Principles of Marketing

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CHAPTER 1 - WHAT IS MARKETING?

1.1 Defining Marketing

LEARNING OBJECTIVE

- Define marketing and outline its components.

Marketing is defined by the American Marketing Association as “the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large” (American Marketing Association, n.d.). If you read the definition closely, you see that there are four activities, or components, of marketing:

1. **Creating Value**. The process of collaborating with suppliers and customers to create offerings that have value.
2. **Communicating Value**. Broadly, describing those offerings, as well as learning from customers.
3. **Delivering Value**. Getting those offerings to the consumer in a way that optimizes value.
4. **Exchanging Value**. Trading value for those offerings.

Value

The concept of value is an important one in the study of marketing. Before we begin to understand or define how marketing is used to build value for customers and the firm, it is important to understand the concept of value. Value is always considered from the customer perspective, i.e. in the eyes of the customer. It is a perception developed by customers from the marketing efforts of the brand or company (more on this in the segmentation, targeting and positioning chapter). **Value** is defined as everything a customer gets for what they give up. It is the relationship between the benefits a customer gets for what they give up in return for those benefits. In other words, if the customer perceives that they received more from the brand/company in exchange for what they gave up to the brand/company, they perceive to have received value in that exchange. On the other hand, if they feel that they gave up more in exchange for what they received, they do not perceive value in that exchange. ‡

Value is formed by customers based on the expectations that are built up or developed by the brand/company (brand positioning). Customers determine their personal needs and wants and make purchase decisions based on the brand positioning. Once they purchase the product or service, they assess whether the product or service met the expectation developed by the brand through their positioning and their experience with the product or service. If there is a disconnect between the brand positioning and the customers' expectations, the customer may feel that they did not receive value in the exchange because they did not receive what they were expecting in exchange for what they gave up. ‡

Our goal as marketers is to create a **positive exchange** with consumers. We can think of this as an equation. The **personal value equation** is ‡

value = benefits received – [price + non-financial

costs] ‡

Non-financial costs are the time and effort the consumer puts into the shopping process. The equation is a personal one because how each consumer judges the benefits of a product will vary, as will the time and effort he or she puts into shopping. Value received from the same product, then, varies for each consumer. ‡

One way to think of value is to think of a meal in a restaurant. If you and three friends go to a restaurant and order the same dish, each of you will like it more or less depending on your own personal tastes. Yet the dish was exactly the same, priced the same, and served exactly the same way. Because your tastes varied, the benefits you received varied. Therefore, the value varied for each of you. That’s why we call it a personal value equation. ‡

Value is at the center of everything marketing does (Figure 1.1 “The Concept of Value Creation”). What does value mean?

Figure 1.1 – The Concept of Value Creation This image is from Principles of Marketing by University of Minnesota and is licensed under a Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License.

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

The 4 Ps

The traditional way of viewing the components of marketing is via the four Ps:

1. **Product/Service**. Goods and services (creating offerings).
2. **Promotion**. Communication.

3. **Place/Distribution**. Getting the product to a point at which the customer can purchase it (delivering).
4. **Price.** The monetary amount charged for the product (exchanging).

The four Ps need to be expanded on to capture all the activities of marketing and to capture the concept of value. For example, exchanging requires mechanisms for a transaction, which consist of more than simply a price. Exchanging requires, among other things, the transfer of ownership. For example, when you buy a car, you sign documents that transfer the car's title from the seller to you. That's part of the exchange process.

As was discussed earlier, all aspects of marketing should be designed to create value in the eyes of the customer. We will use the terms Product/Service Strategy, Pricing Strategy, Place or Distribution Strategy and Promotion Strategy to expand the meaning of each of the four P's.

Product/Service Strategy: Creating Offerings That Have Value

Marketing creates goods and services that the company offers to its customers or clients. A tangible good and/or the intangible service is the company's offering. When you compare one car to another, for example, you can evaluate each of these dimensions, the tangible and the intangible, separately. However, you can't buy one manufacturer's car, and another manufacturer's service when you actually make a choice. Together, the two make up a single firm's offer.

Marketing people do not create the offering alone. For example, when the next generation iPad was created, Apple's engineers were also involved in its design. Apple's financial personnel had to review the costs of producing the offering and provide input on how it should be priced to be optimally profitable. Apple's operations group needed to evaluate the manufacturing requirements the iPad would need. The company's logistics managers had to evaluate the cost and timing of getting the offering to retailers and consumers. Along with customer feedback, Apple's dealers also likely provided input regarding the iPad's service policies and warranty structure. Marketing, however, has the biggest responsibility because it is marketing's responsibility to ensure that the new product delivers value to the customer.

Price Strategy: Exchanging Offerings

In addition to creating an offering, communicating its benefits to consumers, and delivering the offering, there is the actual transaction, or exchange, that has to occur. In many instances, we consider the exchange to be money for products and services. However, today exchange includes non-monetary forms of payment. If you were to fly to Louisville, Kentucky, for the Kentucky Derby, you could "pay" for your airline tickets using frequent-flier miles. You could also use Hilton Honors points to "pay" for your hotel, and cash back points on your Discover card to pay for meals. None of these transactions would actually require cash. Other exchanges, such as Facebook using information about your searches and selling them to advertisers is the payment for being able to use the service for free.

Promotion Strategy: Communicating Offerings

Communicating is a broad term in marketing that means describing the offering and its value to your potential and current customers. With the advent of digital communication and social media, it means hearing from customers about what they want and like. Sometimes communicating means educating potential customers about the value of an offering, and sometimes it means simply making customers aware of where they can find a product. Today companies are finding that to be successful, they need a more interactive dialogue with their customers. For example, Comcast customer service representatives monitor Twitter. When they observe consumers tweeting problems with Comcast, the customer service reps will post resolutions to their problems. Similarly, JCPenney has created consumer groups that talk among themselves on JCPenney-monitored Web sites. The company might post questions, send samples, or engage in other activities designed to solicit feedback from customers.

