell short of the forecasted sales, so did overall industry sales for this product. Overall industry sales were only €2.5 billion. That means that Mills&Tabs's **market share** was 4 per cent (€100 million ÷ €2.5 billion = 0.04 = 4%), which was higher than forecasted. Thus, Mills&Tabs attained a higher-than-expected market share but the overall market sales were not as high as estimated.

Market share Company sales divided by market sales.

Analytic ratios

The profit-and-loss statement provides the figures needed to compute some crucial **operating ratios** – the ratios of selected operating statement items to net sales. These ratios let marketers compare the firm's performance in one year to that in previous years (or with industry standards and competitors' performance in that year). The most commonly used operating ratios are the gross margin percentage, the net profit percentage and the operating expense percentage. The inventory turnover rate and return on investment (ROI) are often used to measure managerial effectiveness and efficiency.

Operating ratios The ratios of selected operating statement items to net sales.

The **gross margin percentage** indicates the percentage of net sales remaining after cost of goods sold that can contribute to operating expenses and net profit before taxes. The higher this ratio, the more a firm has left to cover expenses and generate profit. Mills&Tabs's gross margin ratio was 45 per cent:

Gross margin percentage The percentage of net sales remaining after cost of goods sold – calculated by dividing gross margin by net sales.

$$\text{Gross margin percentage} = \frac{\text{gross margin}}{\text{net sales}} = \frac{€45{,}000{,}000}{€100{,}000{,}000} = 0.45 = 45\%$$

Note that this percentage is lower than estimated, and this ratio is seen easily in the percentage of sales column in Table A2.2. Stating items in the profit-and-loss statement as a percentage of sales allows managers to quickly spot abnormal changes in costs over time. If there was previous history for this product and this ratio was declining, management should examine it more closely to determine why it has decreased (that is, because of a decrease in sales volume or price, an increase in costs or a combination of these). In Mills&Tabs's case, net sales were €25 million lower than estimated, and cost of goods sold was higher than estimated (55 per cent rather than the estimated 50 per cent).

Net profit percentage The percentage of each sales euro going to profit – calculated by dividing net profits by net sales.

The **net profit percentage** shows the percentage of each sales euro going to profit. It is calculated by dividing net profits by net sales:

$$\text{Net profit percentage} = \frac{\text{net profit}}{\text{net sales}} = \frac{-\text{€}1{,}000{,}000}{\text{€}100{,}000{,}000} = -0.01 = -1.0\%$$

This ratio is easily seen in the percentage of sales column. Mills&Tabs's new product generated negative profits in the first year, not a good situation given that before the product launch net profits before taxes were estimated at more than €12 million. Later in this appendix, we will discuss further analyses the marketing manager should conduct to defend the product.

Operating expense percentage The portion of net sales going to operating expenses – calculated by dividing total expenses by net sales.

The **operating expense percentage** indicates the portion of net sales going to operating expenses. Operating expenses include marketing and other expenses not directly related to marketing the product, such as indirect overhead assigned to this product. It is calculated by:

$$\text{Operating expense percentage} = \frac{\text{total expenses}}{\text{net sales}} = \frac{\text{€}46{,}000{,}000}{\text{€}100{,}000{,}000} = 0.46 = 46\%$$

This ratio can also be quickly determined from the percentage of sales column in the profit-and-loss statement by adding the percentages for marketing expenses and general and administrative expenses (39% + 7%). Thus, 46 cents of every sales euro went for operations. Although Mills&Tabs wants this ratio to be as low as possible, and 46 per cent is not an alarming amount, it is of concern if it is increasing over time or if a loss is realised.

Inventory turnover rate (or stockturn rate) The number of times an inventory turns over or is sold during a specified time period (often one year) – calculated based on costs, selling price, or units.

Another useful ratio is the **inventory turnover rate** (also called **stockturn rate** for resellers). The inventory turnover rate is the number of times an inventory turns over or is sold during a specified time period (often one year). This rate tells how quickly a business is moving inventory through the organisation. Higher rates indicate that lower investments in inventory are made, thus freeing up funds for other investments. It may be computed on a cost, selling price or unit basis. The formula based on cost is:

$$\text{Inventory turnover rate} = \frac{\text{cost of goods sold}}{\text{average inventory at cost}}$$

Assuming Mills&Tabs's beginning and ending inventories were €30 million and €20 million respectively, the inventory turnover rate is:

$$\text{Inventory turnover rate} = \frac{\text{€}55{,}000{,}000}{(\text{€}30{,}000{,}000 + \text{€}20{,}000{,}000)/2} = \frac{\text{€}55{,}000{,}000}{\text{€}25{,}000{,}000} = 2.2$$

That is, Mills&Tabs's inventory turned over 2.2 times in 2019. Normally, the higher the turnover rate, the higher the management efficiency and company profitability. However, this rate should be compared to industry averages, competitors' rates and past performance to determine if Mills&Tabs is doing well. A competitor with similar sales but a higher inventory turnover rate will have fewer resources tied up in inventory, allowing it to invest in other areas of the business.

Return on investment (ROI) A measure of managerial effectiveness and efficiency – net profit before taxes divided by total investment.

Companies frequently use **return on investment (ROI)** to measure managerial effectiveness and efficiency. For Mills&Tabs, ROI is the ratio of net profits to total investment required to manufacture the new product. This investment includes capital investments in land, buildings, and equipment (here, the initial €10 million to refurbish the manufacturing facility) plus inventory costs (Mills&Tabs's average inventory totalled €25 million), for a total of €35 million. Thus, Mills&Tabs's ROI for this product is:

$$\text{Return on investment} = \frac{\text{net profit before taxes}}{\text{investment}} = \frac{-1{,}000{,}000}{\text{€}35{,}000{,}000} = -.0286 = -2.86\%$$

ROI is often used to compare alternatives, and a positive ROI is desired. The alternative with the highest ROI is preferred to other alternatives. Mills&Tabs needs to be concerned with the ROI realised. One obvious way Mills&Tabs can increase ROI is to increase net profit by reducing expenses. Another way is to reduce its investment, perhaps by investing less in inventory and turning it over more frequently.

Marketing profitability metrics

Given the above financial results, you may be thinking that Mills&Tabs should drop this new product. But what arguments can marketers make for keeping or dropping it? The obvious arguments for dropping the product are that first-year sales were well below expected levels and the product lost money, resulting in a negative return on investment.

So, what would happen if Mills&Tabs did drop this product? Surprisingly, if the company drops the product, the profits for the total organisation will decrease by €4 million! How can that be? Marketing managers need to look closely at the numbers in the profit-and-loss statement to determine the *net marketing contribution* for this product. In Mills&Tabs's case, the net marketing contribution for the product is €4 million, and if the company drops this product, that contribution will disappear as well. Let's look more closely at this concept to illustrate how marketing managers can better assess and defend their marketing strategies and programmes.

Net marketing contribution

Net marketing contribution (NMC), along with other marketing metrics derived from it, measures *marketing* profitability. It includes only components of profitability that are controlled by marketing. Whereas the previous calculation of net profit before taxes from the profit-and-loss statement includes operating expenses not under marketing's control, NMC does not. Referring back to Mills&Tabs's profit-and-loss statement given in Table A2.2, we can calculate net marketing contribution for the product as:

Net marketing contribution (NMC) A measure of marketing profitability that includes only components of profitability controlled by marketing.

$$\begin{aligned}\text{NMC} &= \text{net sales} - \text{cost of goods sold} - \text{marketing expenses}\\ &= \text{€4 million} - \text{€100 million} - \text{€55 million} - \text{€41 million}\end{aligned}$$

The marketing expenses include sales expenses (€15 million), promotion expenses (€14 million), freight expenses (€10 million), and the managerial salaries and expenses of the marketing function (€2 million), which total €41 million.

Thus, the product actually contributed €4 million to Mills&Tabs's profits. It was the €5 million of indirect overhead allocated to this product that caused the negative profit. Further, the amount allocated was €2 million more than estimated in the pro forma profit-and-loss statement. Indeed, if only the estimated amount had been allocated, the product would have earned a *profit* of €1 million rather than losing €1 million. If Mills&Tabs drops the product, the €5 million in fixed overhead expenses will not disappear – it will simply have to be allocated elsewhere. However, the €4 million in net marketing contribution *will* disappear.

Marketing return on sales and investment

To get an even deeper understanding of the profit impact of marketing strategy, we'll now examine two measures of marketing efficiency – *marketing return on sales* (marketing ROS) and *marketing return on investment* (marketing ROI).[3]

Marketing return on sales (or **marketing ROS**) shows the percentage of net sales attributable to the net marketing contribution. For our product, ROS is:

Marketing return on sales (or marketing ROS) The percentage of net sales attributable to the net marketing contribution – calculated by dividing net marketing contribution by net sales.

$$\text{Marketing ROS} = \frac{\text{net marketing contribution}}{\text{net sales}} = \frac{\text{€4,000,000}}{\text{€100,000,000}} = 0.04 = 4\%$$

Thus, out of every €100 of sales, the product returns €4 to Mills&Tabs's bottom line. A high marketing ROS is desirable. But to assess whether this is a good level of performance, Mills&Tabs must compare this figure to previous marketing ROS levels for the product, the ROSs of other products in the company's portfolio, and the ROSs of competing products.