Mobile devices, such as iPads, iOS and Android smartphones, make mobile marketing possible too. For example, if consumers check-in at a shopping mall on Foursquare or Facebook, stores in the mall can send coupons and other offers directly to their smartphones. ‡

Companies use many forms of communication, including advertising on the Web or television, on billboards or in magazines, through product placements in movies, and through salespeople. Other forms of communication include attempting to have news media cover the company's actions (part of public relations [PR]), participating in special events such as the annual International Consumer Electronics Show in which Apple and other companies introduce their newest gadgets, and sponsoring special events such as the Terry Fox Run.

Place (Distribution) Strategy: Delivering Offerings

Marketing can't just promise value, it also has to deliver value. Delivering an offering that has value is much more than simply getting the product into the hands of the user; it is also making sure that the user understands how to get the most out of the product and is taken care of if he or she requires service later. Value is delivered in part through a company's supply chain. The supply chain includes a number of organizations and functions that mine, make, assemble, or deliver materials and products from a manufacturer to consumers. The actual group of organizations can vary greatly from industry to industry, and include wholesalers, transportation companies, and retailers. Logistics, or the actual transportation and storage of materials and products, is the primary component of supply chain management, but there are other aspects of supply chain management that we will discuss later.

Marketing Concept

Value varies from customer to customer based on each customer's needs. The marketing concept, a philosophy underlying all that marketers do, requires that marketers seek to satisfy customer wants and needs. Firms operating with that philosophy are said to be **market oriented.** At the same time, market-oriented firms recognize that exchange must be profitable for the company to be successful.

Firms don't always embrace the marketing concept and a market orientation. Beginning with the Industrial Revolution in the late 1800s, companies were **production oriented**. They believed that the best way to compete was by reducing production costs. In other words, companies thought that good products would sell themselves to customers who wanted them. Perhaps the best example of such a product was Henry Ford's Model A automobile, the first product of his production line innovation. Ford's production line made the automobile cheap and affordable for just about everyone. The production era lasted until the 1920s, when production-capacity growth began to outpace demand growth and new strategies were called for. There are, however, companies that still focus on production as the way to compete.

From the 1920s until after World War II, companies tended to be **selling oriented**, meaning they believed it was necessary to push their products by heavily emphasizing aggressive sales techniques. Consumers during the Great Depression and World War II did not have as much money, so the competition for their available dollars was stiff. The result was this push approach during the selling era. Companies like the Fuller Brush Company and Hoover Vacuum began selling door-to-door and the vacuum-cleaner salesperson was created. Just as with production, some companies still operate with a push focus.

In the post–World War II environment, demand for goods increased as the economy soared. Some products, limited in supply during World War II, were now plentiful to the point of surplus. Companies believed that a way to compete was to create products different from the competition, so many focused on product innovation. This focus on product innovation is called the **product orientation**. Companies like Procter & Gamble created many products that served the same basic function but with a slight twist or difference in order to appeal to a different consumer, and as a result products proliferated. But as consumers had many choices available to them, companies had to find new ways to compete. Which products were best to create? Why create them? The answer was to create what customers wanted, leading to the development of the marketing concept. During this time, the marketing concept was developed, and from about 1950 to 1990, businesses operated in the marketing era, otherwise known as having a **market orientation**.

So what era would you say we're in now? Some call it the **value orientation**: a time when companies emphasize creating value for customers. Is that really different from the marketing era, in which the emphasis was on fulfilling the marketing concept? Maybe not. Others call today's business environment the one-to-one era, meaning that the way to compete is to build relationships with customers one at a time and seek to serve each customer's needs individually. For example, the longer you are a customer of Amazon, the more detail they gain in your purchasing habits and the better they can target you with offers of new products. With the advent of social media and the empowerment of consumers through ubiquitous information that includes consumer reviews, there is clearly greater emphasis on meeting customer needs. Yet is that substantially different from the marketing concept?

Still others argue that this is the time of service-dominant logic and that we are in the service-dominant logic era. Service-dominant logic is an approach to business that recognizes that consumers want value no matter how it is delivered, whether it's via a product, a service, or a combination of the two. Although there is merit in this belief, there is also merit to the value approach and the one-to-one approach.

Some marketers believe that the time after the COVID pandemic will be the start of a new era defined by slower growth, demarketing and anti-consumption as consumers seek to buy and use fewer resources. This will challenge marketers like never before to work to reduce their impact on the planet while at the same time ensuring the financial viability of their organizations. ‡

Key Aspects of Marketing

1. Marketing helps create value

As discussed earlier, value is always considered from the customers' perspective. Value is the difference between what the customer gets for what they give up. The value equation is shaped by marketing efforts. Marketers develop products and services to offer value to customers. Marketers set prices, which determine part of what customers must give up, thereby influencing the value equation. Similarly, marketers also deliver that value to customer based on place (distribution) decisions. Finally, marketers also communicate the value to customer through their promotion decisions. ‡

2. Marketing is about satisfying customer needs and wants

In order to market effectively, it is important to understand customers' needs and wants. A customer's needs are the basic human requirements necessary for survival. They include food, water, clothing and shelter. People also have a need for things like education, recreation, or entertainment. Needs become wants when the need for something is directed towards a particular product or service that may satisfy the need. The difference between a need and a want is that a need is necessary for survival and can be satisfied using a number of products or services, whereas a want is a specific product or service desired by the consumer to satisfy a particular need. A consumer may have a need for communication, but there are a number of services that could satisfy that need. A consumer's preference for using a video call is a want, which will satisfy that need for communication. Marketing is about understanding a customer’s needs and developing products or services that they may want to satisfy those needs. ‡