Marketing return on investment (or marketing ROI) A measure of the marketing productivity of a marketing investment – calculated by dividing net marketing contribution by marketing expenses.

Marketing return on investment (or **marketing ROI**) measures the marketing productivity of a marketing investment. In Mills&Tabs's case, the marketing investment is represented by €41 million of the total expenses. Thus, marketing ROI is:

$$\text{Marketing ROI} = \frac{\text{net marketing contribution}}{\text{marketing expenses}} = \frac{€4{,}000{,}000}{€41{,}000{,}000} = 0.0976 = 9.76\%$$

As with marketing ROS, a high value is desirable, but this figure should be compared with previous levels for the given product and with the marketing ROIs of competitors' products. Note from this equation that marketing ROI could be greater than 100 per cent. This can be achieved by attaining a higher net marketing contribution and/or a lower total marketing expense.

In this section, we estimated market potential and sales, developed profit-and-loss statements and examined financial measures of performance. In the next section, we discuss methods for analysing the impact of various marketing tactics. However, before moving on to those analyses, here's another set of quantitative exercises to help you apply what you've learned to other situations.

Marketing by numbers exercise set 2

2.1. Determine the market potential for a product that has 20 million prospective buyers who purchase an average of 2 items per year and price averages €50. How many units must a company sell if it desires a 10 per cent share of this market?

2.2. Develop a profit-and-loss statement for the Westgate division of North Industries. This division manufactures light fixtures sold to consumers through home-improvement and hardware stores. Cost of goods sold represents 40 per cent of net sales. Marketing expenses include selling expenses, promotion expenses and freight. Selling expenses include sales salaries totalling €3 million per year and sales commissions (5 per cent of sales). The company spent €3 million on advertising last year, and freight costs were 10 per cent of sales. Other costs include €2 million for managerial salaries and expenses for the marketing function and another €3 million for indirect overhead allocated to the division.
(a) Develop the profit-and-loss statement if net sales were €20 million last year.
(b) Develop the profit-and-loss statement if net sales were €40 million last year.
(c) Calculate Westgate's break-even sales.

2.3. Using the profit-and-loss statement you developed in question 2.2(b), and assuming that Westgate's beginning inventory was €11 million, ending inventory was €7 million and total investment was €20 million including inventory, determine the following:
(a) gross margin percentage;
(b) net profit percentage;
(c) operating expense percentage;
(d) inventory turnover rate;
(e) return on investment (ROI);
(f) net marketing contribution;
(g) marketing return on sales (marketing ROS);
(h) marketing return on investment (marketing ROI).
(i) Is the Westgate division doing well? Explain your answer.

Financial analysis of marketing tactics

Although the first-year profit performance for Mills&Tabs's new product was less than desired, management feels that this attractive market has excellent growth opportunities. Although the sales of Mills&Tabs's product were lower than initially projected, they were not unreasonable given the size of the current market. Thus, Mills&Tabs wants to explore new marketing tactics to help grow the market for this product and increase sales for the company.

For example, the company could increase advertising to promote more awareness of the new product and its category. It could add salespeople to secure greater product distribution. Mills&Tabs could decrease prices so that more consumers could afford its product. Finally, to expand the market, Mills&Tabs could introduce a lower-priced model in addition to the higher-priced original offering. Before pursuing any of these tactics, Mills&Tabs must analyse the financial implications of each.

Increase advertising expenditures

Mills&Tabs is considering boosting its advertising to make more people aware of the benefits of this device in general and of its own brand in particular. What if Mills&Tabs's marketers recommend increasing national advertising by 50 per cent to €15 million (assume no change in the variable cooperative component of promotional expenditures)? This represents an increase in fixed costs of €5 million. What increase in sales will be needed to break even on this €5 million increase in fixed costs?

A quick way to answer this question is to divide the increase in fixed cost by the contribution margin, which we found in a previous analysis to be 21 per cent:

$$\text{Increase in sales} = \frac{\text{increase in fixed cost}}{\text{contribution margin}} = \frac{€5{,}000{,}000}{0.21} = €23{,}809{,}524$$

Thus, a 50 per cent increase in advertising expenditures must produce a sales increase of almost €24 million to just break even. That €24 million sales increase translates into an almost 1 percentage point increase in market share (1 per cent of the €2.5 billion overall market equals €25 million). That is, to break even on the increased advertising expenditure, Mills&Tabs would have to increase its market share from 4 per cent to 4.95 per cent (€123,809,524 ÷ €2.5 billion = 0.0495 or 4.95 per cent market share). All of this assumes that the total market will not grow, which might or might not be a reasonable assumption.

Increase distribution coverage

Mills&Tabs also wants to consider hiring more salespeople in order to call on new retailer accounts and increase distribution through more outlets. Even though Mills&Tabs sells directly to wholesalers, its sales representatives call on retail accounts to perform other functions in addition to selling, such as training retail salespeople. Currently, Mills&Tabs employs 60 sales reps who earn an average of €50,000 in salary plus 10 per cent commission on sales. The product is currently sold to consumers through 1,875 retail outlets. Suppose Mills&Tabs wants to increase that number of outlets to 2,500, an increase of 625 retail outlets. How many additional salespeople will Mills&Tabs need, and what sales will be necessary to break even on the increased cost?

Workload method An approach to determining sales force size based on the workload required and the time available for selling.

One method for determining what size sales force Mills&Tabs will need is the **workload method**. The workload method uses the following formula to determine the sales-force size:

$$NS = \frac{NC \times FC \times LC}{TA}$$

Where

- NS = number of salespeople
- NC = number of customers
- FC = average frequency of customer calls per customer
- LC = average length of customer call
- TA = time an average salesperson has available for selling per year

Mills&Tabs's sales reps typically call on accounts an average of 20 times per year for about 2 hours per call. Although each sales rep works 2,000 hours per year (50 weeks per year × 40 hours per week), they spent about 15 hours per week on non-selling activities such as administrative duties and travel. Thus, the average annual available selling time per sales rep per year is 1,250 hours (50 weeks × 25 hours per week). We can now calculate how many sales reps Mills&Tabs will need to cover the anticipated 2,500 retail outlets:

$$\text{NS} = \frac{2{,}500 \times 20 \times 2}{1{,}250} = 80 \text{ salespeople}$$

Therefore, Mills&Tabs will need to hire 20 more salespeople. The cost to hire these reps will be €1 million

What increase in sales will be required to break even on this increase in fixed costs? The 10 per cent commission is already accounted for in the contribution margin, so the contribution margin remains unchanged at 21 per cent. Thus, the increase in sales needed to cover this increase in fixed costs can be calculated by:

$$\text{Increase in sales} = \frac{\text{increase in fixed cost}}{\text{contribution margin}} = \frac{€1{,}000{,}000}{0.21} = €4{,}761{,}905$$

That is, Mills&Tabs's sales must increase almost €5 million to break even on this tactic. So, how many new retail outlets will the company need to secure to achieve this sales increase? The average revenue generated per current outlet is €53,333 (€100 million in sales divided by 1,875 outlets). To achieve the nearly €5 million sales increase needed to break even, Mills&Tabs would need about 90 new outlets €4,761,905 ÷ €53,333 = 89.3 outlets), or about 4.5 outlets per new rep. Given that current reps cover about 31 outlets apiece (1,875 outlets ÷ 60 reps) this seems very reasonable.

Decrease price

Mills&Tabs is also considering lowering its price to increase sales revenue through increased volume. The company's research has shown that demand for most types of consumer electronics products is elastic – that is, the percentage increase in the quantity demanded is greater than the percentage decrease in price.

What increase in sales would be necessary to break even on a 10 per cent decrease in price? That is, what increase in sales will be needed to maintain the total contribution that Mills&Tabs realised at the higher price? The current total contribution can be determined by multiplying the contribution margin by total sales:[4]

$$\begin{aligned}\text{Current total contribution} &= \text{contribution margin} \times \text{sales} = 0.21 \times €100 \text{ million}\\ &= €21 \text{ million}\end{aligned}$$

Price changes result in changes in unit contribution and contribution margin. Recall that the contribution margin of 21 per cent was based on variable costs representing 79 per cent of sales. Therefore, unit variable costs can be determined by multiplying the original price by this percentage: €168 × 0.79 = €132.72 per unit. If price is decreased by 10 per cent, the new price is €151.20. However, variable costs do not change just because price decreased, so the contribution and contribution margin decrease as follows:

	Old	New (reduced 10%)
Price	€168	€151.20
− Unit variable cost	€132.72	€132.72
= Unit contribution	€35.28	€18.48
Contribution margin	€35.28/€168 = 0.21 or 21%	€18.48/€151.20 = 0.12 or 12%

So a 10 per cent reduction in price results in a decrease in the contribution margin from 21 per cent to 12 per cent.[5] To determine the sales level needed to break even on this price reduction, we calculate the level of sales that must be attained at the new contribution margin to achieve the original total contribution of €21 million:

$$\text{New contribution margin} \times \text{new sales level} = \text{original total contribution}$$

So,

$$\text{New sales level} = \frac{\text{orginal contribution}}{\text{new orginal contribution}} = \frac{€21{,}000{,}000}{0.21} = €175{,}000{,}000$$

Thus, sales must increase by €75 million (€175 million − €100 million) just to break even on a 10 per cent price reduction. This means that Mills&Tabs must increase market share to 7 per cent (€175 million ÷ €2.5 billion) to achieve the current level of profits (assuming no increase in the total market sales). The marketing manager must assess whether or not this is a reasonable goal.

Extend the product line

As a final option, Mills&Tabs is considering extending its product line by offering a lower-priced model. Of course, the new, lower-priced product would steal some sales from the higher-priced model. This is called **cannibalisation** – the situation in which one product sold by a company takes a portion of its sales from other company products. If the new product has a lower contribution than the original product, the company's total contribution will decrease on the cannibalised sales. However, if the new product can generate enough new volume, it is worth considering.

Cannibalisation The situation in which one product sold by a company takes a portion of its sales from other company products.

To assess cannibalisation, Mills&Tabs must look at the incremental contribution gained by having both products available. Recall in the previous analysis we determined that unit variable costs were €132.72 and unit contribution was just over €35. Assuming costs remain the same next year, Mills&Tabs can expect to realise a contribution per unit of approximately €35 for every unit of the original product sold.

Assume that the first model offered by Mills&Tabs is called Mills&Tabs1 and the new, lower-priced model is called Mills&Tabs2. Mills&Tabs2 will retail for €250, and resellers will take the same mark-up percentages on price as they do with the higher-priced model. Therefore, Mills&Tabs2's price to wholesalers will be €140 as follows:

Retail price:	€250
minus retail margin (30%):	−€75
Retailer's cost/wholesaler's price:	€175
minus wholesaler's margin (20%):	−€35
Wholesaler's cost/Mills&Tabs's price	€140

If Mills&Tabs2's variable costs are estimated to be €120, then its contribution per unit will equal €20 (€140 − €120 = €20). That means for every unit that Mills&Tabs2 cannibalises from Mills&Tabs1, Mills&Tabs will *lose* €15 in contribution toward fixed costs and profit (that is, $\text{contribution}_{HD2} - \text{contribution}_{HD1} = €20 - €35 = -€15$). You might conclude that Mills&Tabs should not pursue this tactic because it appears as though the company will be worse off if it introduces the lower-priced model. However, if Mills&Tabs2 captures enough *additional* sales, Mills&Tabs will be better off even though some Mills&Tabs1 sales are cannibalised. The company must examine what will happen to *total* contribution, which requires estimates of unit volume for both products.

Originally, Mills&Tabs estimated that next year's sales of Mills&Tabs1 would be 600,000 units. However, with the introduction of Mills&Tabs2, it now estimates that 200,000 of those sales will be cannibalised by the new model. If Mills&Tabs sells only 200,000 units of the new Mills&Tabs2 model (all cannibalised from Mills&Tabs1), the company would lose €3 million in total contribution (200,000 units × =€15 per cannibalised unit = − €3 million) – not a good outcome. However, Mills&Tabs estimates that Mills&Tabs2 will generate the 200,000 of cannibalised sales plus an *additional* 500,000 unit sales. Thus, the contribution on these additional Mills&Tabs2 units will be €10 million (i.e., 500,000 units × €20 per unit = €10 million). The net effect is that Mills&Tabs will gain €7 million in total contribution by introducing Mills&Tabs2.

The following table compares Mills&Tabs's total contribution with and without the introduction of Mills&Tabs2:

	Mills&Tabs1 only	Mills&Tabs1 and Mills&Tabs2
Mills&Tabs1 contribution	600,000 units × €35 = €21,000,000	400,000 units × €35 = €14,000,000
Mills&Tabs2 contribution	0	700,000 units × €20 = €14,000,000
Total contribution	€21,000,000	€28,000,000

The difference in the total contribution is a net gain of €7 million (€28 million−€21 million). Based on this analysis, Mills&Tabs should introduce the Mills&Tabs2 model because it results in a positive incremental contribution. However, if fixed costs will increase by more than €7 million as a result of adding this model, then the net effect will be negative and Mills&Tabs should not pursue this tactic.

Now that you have seen these marketing tactic analysis concepts in action as they related to Mills&Tabs's new product, here are several exercises for you to apply what you have learned in this section in other contexts.

Marketing by numbers exercise set 3

3.1. Alliance, Inc. sells gas lamps to consumers through retail outlets. Total industry sales for Alliance's relevant market last year were €100 million, with Alliance's sales representing 5 per cent of that total. Contribution margin is 25 per cent. Alliance's sales force calls on retail outlets and each sales rep earns €50,000 per year plus 1 per cent commission on all sales. Retailers receive a 40 per cent margin on selling price and generate average revenue of €10,000 per outlet for Alliance.

(a) The marketing manager has suggested increasing consumer advertising by €200,000. By how much would euro sales need to increase to break even on this expenditure? What increase in overall market share does this represent?

(b) Another suggestion is to hire two more sales representatives to gain new consumer retail accounts. How many new retail outlets would be necessary to break even on the increased cost of adding two sales reps?

(c) A final suggestion is to make a 10 per cent across-the-board price reduction. By how much would euro sales need to increase to maintain Alliance's current contribution? (See endnote 5 to calculate the new contribution margin.)

(d) Which suggestion do you think Alliance should implement? Explain your recommendation.

3.2. PepsiCo sells its soft drinks in approximately 400,000 retail establishments, such as supermarkets, discount stores and convenience stores. Sales representatives call on each retail account weekly, which means each account is called on by a sales rep 52 times per year. The average length of a sales call is 75 minutes (or 1.25 hours). An average salesperson works 2,000 hours per year (50 weeks per year × 40 hours per week) but each spends 10 hours a week on non-selling activities, such as administrative tasks and travel. How many sales people does PepsiCo need?

3.3. Hair Zone manufactures a brand of hair-styling gel. It is considering adding a modified version of the product – a foam that provides stronger hold. Hair Zone's variable costs and prices to wholesalers are:

	Current hair gel	New foam product
Unit selling price	€2.00	€2.25
Unit variable costs	€0.85	€1.25

Hair Zone expects to sell 1 million units of the new styling foam in the first year after introduction, but it expects that 60 per cent of those sales will come from buyers who normally purchase Hair Zone's styling gel. Hair Zone estimates that it would sell 1.5 million units of the gel if it did not introduce the foam. If the fixed cost of launching the new foam will be €100,000 during the first year, should Hair Zone add the new product to its line? Why or why not?

References

[1] This is derived by rearranging the following equation and solving for price: Percentage mark-up = (price – cost) ÷ price.

[2] Again, using the basic profit equation, we set profit equal to ROI × I: ROI × I = (P × Q) − TFC − (Q × UVC). Solving for Q gives Q = (TFC + (ROI × I)) ÷ (P − UVC).

[3] See Roger J. Best, *Market-Based Management*, 4th ed. (Upper Saddle River, NJ: Prentice Hall, 2005).

[4] Total contribution can also be determined from the unit contribution and unit volume: Total contribution = unit contribution × unit sales, Total units sold in 2019 were 595,238 units, which can be determined by dividing total sales by price per unit (€100 million ÷ €168). Total Total contribution = €35.28 contribution per unit × 595,238 units = €20,999,996.64 (difference due to rounding).

[5] Recall that the contribution margin of 21% was based on variable costs representing 79% of sales. Therefore, if we do not know price, we can set it equal to €1.00. If price equals €1.00, 79 cents represents variable costs and 21 cents represents unit contribution. If price is decreased by 10%, the new price is €0.90. However, variable costs do not change just because price decreased, so the unit contribution and contribution margin decrease as follows:

	Old	New (reduced 10%)
Price	€1.00	€0.90
−Unit variable cost	€0.79	€0.79
= Unit contribution	€0.21	€0.11
Contribution margin	€0.21/€1.00 = 0.21 or 21%	€0.11/€0.90 = 0.12 or 12%

Glossary

Action programmes—Action programmes should be coordinated with the resources and activities of other departments, including production, finance and purchasing.

Adapted global marketing—A global marketing approach that adjusts the marketing strategy and mix elements to each international target market, which creates more costs but hopefully produces a larger market share and return.

Administered VMS—A vertical marketing system that coordinates successive stages of production and distribution through the size and power of one of the parties.

Adoption process—The mental process through which an individual passes from first hearing about an innovation to final adoption.

Advertising—Any paid form of non-personal presentation and promotion of ideas, goods or services by an identified sponsor.