3. Marketing always entails an exchange between parties

Marketing always entails an exchange between two parties, a buyer and a seller. A seller provides goods or services to the buyer in exchange for any combination of money or information. In order for an exchange to occur, there must be two parties (buyer/seller), there must be a transfer between the parties, and each party must receive something of value (money, points, information, product, service, or satisfaction). ‡

4. Marketing requires marketing mix decisions

The marketing mix is the combination of product, price, place and promotion strategy decisions that a marketer may make. As defined above, marketing entails the offering of value, the exchange of value, the delivering of value and the communication of value. This is achieved through a marketing plan which details the approach to each of the strategic decision. ‡

5. Marketing can be performed by both companies and individuals

When one thinks about marketing, one often thinks about organizations that market to individual consumers. However, marketing is often done by businesses towards other businesses and as well as by consumers toward other consumers. Just like businesses market to consumers, they also market to other businesses as well. Finally, with the introduction of a number of resale sites such as kijiji.ca, ebay.ca or craigslist.ca, many consumers market their goods or services to other consumers who may want to purchase gently used goods. ‡

A classic example of businesses marketing to consumers is when the Dell markets their new laptop to individual consumers. However, there are many businesses that market to other businesses. For example, Source Furniture is an office furniture company that sells office furniture to other businesses. They create, price, distribute and promote their products to other businesses who have a need for office furniture. ‡

6. Marketing occurs in many situations

We often think about marketing in a for-profit setting, that companies marketing their goods and services to generate profit for their company. However, marketing is also done in other settings. Non-profit companies such as the Princess Margaret Cancer Foundation, which operates the “Princess Margaret Home Lottery to Conquer Cancer”, uses marketing to create and promote their lottery. They operate the lottery to generate funds for the foundation. They market to consumers not for the purpose of generating a profit, but rather to collect money to support the work of others such as hospitals and patients. ‡

Marketing may also take place at an industry-wide level. A trade association may market commodity like products to raise awareness or to increase usage on behalf of its member companies. For example, the Dairy Farmers of Canada (DFC) launched a campaign ("Milk. It's in the stuff you love") on behalf of milk producers of Canada, to position milk differently with the next generation of consumers. Similarly, the Canadian Association of Petroleum Producers (CAPP) had a campaign designed to change the perception toward Petroleum Producers. ‡

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1.2 Why Study Marketing?

Products don't, contrary to popular belief, sell themselves. Generally, the "build it and they will come" philosophy doesn't work. Good marketing educates customers so that they can find the products they want, make better choices about those products, and extract the most value from them. In this way, marketing helps facilitate exchanges between buyers and sellers for the mutual benefit of both parties. Likewise, good social marketing provides people with information and helps them make healthier decisions for themselves and for others.

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

Marketing Delivers Value

Not only does marketing deliver value to customers, but also that value translates into the value of the organization as it develops a reliable customer base and increases its sales and profitability. So when we say that marketing delivers value, marketing delivers value to both the customer and the company. Franklin D. Roosevelt, the U.S. president with perhaps the greatest influence on our economic system, once said:

> "If I were starting life over again, I am inclined to think

> that I would go into the advertising business in preference to almost any other. The general raising of the standards of modern civilization among all groups of people during the past half century would have been impossible without the spreading of the knowledge of higher standards by means of advertising" (Famous Quotes and Authors, n.d.).

Roosevelt referred to advertising, but advertising alone is insufficient for delivering value. Marketing finishes the job by ensuring that what is delivered is valuable, priced profitably and delivered when the customers want it.

1.3 Themes

Marketing's Role in the Organization

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

As we have explained, pricing an offering, for example, will involve a company's finance and accounting departments in addition to the marketing department. Similarly, a marketing strategy is not created solely by a firm's marketing group. Instead, it flows from the company's overall strategy. We'll discuss strategy much more completely in Chapter 2 "Strategic Planning".

Everything Starts with Customers

Most organizations start with an idea of how to serve customers better. In the 1990s Apple's engineers began working on the iPod by looking at the available technology and thinking about how customers would like to have their music more available, as well as more affordable, through downloading.

Many companies think about potential markets and customers when they start. Here are a few mission statements from other companies. Note that they all refer to their customers, either directly or by making references to relationships with them. Examine how these are written to inspire employees and others who interact with the company and may read the mission statement.

IBM (July 2019)

IBM's corporate mission is "to lead in the creation, development and manufacture of the industry's most advanced information technologies, including computer systems, software, networking systems, storage devices and microelectronics. And our worldwide network of IBM solutions and services professionals translates these advanced technologies into business value for our customers. We translate these advanced technologies into value for our customers through our professional solutions, services and consulting businesses worldwide" (Mission Statement Academy, n.d.).‡

Coca-Cola© (2020)

Coca Cola's "mission declares our purpose as a company and serves as the standard against which we weigh our actions and decisions. To refresh the world…To inspire moments of optimism and happiness…To create value and make a difference" (Coca Cola, 2020). ‡

Pfizer Pharmaceuticals (2020)

"We innovate every day to make the world a healthier place.

From scientific discovery to breakthrough products to our essential partnerships around the world, we're committed to quality healthcare for everyone. Because every individual matters"(Pfizer, 2019). ‡

Some companies go beyond their own customers and seek to inspire with a mission that will have impact on a global issues, climate change‡

Interface Carpet and Flooring Products (2020)

"Our mission is to overcome the biggest challenge facing humanity and reverse global warming. It's no longer enough to limit the damage we do, but to think about reversing it. We want to restore our planet and leave a positive impact." (Interface, n.d.)‡

Not all companies create mission statements that reflect a marketing orientation. Note Apple's mission statement: "Apple's corporate mission is "to bring the best personal computing products and support to students, educators, designers, scientists, engineers, businesspersons and consumers in over 140 countries around the world" (Apple, n.d.).

This mission statement reflects a product orientation, or an operating philosophy based on the premise that Apple's success is due to creating the best products and that simply supplying them will lead to demand for them. The challenge is how to create the "best" product without considering the customer's wants and needs. Apple Watch has struggled to achieve the expected sales results due to limited customer demand.