Advertising agency—A marketing services firm that assists companies in planning, preparing, implementing and evaluating all or portions of their advertising programmes.

Advertising budget—The euros and other resources allocated to a product or a company advertising programme.

Advertising media—The vehicles through which advertising messages are delivered to their intended audiences.

Advertising objective—A specific communication *task* to be accomplished with a specific *target* audience during a specific period of *time*.

Advertising strategy—The strategy by which the company accomplishes its advertising objectives. It consists of two major elements: creating advertising messages and selecting advertising media.

Affordable method—Setting the promotion budget at the level management thinks the company can afford.

Age and life-cycle segmentation—Dividing a market into different age and life-cycle groups.

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

Allowance—Promotional money paid by manufacturers to retailers in return for an agreement to feature the manufacturer's products in some way.

Alternative evaluation—The stage of the buyer decision process in which the consumer uses information to evaluate alternative brands in the choice set.

Approach—The sales step in which a salesperson meets the customer for the first time.

Attitude—A person's consistently favourable or unfavourable evaluations, feelings and tendencies toward an object or idea.

Baby boomers—People born during the years following World War II until 1964.

Base-point pricing—A geographical pricing strategy in which the seller designates some city as a base point and charges all customers the freight cost from that city to the customer.

Behavioural segmentation—Dividing a market into segments based on consumer knowledge, attitudes, uses or responses to a product.

Behavioural targeting—Using online consumer tracking data to target advertisements and marketing offers to specific consumers.

Belief—A descriptive thought that a person holds about something.

Benchmarking—Comparing the company's products and processes to those of competitors or leading firms in other industries to identify best practices and find ways to improve quality and performance.

Benefit segmentation—Dividing the market into segments according to the different benefits that consumers seek from the product.

Big data—The huge and complex data sets generated by today's sophisticated information generation, collection, storage and analysis technologies.

Blogs—Online journals where people and companies post their thoughts and other content, usually related to narrowly defined topics.

Brand—A name, term, sign, symbol or design, or a combination of these that identifies the products or services of one seller or group of sellers and differentiates them from those of competitors.

Brand community website—A website that presents brand content that engages consumers and creates customer community around a brand.

Brand equity—The differential effect that knowing the brand name has on customer response to the product or its marketing.

Brand extension—Extending an existing brand name to new product categories.

Brand value—The total financial value of a brand.

Break-even analysis—Analysis to determine the unit volume and euro sales needed to be profitable given a particular price and cost structure.

Break-even price—The price at which total revenue equals total cost and profit is zero.

Break-even pricing (target return pricing)—Setting price to break even on the costs of making and marketing a product or setting price to make a target return.

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

B-to-B digital and social media marketing—Using digital and social media marketing approaches to engage business customers and manage customer relationships anywhere, anytime.

Budgets—Managers use budgets to project profitability and plan for each marketing programme's expenditures, scheduling and operations.

Business analysis—A review of the sales, costs and profit projections for a new product to find out whether these factors satisfy the company's objectives.

Business buyer behaviour—The buying behaviour of organisations that buy goods and services for use in the production of other goods and services that are sold, rented or supplied to others.

Business buying process—The decision process by which business buyers determine which goods and services their organisations need to purchase and then find, evaluate and choose among alternative suppliers and brands.

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

Business promotions—Sales promotion tools used to generate business leads, stimulate purchases, reward customers and motivate salespeople.

Business-to-business (B-to-B) online marketing—Businesses using online marketing to reach new business customers, serve current customers more effectively and obtain buying efficiencies and better prices.

Business-to-consumer (B-to-C) online marketing—Businesses selling goods and services online to final consumers.

Buyer-readiness stages—The stages consumers normally pass through on their way to a purchase, including awareness, knowledge, liking, preference, conviction and, finally, the actual purchase.

Buyers—People in an organisation's buying centre who make an actual purchase.

Buying centre—All the individuals and units that play a role in the purchase decision-making process.

Buzz marketing—Cultivating opinion leaders and getting them to spread information about a product or a service to others in their communities.

By-product pricing—Setting a price for by-products to help offset the costs of disposing of them and help make the main product's price more competitive.

Cannibalisation—The situation in which one product sold by a company takes a portion of its sales from other company products.

Captive product pricing—Setting a price for products that must be used along with a main product, such as blades for a razor and games for a video-game console.

Catalogue marketing—Direct marketing through print, video or digital catalogues that are mailed to select customers, made available in stores or presented online.

Category killer—A giant speciality store that carries a very deep assortment of a particular line.

Causal research—Marketing research to test hypotheses about cause-and-effect relationships.

Chain ratio method—Estimating market demand by multiplying a base number by a chain of adjusting percentages.

Chain stores—Two or more outlets that are commonly owned and controlled.

Channel conflict—Disagreement among marketing channel members on goals, roles and rewards – who should do what and for what rewards.

Channel level—A layer of intermediaries that performs some work in bringing the product and its ownership closer to the final buyer.

Click-and-mortar companies—Traditional brick-and-mortar companies that have added online marketing to their operations.

Click-only companies—The so-called dot-coms, which operate online only and have no brick-and-mortar market presence.

Closing—The sales step in which a salesperson asks the customer for an order.

Co-branding—The practice of using the established brand names of two different companies on the same product.

Cognitive dissonance—Buyer discomfort caused by post-purchase conflict.

Commercial online databases—Collections of information available from online commercial sources or accessible via the internet.

Commercialisation—Introducing a new product into the market.

Communication adaptation—A global communication strategy of fully adapting advertising messages to local markets.

Competition-based pricing—Setting prices based on competitors' strategies, prices, costs and market offerings.

Competitive advantage—An advantage over competitors gained by offering consumers greater value.

Competitive marketing intelligence—The systematic monit6oring, collection and analysis of publicly available information about consumers, competitors and developments in the marketing environment.

Competitive marketing strategies—Strategies that strongly position the company against competitors and give it the strongest possible competitive advantage.

Competitive review—The purpose of a competitive review is to identify key competitors, describe their market positions and briefly discuss their strategies.

Competitive-parity method—Setting the promotion budget to match competitors' outlays.

Competitor analysis—Identifying key competitors; assessing their objectives, strategies, strengths and weaknesses, and reaction patterns; and selecting which competitors to attack or avoid.

Competitor-centred company—A company that focuses on customer developments in designing its marketing strategies and delivering superior value to its target customers.

Complex buying behaviour—Consumer buying behaviour characterised by high consumer involvement in a purchase and significant perceived differences among brands.

Concentrated (niche) marketing—A market-coverage strategy in which a firm goes after a large share of one or a few segments or niches.

Concept testing—Testing new product concepts with a group of target consumers to find out if the concepts have strong consumer appeal.

Consumer buyer behaviour—The buying behaviour of final consumers – individuals and households that buy goods and services for personal consumption.

Consumer market—All the individuals and households that buy or acquire goods and services for personal consumption.

Consumer product—A product bought by final consumers for personal consumption.

Consumer promotions—Sales promotion tools used to boost short-term customer buying and involvement or enhance long-term customer relationships.

Consumer-generated marketing—Brand exchanges created by consumers themselves – both invited and uninvited – by which consumers are playing an increasing role in shaping their own brand experiences and those of other consumers.

Consumerism—An organised movement of citizens and government agencies to improve the rights and power of buyers in relation to sellers.

Consumer-oriented marketing—A company should view and organise its marketing activities from the consumer's point of view.

Consumer-to-business (C-to-B) online marketing—Online exchanges in which consumers search out sellers, learn about their offers and initiate purchases, sometimes even driving transaction terms.

Consumer-to-consumer (C-to-C) online marketing—Online exchanges of goods and information between final consumers.

Content marketing—Creating, inspiring and sharing brand messages and conversations with and among consumers across a fluid mix of paid, owned, earned and shared channels.

Contract manufacturing—A joint venture in which a company contracts with manufacturers in a foreign market to produce its product or provide its service.

Contractual VMS—A vertical marketing system in which independent firms at different levels of production and distribution join together through contracts.

Contribution margin—The unit contribution divided by the selling price.

Convenience product—A consumer product that customers usually buy frequently, immediately, and with minimal comparison and buying effort.

Convenience store—A small store, located near a residential area, that is open long hours seven days a week and carries a limited line of high-turnover convenience goods.

Conventional distribution channel—A channel consisting of one or more independent producers, wholesalers and retailers, each a separate business seeking to maximise its own profits, perhaps even at the expense of profits for the system as a whole.

Corporate (brand) website—A website designed to build customer goodwill, collect customer feedback and supplement other sales channels rather than sell the company's products directly.

Corporate chains—Two or more outlets that are commonly owned and controlled.

Corporate VMS—A vertical marketing system that combines successive stages of production and distribution under single ownership – channel leadership is established through common ownership.

Cost-based pricing—Setting prices based on the costs of producing, distributing and selling the product plus a fair rate of return for effort and risk.

Cost-plus pricing (or mark-up pricing)—A standard mark-up to the cost of the product.

Creative concept—The compelling 'big idea' that will bring an advertising message strategy to life in a distinctive and memorable way.

Crowdsourcing—Inviting broad communities of people – customers, employees, independent scientists and researchers, and even the public at large – into the new product innovation process.

Cultural environment—Institutions and other forces that affect society's basic values, perceptions, preferences and behaviours.

Culture—The set of basic values, perceptions, wants and behaviours learned by a member of society from family and other important institutions.

Customer (or market) sales force structure—A sales force organisation in which salespeople specialise in selling only to certain customers or industries.

Customer database—An organised collection of comprehensive data about individual customers or prospects, including geographic, demographic, psychographic and behavioural data.

Customer equity—The total combined customer lifetime values of all of the company's customers.

Customer insights—Fresh marketing information-based understandings of customers and the marketplace that become the basis for creating customer value, engagement and relationships.

Customer lifetime value—The value of the entire stream of purchases that the customer makes over a lifetime of patronage.

Customer relationship management (CRM)—The overall process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction. (2) Managing detailed information about individual customers and carefully managing customer touchpoints to maximise customer loyalty.

Customer satisfaction—The extent to which a product's perceived performance matches a buyer's expectations.

Customer value analysis—An analysis conducted to determine what benefits target customers value and how they rate the relative value of various competitors' offers.

Customer value marketing—A company should put most of its resources into customer-value-building investments.

Customer value-based pricing—Setting price based on buyers' perceptions of value rather than on the seller's cost.

Customer-centred company—A company that focuses on customer developments in designing its marketing strategies and delivering superior value to its target customers.

Customer-centred new product development—New product development that focuses on finding new ways to solve customer problems and create more customer-satisfying experiences.

Customer-engagement marketing—Making the brand a meaningful part of consumers' conversations and lives by fostering direct and continuous customer involvement in shaping brand conversations, experiences and community.

Customer-managed relationships—Marketing relationships in which customers, empowered by today's new digital technologies, interact with companies and with each other to shape their relationships with brands.

Customer-perceived value—The customer's evaluation of the difference between all the benefits and all the costs of a marketing offer relative to those of competing offers.

Customer-value marketing—A principle of sustainable marketing that holds a company should put most of its resources into customer-value-building marketing investments.

Deciders—People in an organisation's buying centre who have formal or informal power to select or approve the final suppliers.

Decline stage—The PLC stage in which a product's sales fade away.

Deficient products—Products that have neither immediate appeal nor long-term benefits.

Demand curve—A curve that shows the number of units the market will buy in a given time period, at different prices that might be charged.

Demands—Human wants that are backed by buying power.

Demographic segmentation—Dividing the market into segments based on variables such as age, life-cycle stage, gender, income, occupation, education, religion, ethnicity and generation.

Demography—The study of human populations in terms of size, density, location, age, gender, race, occupation and other statistics.

Department store—A retail store that carries a wide variety of product lines, each operated as a separate department managed by specialist buyers or merchandisers.

Derived demand—Business demand that ultimately comes from (derives from) the demand for consumer goods.

Descriptive research—Marketing research to better describe marketing problems, situations or markets, such as the market potential for a product or the demographics and attitudes of consumers.

Desirable products—Products that give both high immediate satisfaction and high long-run benefits.

Differentiated (segmented) marketing—A market-coverage strategy in which a firm targets several market segments and designs separate offers for each.

Differentiation—Differentiating the market offering to create superior customer value.

Digital and social media marketing—Using digital marketing tools such as websites, social media, mobile apps and ads, online video, email and blogs that engage consumers anywhere, at any time, via their digital devices.

Direct and digital marketing—Engaging directly with carefully targeted individual consumers and customer communities to both obtain an immediate response and build lasting customer relationships.

Direct investment—Entering a foreign market by developing foreign-based assembly or manufacturing facilities.

Direct marketing channel—A marketing channel that has no intermediary levels.

Direct-mail marketing—Marketing that occurs by sending an offer, announcement, reminder or other item directly to a person at a particular address.

Direct-response television (DRTV) marketing—Direct marketing via television, including direct-response television advertising (or infomercials) and interactive television (iTV) advertising.

Discount—A straight reduction in price on purchases during a stated period of time or of larger quantities.

Discount store—A retail operation that sells standard merchandise at lower prices by accepting lower margins and selling at higher volume.

Disintermediation—The cutting out of marketing channel intermediaries by product or service producers or the displacement of traditional resellers by radical new types of intermediaries.

Dissonance-reducing buying behaviour—Consumer buying behaviour in situations characterised by high involvement but few perceived differences among brands.

Distribution centre—A large, highly automated warehouse designed to receive goods from various plants and suppliers, take orders, fill them efficiently and deliver goods to customers as quickly as possible.

Diversification—Company growth through starting up or acquiring businesses outside the company's current products and markets.

Downsizing—Reducing the business portfolio by eliminating products or business units that are not profitable or that no longer fit the company's overall strategy.

Dynamic pricing—Adjusting prices continually to meet the characteristics and needs of individual customers and situations.

Economic community—A group of nations organised to work toward common goals in the regulation of international trade.

Economic environment—Economic factors that affect consumer purchasing power and spending patterns.

Email marketing—Sending highly targeted, highly personalised, relationship-building marketing messages via e-mail.

Environmental sustainability—Developing strategies and practices that create a world economy that the planet can support indefinitely; (2) A management approach that involves developing strategies that both sustain the environment and produce profits for the company.

Environmentalism—An organised movement of concerned citizens and government agencies to protect and improve people's current and future living environment.

E-procurement—Purchasing through electronic connections between buyers and sellers – usually online.

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

Event marketing (or event sponsorships)—Creating a brand-marketing event or serving as a sole or participating sponsor of events created by others.

Exchange—The act of obtaining a desired object from someone by offering something in return.

Exclusive distribution—Giving a limited number of dealers the exclusive right to distribute the company's products in their territories.

Execution style—The approach, style, tone, words and format used for executing an advertising message.

Executive summary—This section of a marketing plan summarises and overviews the main goals, recommendations and points for senior managers who will read and approve the marketing plan. For management convenience, a table of contents usually follows this section.

Experience curve (learning curve)—The drop in the average per-unit production cost that comes with accumulated production experience.

Experimental research—Gathering primary data by selecting matched groups of subjects, giving them different treatments, controlling related factors and checking for differences in group responses.

Exploratory research—Marketing research to gather preliminary information that will help define problems and suggest hypotheses.

Exporting—Entering foreign markets by selling goods produced in the company's home country, often with little modification.

Factory outlet—An off-price retailing operation that is owned and operated by a manufacturer and normally carries the manufacturer's surplus, discontinued or irregular goods.

Fad—A temporary period of unusually high sales driven by consumer enthusiasm and immediate product or brand popularity.

Fashion—A currently accepted or popular style in a given field.

Fixed costs (overhead)—Costs that do not vary with production or sales level.

FOB-origin pricing—A geographical pricing strategy in which goods are placed free on board a carrier; the customer pays the freight from the factory to the destination.

Focus group interviewing—Personal interviewing that involves inviting small groups of people to gather for a few hours with a trained interviewer to talk about a product, service or organisation. The interviewer 'focuses' the group discussion on important issues.

Follow up—The sales step in which a salesperson follows up after the sale to ensure customer satisfaction and repeat business.

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

Franchise organisation—A contractual vertical marketing system in which a channel member, called a franchisor, links several stages in the production-distribution process.

Freight-absorption pricing—A geographical pricing strategy in which the seller absorbs all or part of the freight charges to get the desired business.

Gatekeepers—People in an organisation's buying centre who control the flow of information to others.

Gender segmentation—Dividing a market into different segments based on gender.

General need description—The stage in the business buying process in which a buyer describes the general characteristics and quantity of a needed item.

Generation X—People born between 1965 and 1976 in the 'birth dearth' following the baby boom.

Generation Z—People born after 2000 (although many analysts include people born after 1995) who make up the 'kids, tweens and teens' markets.

Geographic segmentation—Dividing a market into different geographical units, such as nations, states, regions, counties, cities or even neighbourhoods.

Geographical pricing—Setting prices for customers located in different parts of the country or world.

Global firm—A firm that, by operating in more than one country, gains R&D, production, marketing and financial advantages in its costs and reputation that are not available to purely domestic competitors.

Good-value pricing—Offering the right combination of quality and good service at a fair price.

Government market—Governmental units – federal, state and local – that purchase or rent goods and services for carrying out the main functions of government.

Gross margin percentage—The percentage of net sales remaining after cost of goods sold – calculated by dividing gross margin by net sales.

Group—Two or more people who interact to accomplish individual or mutual goals.

Growth stage—The PLC stage in which a product's sales start climbing quickly.

Growth–share matrix—A portfolio-planning method that evaluates a company's SBUs in terms of its market growth rate and relative market share.

Habitual buying behaviour—Consumer buying behaviour characterised by low consumer involvement and few significantly perceived brand differences.