The Changing Marketing Environment

Criticisms of Marketing

Marketing is not without its critics. One major criticism is that marketing creates wants among consumers for products and services that aren't always needed. For example, fashion marketing creates demand for high-dollar jeans when much less expensive jeans can fulfill the same basic function. Consumers are encouraged to buy the next generation of phone when their existing phone is still functional, and even if they want to repair an older phone, many companies restrict the availability of parts so that the consumer is unable to do so. The continued pressure on the consumer can lead to other consequences. Individual consumers may take on significant financial debt to satisfy the wants shaped by marketing. Marketers met the need for healthier beverages by selling bottled water but created a global problem of how to dispose of the individual plastic bottles. ‡

Sustainability

Sustainability is an example of social responsibility and involves engaging in practices that do not diminish the earth's resources. Coca-Cola, for example, is working with governments in Africa to ensure clean water availability, not just for manufacturing Coke products but for all consumers in that region. Further, the company seeks to engage American consumers in participating by offering opportunities to contribute to clean water programs. Right now, companies do not *have* to engage in these practices, but because firms really represent the people behind them (their owners and employees), forward-thinking executives are seeking ways to reduce the impact their companies are having on the planet while ensuring the financial viability of the company.

One aspect of sustainability is handling the end of life and disposal of products. Batteries and other components of cell phones, computers, and high-tech appliances are harmful to the environment, and many consumers don't know how to dispose of these products properly. Other than a few examples, the cost of recycling programs is paid by government and taxpayers and the planet. Companies such as Office Depot have created recycling centers to which customers can take their old electronics, but that is not the end of the process. Recycling is a limited solution to a world-wide garbage crisis. ‡

Companies must undertake the difficult and long-term job of reducing the resources used at every step of the manufacturing and production process. A server farm is a collection of computer servers and is the backbone of Cloud services and the internet. Often consisting of thousands of computers they require a large amount of power to run and to keep cool (Vennam, 2020). ‡

Ethics and social responsibility

Businesses exist only because society allows them to. When businesses begin to fail society, society will punish them or revoke their license. In 2008, the crackdown on companies in the subprime mortgage-lending industry is one example. These companies created and sold loans (products) that could only be paid back under ideal circumstances, and when consumers couldn't pay these loans back, the entire economy suffered greatly. Scandals such as these illustrate how society responds to unethical business practices. However, whereas ethics require that you only do no harm, the concept of social responsibility requires that you must actively seek to improve the lot of others. Today, people are demanding businesses take a proactive stance in terms of social responsibility, and they are being held to ever-higher standards of conduct. ‡

Service-dominant logic

You might have noticed that we use the word *offering* a lot instead of the term *product*. That's because of service-dominant logic, the approach to business that recognizes that consumers want value no matter how it is delivered, whether through a tangible product or intangible services. That emphasis on value is what drives the functional approach to value that we've taken, that is, creating, communicating, delivering, and exchanging value.

Metrics

Technology has increased the amount of information available to decision makers. As such, the amount and quality of data for evaluating a firm's performance is increasing. Earlier in our discussion of the marketing plan, we explained that customers communicate via transactions. Although this sounds both simple and obvious, better information technology has given us a much more complete picture of each exchange. Amazon, for example, combines data from its browsing and streaming activity with purchase history in order to determine what the next best offer is likely to be. In addition, it uses the data to create its own cheaper private label products. Using data from many sources, we have more metrics that can then be used to create better offerings, better communication plans, and to better satisfy customers.

A global environment

Every business is influenced by global issues. The price of oil, for example, is a global concern that affects everyone's prices and even the availability of some offerings. We already mentioned Coke's concern for clean water. But Coke also has to be concerned with distribution systems in areas with poor or nonexistent roads, myriads of government policies and regulations, workforce availability, and so many different issues in trying to sell and deliver Coke around the world. Even companies with smaller markets source some or all their offerings from companies in other countries, face direct competition from companies based in other countries or a different ethical structure from their home country. Every business professional, whether marketing or otherwise, has to have some understanding of the global environment in which they operate and the societal impact they have on the countries in which they operate.

The COVID pandemic made citizens of the world aware of how interconnected we are. Product shortages in grocery stores revealed the weaknesses of just-in-time delivery in the supply chains. The unequal distribution of the COVID vaccine to countries who had manufacturing capabilities and/or purchasing power versus those who did not, will cause governments and organizations to consider what to off-shore and what should be produced in country. The rise in 'made in country' nationalism will create challenges and opportunities for companies.

1.4 Discussion Questions and Activities

DISCUSSION QUESTIONS

1. Compare and contrast a four Ps approach to marketing versus the value approach (creating, communicating, and delivering value). What would you expect to be the same and what would you expect to be different between two companies that apply one or the other approach?
2. Assume you are about to graduate. How would you apply marketing principles to your job search? In what ways would you be able to create, communicate, and deliver value as a potential employee, and what would that value be, exactly? How would you prove that you can deliver that value?
3. Is marketing always appropriate for political candidates? Why or why not?
4. How do the activities of marketing for value fulfill the marketing concept for the market-oriented organization?
5. This chapter introduces the personal value equation. How does that concept apply to people

who buy for the government or for a business or for your university? How does that concept apply when organizations are engaged in social marketing?

6. This chapter addresses several reasons why marketing is an important area of study. Should marketing be required for all college students, no matter their major? Why or why not?
7. Why is service-dominant logic important?
8. What is the difference between a need and a want? How do marketers create wants? Provide several examples.
9. The marketing concept emphasizes satisfying customer needs and wants. How does marketing satisfy your needs as a post-secondary student? Are certain aspects of your life influenced more heavily by marketing than others? Provide examples.
10. A company's offering represents the bundling of the tangible good and the intangible service. Describe the specific elements of the offering for an airline carrier, a realtor, a restaurant, and an online auction site.
11. The value of a product offering is determined by the customer and varies accordingly. How does a retailer like Walmart deliver value differently than Banana Republic?
12. Explain how Apple employed the marketing concept in designing, promoting, and supplying the iPhone. Identify the key benefit(s) for consumers relative to comparable competitive offerings.