Handling objections—The sales step in which a salesperson seeks out, clarifies and overcomes any customer objections to buying.

Horizontal marketing system—A channel arrangement in which two or more companies at one level join together to follow a new marketing opportunity.

Idea generation—The systematic search for new product ideas.

Idea screening—Screening new product ideas to spot good ideas and drop poor ones as soon as possible.

Income segmentation—Dividing a market into different income segments.

Independent off-price retailer—An off-price retailer that is independently owned and operated or a division of a larger retail corporation.

Indirect marketing channel—A marketing channel containing one or more intermediary levels.

Individual marketing—Tailoring products and marketing programmes to the needs and preferences of individual customers – also called *one-to-one marketing*, *mass customisation* and *markets-of-one marketing*.

Industrial product—A product bought by individuals and organisations for further processing or for use in conducting a business.

Influencers—People in an organisation's buying centre who affect the buying decision; they often help define specifications and also provide information for evaluating alternatives.

Information search—The stage of the buyer decision process in which the consumer is motivated to search for more information.

Innovative marketing—A company should seek real product and marketing improvements.

Inside sales force—Salespeople who conduct business from their offices via telephone, online and social media interactions, or visits from prospective buyers.

Institutional market—Schools, hospitals, nursing homes, prisons and other institutions that provide goods and services to people in their care.

Integrated logistics management—The logistics concept that emphasises teamwork – both inside the company and among all the marketing channel organisations – to maximise the performance of the entire distribution system.

Integrated marketing communications (IMC)—Carefully integrating and coordinating the company's many communications channels to deliver a clear, consistent and compelling message about an organisation and its products.

Intensive distribution—Stocking the product in as many outlets as possible.

Interactive marketing—Training service employees in the fine art of interacting with customers to satisfy their needs.

Intermarket segmentation (cross-market segmentation)—Forming segments of consumers who have similar needs and buying behaviour even though they are located in different countries.

Intermodal transportation—Combining two or more modes of transportation.

Internal databases—Collections of consumer and market information obtained from data sources within the company network.

Internal marketing—Orienting and motivating customer contact employees and supporting service employees to work as a team to provide customer satisfaction.

Internet—A vast public web of computer networks that connects users of all types around the world to each other and an amazingly large information repository.

Introduction stage—The PLC stage in which a new product is first distributed and made available for purchase.

Inventory turnover rate (or stockturn rate)—The number of times an inventory turns over or is sold during a specified time period (often one year) – calculated based on costs, selling price, or units.

Joint ownership—A cooperative venture in which a company creates a local business with investors in a foreign market who share ownership and control.

Joint venturing—Entering foreign markets by joining with foreign companies to produce or market a product or a service.

Learning—Changes in an individual's behaviour arising from experience.

Licensing—Entering foreign markets through developing an agreement with a licensee in the foreign market.

Lifestyle—A person's pattern of living as expressed in his or her activities, interests and opinions.

Line extension—Extending an existing brand name to new forms, colours, sizes, ingredients or flavours of an existing product category.

Local marketing—Tailoring brands and marketing to the needs and wants of local customer segments – cities, neighbourhoods and even specific stores.

Macroenvironment—The larger societal forces that affect the microenvironment – demographic, economic, natural, technological, political and cultural forces.

Madison & Vine—A term that has come to represent the merging of advertising and entertainment in an effort to break through the clutter and create new avenues for reaching customers with more engaging messages.

Management contracting—A joint venture in which the domestic firm supplies the management know-how to a foreign company that supplies the capital; the domestic firm exports management services rather than products.

Manufacturers' and retailers' branches and offices—Wholesaling by sellers or buyers themselves rather than through independent wholesalers.

Market—The set of all actual and potential buyers of a product or service.

Market challenger—A runner-up firm that is fighting hard to increase its market share in an industry.

Market description—Describes the targeted segments in detail and provides context for the marketing strategies and detailed action programmes.

Market development—Company growth by identifying and developing new market segments for current company products.

Market follower—A runner-up firm that wants to hold its share in an industry without rocking the boat.

Market leader—The firm in an industry with the largest market share.

Market nicher—A firm that serves small segments that the other firms in an industry overlook or ignore.

Market offerings—Some combination of products, services, information or experiences offered to a market to satisfy a need or want.

Market penetration—Company growth by increasing sales of current products to current market segments without changing the product.

Market potential—The upper limit of market demand.

Market segment—A group of consumers who respond in a similar way to a given set of marketing efforts.

Market segmentation—Dividing a market into distinct groups of buyers who have different needs, characteristics or behaviours, and who might require separate marketing strategies or mixes.

Market share—Company sales divided by market sales.

Market targeting—Evaluating each market segment's attractiveness and selecting one or more segments to serve.

Market-centred company—A company that pays balanced attention to both customers and competitors in designing its marketing strategies.

Marketing—The process by which companies engage customers, build strong customer relationships, and create customer value in order to capture value from customers in return.

Marketing analytics—The analysis tools, technologies and processes by which marketers dig out meaningful patterns in big data to gain customer insights and gauge marketing performance.

Marketing channel (or distribution channel)—A set of interdependent organisations that help make a product or service available for use or consumption by the consumer or business user.

Marketing channel design—Designing effective marketing channels by analysing customer needs, setting channel objectives, identifying major channel alternatives and evaluating those alternatives.

Marketing channel management—Selecting, managing and motivating individual channel members and evaluating their performance over time.

Marketing concept—A philosophy in which achieving organisational goals depends on knowing the needs and wants of target markets and delivering the desired satisfactions better than competitors do.

Marketing control—Measuring and evaluating the results of marketing strategies and plans and taking corrective action to ensure that the objectives are achieved.

Marketing environment—The actors and forces outside marketing that affect marketing management's ability to build and maintain successful relationships with target customers.

Marketing implementation—Turning marketing strategies and plans into marketing actions to accomplish strategic marketing objectives.

Marketing information system (MIS)—People and procedures dedicated to assessing information needs, developing the needed information, and helping decision makers to use the information to generate and validate actionable customer and market insights.

Marketing intermediaries—Firms that help the company to promote, sell and distribute its goods to final buyers.

Marketing logistics (or physical distribution)—Planning, implementing and controlling the physical flow of materials, final goods and related information from points of origin to points of consumption to meet customer requirements at a profit.

Marketing management—The art and science of choosing target markets and building profitable relationships with them.

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

Marketing myopia—The mistake of paying more attention to the specific products a company offers than to the benefits and experiences produced by these products.

Marketing organisation—The marketing department may be organised by function, geography, product or customer (or some combination thereof).

Marketing research—The systematic design, collection, analysis and reporting of data relevant to a specific marketing situation facing an organisation.

Marketing return on investment (or marketing ROI)—The net return from a marketing investment divided by the costs of the marketing investment.

Marketing return on sales (or marketing ROS)—The percentage of net sales attributable to the net marketing contribution – calculated by dividing net marketing contribution by net sales.

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

Marketing strategy development—Designing an initial marketing strategy for a new product based on the product concept.

Marketing website—A website that engages consumers to move them closer to a direct purchase or other marketing outcome.

Market-penetration pricing—Setting a low price for a new product to attract a large number of buyers and a large market share.

Market-skimming pricing (price skimming)—Setting a high price for a new product to skim maximum revenues layer by layer from the segments willing to pay the high price; the company makes fewer but more profitable sales.

Mark-up—The difference between a company's selling price for a product and its cost to manufacture or purchase it.

Mark-up chain—The sequence of mark-ups used by firms at each level in a channel.

Maturity stage—The PLC stage in which a product's sales growth slows or levels off.

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

Microenvironment—The actors close to the company that affect its ability to serve its customers – the company, suppliers, marketing intermediaries, customer markets, competitors and publics.

Micromarketing—Tailoring products and marketing programmes to the needs and wants of specific individuals and local customer segments; It includes *local marketing* and *individual marketing*.

Millennials (or Generation Y)—The children of the baby boomers, born between 1977 and 2000.

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

Mobile marketing—Marketing messages, promotions and other content delivered to on-the-go consumers through their mobile devices.

Modified rebuy—A business buying situation in which the buyer wants to modify product specifications, prices, terms or suppliers.

Motive (drive)—A need that is sufficiently pressing to direct the person to seek satisfaction of the need.

Multi-channel distribution system—A distribution system in which a single firm sets up two or more marketing channels to reach one or more customer segments.

Multi-channel marketing—Marketing both through stores and other traditional offline channels and through digital, online, social media and mobile channels.

Multimodal transport—Combining two or more modes of transport.

Native advertising—Advertising or other brand-produced online content that looks in form and function like the other natural content surrounding it on a web or social media platform.

Natural environment—The physical environment and the natural resources that are needed as inputs by marketers or that are affected by marketing activities.

Need recognition—The first stage of the buyer decision process, in which the consumer recognises a problem or need.

Needs—States of felt deprivation.

Net marketing contribution (NMC)—A measure of marketing profitability that includes only components of profitability controlled by marketing.

Net profit percentage—The percentage of each sales euro going to profit – calculated by dividing net profits by net sales.

New product—A good, service or idea that is perceived by some potential customers as new.

New product development—The development of original products, product improvements, product modifications and new brands through the firm's own product development efforts.

New task—A business buying situation in which the buyer purchases a product or service for the first time.

Non-personal communication channels—Media that carry messages without personal contact or feedback, including major media, atmospheres and events.

Objective-and-task method—Developing the promotion budget by (1) defining specific promotion objectives, (2) determining the tasks needed to achieve these objectives and (3) estimating the costs of performing these tasks. The sum of these costs is the proposed promotion budget.

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

Occasion segmentation—Dividing the market into segments according to occasions when buyers get the idea to buy, actually make their purchase or use the purchased item.

Off-price retailer—A retailer that buys at less-than-regular wholesale prices and sells at less than retail.

Omni-channel retailing—Creating a seamless cross-channel buying experience that integrates in-store, online and mobile shopping.

Online advertising—Advertising that appears while consumers are browsing online, including display ads, search-related ads, online classifieds and other forms.

Online focus groups—Gathering a small group of people online with a trained moderator to chat about a product, service or organisation and gain qualitative insights about consumer attitudes and behaviour.

Online marketing—Marketing via the internet using company websites, online ads and promotions, e-mail, online video and blogs.

Online marketing research—Collecting primary data internet and mobile surveys, online focus groups, consumer tracking, experiments, and online panels and brand communities.

Online social networks—Online social communities – blogs, online social media, brand communities and other online forums – where people socialise or exchange information and opinions.

Operating expense percentage—The portion of net sales going to operating expenses – calculated by dividing total expenses by net sales.

Operating ratios—The ratios of selected operating statement items to net sales.

Opinion leader—A person within a reference group who, because of special skills, knowledge, personality or other characteristics, exerts social influence on others.

Opportunities—Opportunities are external elements that a company may be able to exploit to its advantage.

Optional product pricing—The pricing of optional or accessory products along with a main product.

Order-routine specification—The stage of the business buying process in which the buyer writes the final order with the chosen supplier(s), listing the technical specifications, quantity needed, expected time of delivery, return policies and warranties.

Outside sales force (or field sales force)—Salespeople who travel to call on customers in the field.

Packaging—The activities of designing and producing the container or wrapper for a product.

Partner relationship management—Working closely with partners in other company departments and outside the company to jointly bring greater value to customers.

Percentage-of-sales method—Setting the promotion budget at a certain percentage of current or forecasted sales or as a percentage of the unit sales price.

Perception—The process by which people select, organise and interpret information to form a meaningful picture of the world.

Performance review—The stage of the business buying process in which the buyer assesses the performance of the supplier and decides to continue, modify or drop the arrangement.

Personal communication channels—Channels through which two or more people communicate directly with each other, including face to face, on the phone, via mail or email, or even through texting or an internet chat.

Personal selling—Personal presentations by the firm's sales force for the purpose of engaging customers, making sales and building customer relationships.

Personality—The unique psychological characteristics that distinguish a person or group.

Pleasing products—Products that give high immediate satisfaction but may hurt consumers in the long term.

Political environment—Laws, government agencies and pressure groups that influence and limit various organisations and individuals in a given society.

Portfolio analysis—The process by which management evaluates the products and businesses that make up the company.

Positioning—Arranging for a product to occupy a clear, distinctive and desirable place relative to competing products in the minds of target consumers. Positioning built on meaningful differentiation, supported by appropriate strategy and implementation, can help a company build competitive advantage.

Positioning statement—A statement that summarises company or brand positioning. It takes this form: *To (target segment and need) our (brand) is (concept) that (point of difference).*

Post-purchase behaviour—The stage of the buyer decision process in which consumers take further action after purchase, based on their satisfaction or dissatisfaction.

Pre-approach—The sales step in which a salesperson learns as much as possible about a prospective customer before making a sales call.

Presentation—The sales step in which a salesperson tells the 'value story' to the buyer, showing how the company's offer solves the customer's problems.

Price—The amount of money charged for a good or a service, or the sum of the values that customers exchange for the benefits of having or using the good or service.

Price elasticity—A measure of the sensitivity of demand to changes in price.

Primary data—Information collected for the specific purpose at hand.

Pro forma (or projected) profit-and-loss statement (or income statement or operating statement)—A statement that shows projected revenues less budgeted expenses and estimates the projected net profit for an organisation, product or brand during a specific planning period, typically a year.

Problem recognition—The first stage of the business buying process in which someone in the company recognises a problem or need that can be met by acquiring a good or a service.

Product—Anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy a want or need.

Product adaptation—Adapting a product to meet local conditions or wants in foreign markets.

Product bundle pricing—Combining several products and offering the bundle at a reduced price.

Product concept—(1) The idea that consumers will favour products that offer the most quality, performance and features; therefore, the organisation should devote its energy to making continuous product improvements. (2) A detailed version of a new product idea stated in meaningful consumer terms.

Product development—Company growth by offering modified or new products to current market segments.

Product invention—Creating new products or services for foreign markets.

Product life cycle (PLC)—The course of a product's sales and profits over its lifetime.

Product line—A group of products that are closely related because they function in a similar manner, are sold to the same customer groups, are marketed through the same types of outlets, or fall within given price ranges.

Product line pricing—Setting the price steps between various products in a product line based on cost differences between the products, customer evaluations of different features and competitors' prices.

Product mix (or product portfolio)—The set of all product lines and items that a particular seller offers for sale.

Product position—The way a product is defined by consumers on important attributes – the place it occupies in consumers' minds relative to competing products.

Product quality—The characteristics of a product or service that bear on its ability to satisfy stated or implied customer needs.

Product review—The product review summarises the main features for all of a company's products, organised by product line, type of customer, market and/or order of product introduction.

Product sales force structure—A sales force organisation in which salespeople specialise in selling only a portion of the company's products or lines.

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

Product/market expansion grid—A portfolio-planning tool for identifying company growth opportunities through market penetration, market development, product development or diversification.

Production concept—The idea that consumers will favour products that are available and highly affordable; therefore, the organisation should focus on improving production and distribution efficiency.

Profit-and-loss statement (or income statement or operating statement)—A statement that shows actual revenues less expenses and net profit for an organisation, product or brand during a specific planning period, typically a year.

Promotion mix (or marketing communications mix)—The specific blend of promotion tools that the company uses to persuasively communicate customer value and build customer relationships.

Promotional pricing—Temporarily pricing products below the list price, and sometimes even below cost, to increase short-run sales.

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

Prospecting—The sales step in which a salesperson or company identifies qualified potential customers.

Psychographic segmentation—Dividing a market into different segments based on lifestyle or personality characteristics.

Psychological pricing—Pricing that considers the psychology of prices, not simply the economics; the price says something about the product.

Public—Any group that has an actual or potential interest in or impact on an organisation's ability to achieve its objectives.

Public relations (PR)—Building good relations with the company's various publics by obtaining favourable publicity, building up a good corporate image, and handling or heading off unfavourable rumours, stories and events.

Pull strategy—A promotion strategy that calls for spending a lot on consumer advertising and promotion to induce final consumers to buy a particular product, creating a demand vacuum that 'pulls' a product through the channel.

Purchase decision—The buyer's decision about which brand to purchase.

Push strategy—A promotion strategy that calls for using the sales force and trade promotion to push a product through channels. The producer promotes a particular product to channel members, who in turn promote it to final consumers.

Reference prices—Prices that buyers carry in their minds and refer to when they look at a given product.

Relevant costs—Costs that will occur in the future and that will vary across the alternatives being considered.

Retailer—A business whose sales come *primarily* from retailing.

Retailing—All the activities involved in selling goods or services directly to final consumers for their personal, non-business use.

Return on advertising investment—The net return on advertising investment divided by the costs of the advertising investment.

Return on investment (ROI)—A measure of managerial effectiveness and efficiency—net profit before taxes divided by total investment.

Return on investment (ROI) pricing (or target-return pricing)—A cost-based pricing method that determines price based on a specified rate of return on investment.

Return on marketing investment (or marketing ROI)—The net return from a marketing investment divided by the costs of the marketing investment.

Sales 2.0—The merging of innovative sales practices with Web 2.0 technologies to improve sales force effectiveness and efficiency.

Sales force management—Analysing, planning, implementing and controlling sales force activities.

Sales promotion—Short-term incentives to encourage the purchase or sale of a product or a service.

Sales quota—A standard that states the amount a salesperson should sell and how sales should be divided among the company's products.

Salesperson—An individual who represents a company to customers by performing one or more of the following activities: prospecting, communicating, selling, servicing, information gathering and relationship building.

Salutary products—Products that have low appeal but may benefit consumers in the long run.

Sample—A segment of the population selected for marketing research to represent the population as a whole.

Secondary data—Information that already exists somewhere, having been collected for another purpose.

Segmented pricing—Selling a product or service at two or more prices, where the difference in prices is not based on differences in costs.