ACTIVITIES

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

CHAPTER 2 - STRATEGIC PLANNING & THE MARKETING ENVIRONMENT

2.1 Components of the Strategic Planning Process

LEARNING OBJECTIVES

- Describe how a company analyzes its internal environment.
- Describe the external environment a company may face and how it is analyzed.

Strategic planning is a process that helps an organization allocate its resources to capitalize on opportunities in the marketplace. Typically, it is a long-term process. The **strategic planning process** includes conducting a situation analysis and developing the organization's mission statement, objectives, and strategies. This is then followed by the development of a segmentation, targeting and positioning strategy and the implementation of the marketing mix to support the strategy. Figure 2.1 "The Strategic Planning Process" shows the components of the strategic planning process. Let's now look at each of these components.

Figure 2.1 – The Strategic Planning Process ‡ Anthony Francescucci, Ryerson University CC BY-NC 4.0

Conducting a Situation Analysis

As part of the strategic planning process, a **situation analysis** must be conducted before a company can decide on specific actions. Therefore, before beginning a situation analysis, it is important to understand and keep top of mind the decision, or action being considered. To understand what is relevant for a situation analysis, it is important to know what decision will need to be made or action taken as a result of the situation analysis. This will help to focus the analysis on relevant aspect for the decision or action to be taken. This is important, because as one embarks on the analysis, there will be lots of data about what is going on in the surrounding business environment. In order to make the best decision or take the appropriate action, it is important to only consider situational analysis factors that are relevant to the decision. ‡

A situation analysis involves analyzing the environment in which the business operates. This includes both the external (macro factors outside the organization) and the internal (micro – company) environments. The company's internal (micro) environment— such as **company** resources (financial, technological, etc), capabilities (such as personnel, and processes) and **corporate partners** (such as distribution and suppliers)—has to be examined. In looking internally at the company aspects, it is important to consider how the company resources and capabilities and the corporate partnerships compare against the **competition**. Does the company have better or worse resources and capabilities as compared to the competition and does the company have better or worse corporate partnerships?

It is also critical to examine the external macro environments the company faces, such as the political/legal/regulatory, economic, socio-cultural, technological, and competitive (PESTC) environments. The external environment significantly affects the decisions a company makes, and thus must be continuously evaluated. For example, during the most recent 2020 economic downturn, businesses found that government regulation had significant impact on their business. Given the COVID-19 pandemic, many governments within Canada and from around the world imposed many operating restrictions, forcing them to close their brick-and-mortar stores and pivot to online only, curbside pickup or take-out only model. While a business cannot control things such as the economy, political, regulatory or legal restrictions, changes in demographic trends, or what competitors do, it must decide what actions to take to remain competitive—actions that depend in part on their environment. ‡

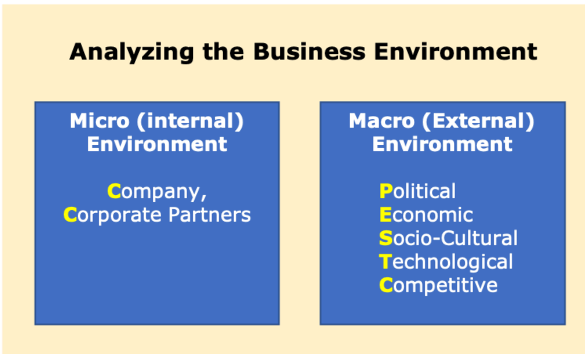

Figure 2.2 – Elements to consider in a situation analysis ‡ Anthony Francescucci, Ryerson University CC BY-NC 4.0

Assessing the Internal Environment

The first step in understanding the business situation is to look internally within the company (i.e. the micro environment) and assess the company (resources, capabilities) and its corporate partnerships, in comparison to the competitors. ‡

Figure 2.3 "Analyzing the Micro (Internal) Environment" is an illustrative (not exhaustive) list of the type of things to consider when analyzing the micro environment of the business. The first aspect to consider is to look internally within the company and assess its resources and capabilities. In considering the micro environment of the business, it is necessary to analyze these aspects in comparison to the competition. For each aspect considered, think about whether the company being analyzed is better or worse in comparison to the competition.

For example, when thinking about company brand reputation, does the company being analyzed have a stronger or weaker brand reputation than the competition? Does the company have a better or worse corporate culture in comparison to the competition? Does the company have access to specific assets or patents to which the competition does not (or vice versa)? Does the company have a better manufacturing process that provides an advantage to them over the competition? ‡

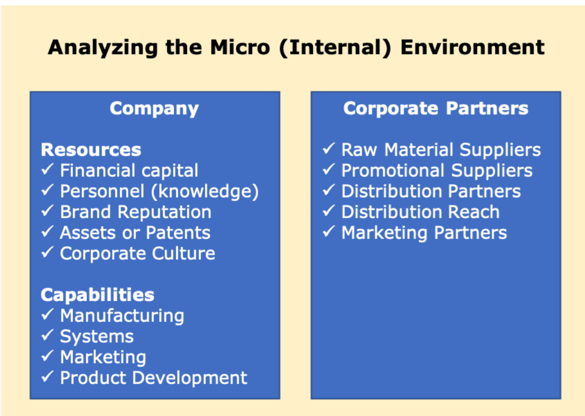

Figure 2.3 – Analyzing the Micro (Internal) Environment ‡ Anthony Francescucci, Ryerson University CC BY-NC 4.0

Similarly, does the company have corporate partnerships that provide an advantage, or does the competition have a partnership that create a weakness for your company? The company may have access to exclusive distribution partnerships, which give it exclusive access to customers to which the competition would not be able to reach. Alternatively, the competition may have an exclusive supplier partnership that gives it access to raw materials which creates an advantage for the competition. ‡

In looking at the internal aspects of the company, and making comparisons to the competition, it is important to consider the different types of competition. Often when we think about competition, we think about the direct competitors. For example, consider the beverage Canada Dry ginger ale. When thinking about their competition, one would think about Schweppes ginger ale and Seagram's ginger ale. While these brands are competitors to Canada Dry, they are only the direct competitors. ‡

When looking at micro environment comparisons to the competition, it is also important to consider indirect competitors. If we continue with the Canada Dry ginger ale example, think about the need which is being satisfied with the purchase of a Canada Dry ginger ale. The need to quench one's thirst can be satisfied with a Canada Dry ginger ale, however, there are other products that can satisfy that same need. For example, one may decide to purchase a diet ginger ale product, or water, or a sports drink or even a beer or wine product. Therefore, it is important to also consider indirect competitors when conducting the analysis. ‡

Assessing the External Environment

Analyzing the external environment involves tracking conditions in the macro environment that, although largely uncontrollable, affects the way an organization does business. The macro environment includes **political/ legal/regulatory, economic, socio-cultural, technological**, and **competitive factors** (PESTC). Each factor in the macro environment is discussed separately in the next section.

When companies globalize, analyzing the environment becomes more complex because they must examine the external environment in each country in which they do business. Regulations, competitors, technological development, and the economy may be different in each country and will affect how companies do business. To see how factors in the external environment such as technology may change education and lives of people around the world, watch the videos "Did You Know 2021?".

Video Clip

Did You Know 2021?
(Click to see video)

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

The Political and Legal/Regulatory Environment

All organizations must comply with government regulations and understand the political and legal environments in which they do business. Different government agencies enforce the numerous regulations that have been established to protect both consumers and businesses. For example, the "Reopening Ontario Act 2020" (Reopening Ontario Act, 2020) is a new piece of legislation that regulates the opening and operating of business during the various phases of the COVID-19 virus. The "Food and Drugs Act 1985" (Food and Drugs Act, 1985) regulates the labeling of consumable products, such as food and medicine. You can find a number of pieces of legislation, and the names of the agencies that regulate various industries within Canada here.

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

The Economic Environment

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

During a recessionary period, it is possible for both high-end and low-end products to sell well. Consumers who can afford luxury goods may continue to buy them, while consumers with lower incomes tend to become more value conscious. Other goods and services, such as products sold in traditional department stores, may suffer. In the face of a severe economic downturn, even the sales of luxury goods can suffer. The economic downturn that began in 2020 affected consumers and businesses at all levels worldwide. Many consumers reduced their spending, and holiday sales dropped.

The Socio-Cultural Environment

The demographic, social and cultural environment—including social trends such as people's attitudes toward fitness and nutrition; demographic characteristics such as people's age, income, marital status, education, and occupation; and culture, which relates to people's beliefs and values—are constantly changing in the global marketplace. Fitness, nutrition, and health trends affect the product offerings of many companies. For example, PepsiCo produces vitamin water and sports drinks. More women are working, which has led to a rise in the demand for services such as house cleaning and daycare. Baby boomers are reaching retirement age, sending their children to post-secondary education, and trying to care for their elderly parents all at the same time. Companies are responding to the time constraints their buyers face by creating products that are more convenient, such as frozen meals and nutritious snacks.

Let us consider some implications of the changing socio-cultural trends. The example we will consider is the constantly changing composition of the population. Specifically, "the population aged 65 and over will increase by close to 60% over the period 2019-2036 as compared to an increase of under 10% for the younger population. This means that the older households' share of consumer expenditures will also increase and marketing to the older population will be increasingly important for the bottom line" (Norris, 2020). Similarly, "It is estimated that in 2019 less than 40% of households have children at home. Approximately 28% of households are one-person households and 26% are couples without children. For the future, there is likely to be little change in the number of households with children, while there should be a considerable increase in the number of empty nest couples and perhaps a modest increase in one-person households. Smaller and older households have implications for packaging size as well as the labelling and design of products" (Norris, 2020). ‡

The Technological Environment

The technology available in the world is changing the way people communicate and the way companies do business. Everyone is affected by technological changes. Self-scanners and video displays at stores, Radio Frequency ID (RFID), and Smart devices are a few examples of how technology is affecting businesses and consumers. Many consumers get information, read the news, use text messaging, and shop online. As a result, marketers have begun allocating more of their promotion budgets to online ads and mobile marketing, rather than just to traditional print media such as newspapers and magazines. Applications for telephones and electronic devices are changing the way people obtain information and shop, allowing customers to comparison shop without having to visit multiple stores. Many young people may rely more on electronic books, magazines, and newspapers and depend on mobile devices for most of their information needs. Organizations must adapt to new technologies in order to succeed.

The Competitive Environment

When analyzing the competitive environment from a macro environment perspective, it is important to understand that it is about the competitiveness of the industry and not about individual competitors per say. Individual competitors are considered during the micro environment analysis in determining whether individual competitors have company (resources or capabilities) and or corporate partnerships that are better or worse than the company being analyzed. In the macro environment, the competitive environment as a whole is analyzed (not individual competitors). How intense is the competition in a particular industry? Is most of the revenue within the industry concentrated within a small number of competitors who have a stronghold on that market, or is it more distributed amongst a number of small competitors, with no one competitor maintaining a stronghold. ‡

A group of competitors that provide similar products or services form an industry. Michael Porter, a professor at Harvard University and a leading authority on competitive strategy, developed an approach for analyzing industries. Called the five forces model (Porter, 1980) and shown in Figure 2.4 “Five Forces Model”, the framework helps organizations understand their current competitors as well as organizations that could become competitors in the future. As such, companies can find the best way to defend their position in the industry.