Selective distribution—The use of more than one but fewer than all the intermediaries that are willing to carry the company's products.

Selling concept—The idea that consumers will not buy enough of the firm's products unless it undertakes a large-scale selling and promotion effort.

Selling process—The steps that salespeople follow when selling, which include prospecting and qualifying, pre-approach, approach, presentation and demonstration, handling objections, closing and following up.

Sense-of-mission marketing—A company should define its mission in broad social terms rather than narrow product terms.

Service—An activity, benefit or satisfaction offered for sale that is essentially intangible and does not result in the ownership of anything.

Service inseparability—Services are produced and consumed at the same time and cannot be separated from their providers.

Service intangibility—Services cannot be seen, tasted, felt, heard or smelled before they are bought.

Service perishability—Services cannot be stored for later sale or use.

Service profit chain—The chain that links service firm profits with employee and customer satisfaction.

Service retailer—A retailer whose product line is actually a service, examples include hotels, airlines, banks, colleges and many others.

Service variability—The quality of services may vary greatly depending on who provides them and when, where and how they are provided.

Share of customer—The portion of the customer's purchasing that a company gets in its product categories.

Shopper marketing—Focusing the entire marketing process on turning shoppers into buyers as they approach the point of sale, whether during in-store, online or mobile shopping.

Shopping centre—A group of retail businesses built on a site that is planned, developed, owned and managed as a unit.

Shopping product—A consumer product that the customer, in the process of selecting and purchasing, usually compares on such attributes as suitability, quality, price and style.

Showrooming—The shopping practice of coming into retail store showrooms to check out merchandise and prices but instead buying from an online-only rival, sometimes while in the store.

Social class—Relatively permanent and ordered divisions in a society whose members share similar values, interests and behaviours.

Social marketing—The use of traditional business marketing concepts and tools to encourage behaviours that will create individual and societal well-being.

Social media—Independent and commercial online social networks where people congregate to socialise and share messages, opinions, pictures, videos and other content.

Social selling—Using online, mobile and social media to engage customers, build stronger customer relationships and augment sales performance.

Societal marketing—A principle of sustainable marketing that holds a company should make marketing decisions by considering consumers' wants, the company's requirements, consumers' long-run interests and society's long-run interests.

Societal marketing concept—The idea that a company's marketing decisions should consider consumers' wants, the company's requirements, and the long-term interests of consumers and society.

Spam—Unsolicited, unwanted commercial e-mail messages.

Speciality product—A consumer product with unique characteristics or brand identification for which a significant group of buyers is willing to make a special purchase effort.

Speciality store—A retail store that carries a narrow product line with a deep assortment within that line.

Standardised global marketing—A global marketing strategy that basically uses the same marketing strategy and mix in all of the company's international markets.

Store brand (or private brand)—A brand created and owned by a reseller of a product or service.

Straight product extension—Marketing a product in a foreign market without making any changes to the product.

Straight rebuy—A business buying situation in which the buyer routinely reorders something without any modifications.

Strategic group—A group of firms in an industry following the same or a similar strategy.

Strategic planning—The process of developing and maintaining a strategic fit between the organisation's goals and capabilities and its changing marketing opportunities.

Strengths—Strengths are internal capabilities that can help a company reach its objectives.

Style—A basic and distinctive mode of expression.

Subculture—A group of people with shared value systems based on common life experiences and situations.

Supermarket—A large, low-cost, low-margin, high-volume, self-service store that carries a wide variety of grocery and household products.

Superstore—A store much larger than a regular supermarket that offers a large assortment of routinely purchased food products, non-food items and services.

Supplier development—Systematic development of networks of supplier-partners to ensure an appropriate and dependable supply of products and materials for use in making products or reselling them to others.

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

Supplier selection—The stage of the business buying process in which the buyer reviews proposals and selects a supplier or suppliers.

Supply chain management—Managing upstream and downstream value-added flows of materials, final goods and related information among suppliers, the company, resellers and final consumers.

Survey research—Gathering primary data by asking people questions about their knowledge, attitudes, preferences and buying behaviour.

Sustainable marketing—Socially and environmentally responsible marketing that meets the present needs of consumers and businesses while also preserving or enhancing the ability of future generations to meet their needs.

SWOT analysis—An overall evaluation of the company's strengths (S), weaknesses (W), opportunities (O) and threats (T).

Systems selling (or solutions selling)—Buying a packaged solution to a problem from a single seller, thus avoiding all the separate decisions involved in a complex buying situation.

Target costing—Pricing that starts with an ideal selling price, then targets costs that will ensure that the price is met.

Target market—A set of buyers who share common needs or characteristics that a company decides to serve.

Team selling—Using teams of people from sales, marketing, engineering, finance, technical support and even upper management to service large, complex accounts.

Team-based new product development—New product development in which various company departments work closely together, overlapping the steps in the product development process to save time and increase effectiveness.

Technological environment—Forces that create new technologies, creating new product and market opportunities.

Telemarketing—Using the telephone to sell directly to customers.

Telephone marketing—Using the telephone to sell directly to customers.

Territorial sales force structure—A sales force organisation that assigns each salesperson to an exclusive geographic territory in which that salesperson sells the company's full line.

Test marketing—The stage of new product development in which the product and its proposed marketing programme are tested in realistic market settings.

Third-party logistics (3PL) provider—An independent logistics provider that performs any or all of the functions required to get a client's product to market.

Threats—Threats are current or emerging external elements that could potentially challenge a company's performance.

Total costs—The sum of the fixed and variable costs for any given level of production.

Total market demand—The total volume that would be bought by a defined consumer group, in a defined geographic area, in a defined time period, in a defined marketing environment, under a defined level and mix of industry marketing effort.

Total market strategy—Integrating themes and cross-cultural perspectives within a brand's mainstream marketing, appealing to consumer similarities across subcultural segments, rather than differences.

Trade promotions—Sales promotion tools used to persuade resellers to carry a brand, give it shelf space and promote it in advertising.

Undifferentiated (mass) marketing—A market-coverage strategy in which a firm decides to ignore market segment differences and go after the whole market with one offer.

Uniform-delivered pricing—A geographical pricing strategy in which the company charges the same price plus freight to all customers, regardless of their location.

Unit contribution—The amount that each unit contributes to covering fixed costs – the difference between price and variable costs.

Unsought product—A consumer product that the consumer either does not know about or knows about but does not normally consider buying.

Users—Members of the buying organisation who will actually use the purchased good or service.

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

Value delivery network—A network composed of the company, suppliers, distributors and, ultimately, customers who partner with each other to improve the performance of the entire system in delivering customer value.

Value proposition—The full positioning of a brand – the full mix of benefits on which it is positioned.

Value-added pricing—Attaching value-added features and services to differentiate a company's offers and charging higher prices.

Value-based pricing—Offering just the right combination of quality and good service at a fair price.

Variable costs—Costs that vary directly with the level of production.

Variety-seeking buying behaviour—Consumer buying behaviour characterised by low consumer involvement but significant perceived brand differences.

Vertical marketing system (VMS)—A channel structure in which producers, wholesalers and retailers act as a unified system. One channel member owns the others, has contracts with them, or has so much power that they all cooperate.

Viral marketing—The digital version of word-of-mouth marketing: videos, ads and other marketing content that is so infectious that customers will seek it out or pass it along to friends.

Wants—The form human needs take as they are shaped by culture and individual personality.

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

Weaknesses—Weaknesses are internal elements that may interfere with a company's ability to achieve its objectives.

Wheel-of-retailing concept—A concept that states that new types of retailers usually begin as low-margin, low-price, low-status operations but later evolve into higher-priced, higher-service operations, eventually becoming like the conventional retailers they replaced.

Whole-channel view—Designing international channels that take into account the entire global supply chain and marketing channel, forging an effective global value delivery network.

Wholesaler—A firm engaged primarily in wholesaling activities.

Wholesaling—All the activities involved in selling goods and services to those buying for resale or business use.

Word-of-mouth influence—The impact of the personal words and recommendations of trusted friends, family, associates and other consumers on buying behaviour.

Workload method—An approach to determining sales force size based on the workload required and the time available for selling.

Zone pricing—A geographical pricing strategy in which the company sets up two or more zones. All customers within a zone pay the same total price; the more distant the zone, the higher the price.

Index

PRINCIPLES OF MARKETING

EIGHTH EUROPEAN EDITION

PHILIP KOTLER • GARY ARMSTRONG • LLOYD C. HARRIS • HONGWEI HE

In a fast-changing, increasingly digital and social marketplace, it's more vital than ever for marketers to develop meaningful connections with their customers. *Principles of Marketing*, European Edition helps students master today's key marketing challenge: to create vibrant, interactive communities of consumers who make products and brands an integral part of their daily lives.

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Thoroughly revised to reflect the major trends impacting contemporary marketing, the 8th Edition is packed with examples illustrating how companies use new digital technologies to maximise customer engagement and shape brand conversations, experiences, and communities.

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