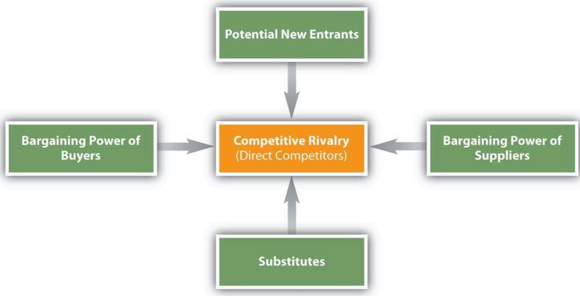

Figure 2.4 – Five Forces Model (Porter, 1980) This illustration, from Porter, M. E. (1980). Competitive strategy. New York: The Free Press is included on the basis of fair dealing.

According to Porter, in addition to their direct competitors (competitive rivals), organizations must consider the strength and impact the following could have (Porter, 1980):

- Substitute products
- Potential entrants (new competitors) in the marketplace
- The bargaining power of suppliers
- The bargaining power of buyers

When any of these factors change, companies may have to respond by changing their strategies. For example, because buyers are consuming fewer soft drinks these days, companies such as Coke and Pepsi developed substitute offerings such as vitamin water and sports drinks. Other companies such as Danone or Nestlé subsequently entered the flavored water market. When you select a hamburger fast-food chain, you also had the option of substitutes such as getting food at the grocery or going to a pizza place. When laptop computers entered the market, they were a substitute for desktop computers. Most students may not have ever used a desktop computer, but some consumers still use them.

Suppliers, the companies that supply ingredients as well as packaging materials to other companies, must also be considered. If a company cannot get the supplies it needs, it's in trouble. Also, sometimes suppliers see how lucrative their customers' markets are and decide to enter them. Buyers, who are the focus of marketing and strategic plans, must also be considered because they have bargaining power and must be satisfied. If a buyer is large enough, and doesn't purchase a product or service, it can affect a selling company's performance. Walmart, for instance, is a buyer with a great deal of bargaining power. Companies that do business with Walmart must be prepared to make concessions to them if they want their products on the company's store shelves.

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

Figure 2.5 "Considerations in the Macro Environment" provides an illustrative (not exhaustive) list of aspects to consider in the various macro environments as a summary.

Figure 2.5 – Considerations in the Macro Environment ‡ Anthony Francescucci, Ryerson University CC BY-NC 4.0

Conducting a SWOT Analysis

Now that data has been gathered about both the micro and macro environments, it becomes important to make sense of this information. A common methodology used to make sense of the information gathered about the business environment is called SWOT analysis. SWOT stands for **S**trengths, **W**eakness, **O**pportunities and **T**hreats. It is a strategic planning methodology developed out of Stanford University in the 1960's that is still widely taught and used amongst business schools. It helps to organize thoughts to develop goals and strategies. ‡

Before starting the process of evaluating the data collected from the micro and macro environments, it is important to keep the decision or action to be taken top of mind as you conduct your SWOT analysis (more on this to come). With the decision or action required top of mind, it is necessary to consider the data collected and determine if each piece of information or point is considered a **s**trength or **w**eakness of or an **o**pportunity or **t**hreat to the business. ‡

In determining whether a data point is a strength, weakness, opportunity or threat, there are a number of criteria to consider. See figure 2.6 "Criteria for Determining SWOT". Begin by considering each data point collected in the situation analysis. For each point, determine if each of the three criteria from the strength and weakness box in figure 2.6 or the criteria from the opportunities and threats box apply to the point. For example, let's say the decision to be considered was whether or not Apple should enter the electric car market. One of the data points collected in a situation analysis was that Apple has a strong brand reputation. In considering the three criteria from figure 2.6, this point about brand reputation is 1) about Apple which is the company being analyzed, 2) brand reputation is within the control of Apple and 3) in comparison to the competition, Apple's brand reputation for quality products is much better than most auto maker competitors. Therefore, because Apple's brand reputation is better than the competition, we consider it a strength. If the brand reputation was the same as their competitors, this point would not be considered a strength or weakness. This data point could be excluded from further analysis. ‡

Continuing with the same example above, it was determined that many provincial, federal and state governments offer electric car financial incentives or rebates to people who buy them. This point collected about the political/legal/regulatory environment can be said to 1) be external to Apple, 2) is not within the control of Apple and 3) these incentives would continue to exist even if Apple didn't exist. Therefore, because this is a favourable point, we consider it to be an opportunity.

Figure 2.6 – Criteria for Determining SWOT ‡ Anthony Francescucci, Ryerson University CC BY-NC 4.0

As was indicated above, when conducting a SWOT analysis, it is important to keep the decision or action top of mind. This is because when determining strengths, weaknesses, opportunities or threats, it is also important to understand the implications (the "so what does this mean") for the decision or action to be taken. In other words; ‡

- How do you capitalize / leverage the strengths in the decision to be made?
- How do you address / compensate for the weakness in the decision to be made?
- How do you take advantage of the opportunities in the decision to be made?
- How do you mitigate / minimize the threats in the decision to be made?

Continuing with the Apple example above, we mentioned that one of Apple's strength is that they have a strong brand reputation. While that is a strength, the important part is to understand or communicate how Apple can capitalize or leverage the strength as they consider whether to launch an electric vehicle. One implication could be that Apple could leverage the strong brand reputation in building brand awareness for a new Apple electric vehicle. The reputation for quality and/or superior products would be transferred to the new electric vehicle, and help to stimulate sales with loyal Apple customers for the new electric vehicle. ‡

2.2 Developing Organizational Objectives and Formulating Strategies

LEARNING OBJECTIVES

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

Developing Objectives

Objectives are what organizations want to accomplish—the end results they want to achieve—in a given time frame. In addition to being accomplished within a certain time frame, objectives should be realistic (achievable) and measurable, if possible. "To increase sales by 2% by the end of the year" is an example of an objective an organization might develop.

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

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

Formulating Strategies

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

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

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

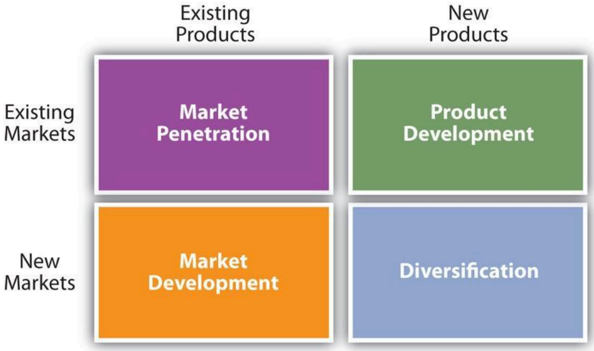

Figure 2.7 – Product and Market Entry Strategies (Ansoff's Matrix)

This theory uses a two by two matrix with **products** on the horizontal axis and **markets** on the vertical access. When looking at markets, it refers to existing markets (customers which are already targeted) and new markets (customers that are not currently targeted). Let's look at each of these in some detail. ‡

Market penetration strategies focus on increasing a company's sales of its existing products to its existing customers. Getting existing customers to buy more, more often or attract target customers who haven't purchase before. Companies often offer consumers special promotions or low prices to increase their usage and encourage them to buy products. When Frito-Lay distributes money-saving coupons to customers or offers them discounts to buy multiple packages of snacks, the company is utilizing a penetration strategy. For example, many of the consumer-packaged goods companies such as Coke and Pepsi will often feature their beverages in the weekly flyers of various retailers. The thinking is by offering the product on sale, it gets existing customers to buy more of or more often the product that they already purchase.

Product development strategies involve creating new products for existing target customers. A new product can be a totally new innovation, an improved product, or a product with enhanced value, such as one with a new feature. Cell phones that allow consumers to charge purchases with the phone or take pictures are examples of a product with enhanced value. A new product can also be one that comes in different variations, such as new flavors, colors, and sizes. Gatorade Zero, introduced by PepsiCo in 2018, is an example (Arthur, 2018). Some of their existing customers want the thirst quenching and replenishing benefits, but didn't want the calories. Keep in mind, however, that what works for one company might not work for another. For example, just after Starbucks announced it was cutting back on the number of its lunch offerings, Dunkin' Donuts announced it was adding items to its lunch menu.

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

New markets can include any new groups of customers such as different age groups, new geographic areas, or international markets. Many companies, including PepsiCo and Hyundai, have entered—and been successful in—rapidly emerging markets such as Russia, China, and India. Decisions to enter foreign markets are based on a company's resources as well as the complexity of factors such as the political environmental, economic conditions, competition, customer knowledge, and probability of success in the desired market. As Figure 2.7 "Product and Market Entry Strategies" shows, there are different ways, or strategies, by which companies can enter international markets. The strategies vary in the amount of risk, control, and investment that companies face. Companies can simply export, or sell their products to buyers abroad, which is the least risky and least expensive method but also offers the least amount of control. Many small companies export their products to foreign markets.

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

Diversification strategies involve entering new markets with new products or doing something outside a company's current businesses. Companies that have little experience with different markets or different products often diversify their product lines by acquiring other companies. Diversification can be profitable, but it can also be risky if a company does not have the expertise or resources it needs to successfully implement the strategy. Googles purchase of Picassa (a photo sharing site) is an example of a diversification attempt that failed.

Developing Sustainable Competitive Advantage (SCA)

Another way companies develop strategies is by developing a sustainable competitive advantage (SCA). SCA is when a company develops an advantage over the competition that cannot easily be copied and can be maintained over the long term. There are four types of SCA. They include; locational excellence, operational excellence, product excellence and customer excellence. Let's look at these individually (Treacy and Wiersema, 1995). ‡

Locational Excellence

Locational excellence is a form of SCA that is developed by creating an advantage for your company through the number of locations a company has or through their internet presence. This type of SCA is particularly important for retailers and service providers. The reason locational excellence is sustainable is because it is not easy for competitors to add locations as they typically require significant capital investments and or franchise partners. An example of a company that has developed sustainable competitive advantage based on location is Tim Hortons. In many markets, the density of their stores makes it difficult for a competitor to copy (Treacy and Wiersema, 1995). ‡

Operational Excellence

Developing SCA through operational excellence is often done by focusing on improving your company operations through strong supplier relationships, supply chain management & efficient operation, in order to be able to offer customer better pricing. Efficient operations help to ensure that customers get the product they want to purchase, when they want it, in the quantities they want, at a lower delivered price than the competition. This helps to ensure good value for the customer. An example of a company that has developed SCA based on operational excellence is Walmart. They have strong supplier relationships, significant purchase power and efficient operations which allows them to offer better pricing to customers (Treacy and Wiersema, 1995).‡

Product Excellence

SCA through product excellence is developed by having and offering customers products that have a high perceived value and or effective branding & positioning. This can only be achieved if your company's offering is unique and competitors cannot easily offer a similar product. A customer believes there is high perceived value from a product when they feel like they are getting more from the purchase of a product than what they must give up to purchase the product (remember the value equation from Chapter 1). Sometimes, high perceived value can also be achieved through branding and positioning (more on this later). A good example of a company that has developed a sustainable competitive advantage through product excellence is the Brand Supreme. Through their positioning and unique product offering in limited supply, Supreme customers believe that Supreme products have high perceive value (Treacy and Wiersema, 1995). ‡

Figure 2.8 – Supreme Logo Supreme, Public domain, via Wikimedia Commons. https://upload.wikimedia.org/wikipedia/commons/2/28/Supreme_Logo.svg

Customer Excellence

Customer excellence is another form of developing SCA. Customer excellence is achieved by developing value-based strategies for retaining loyal customers and providing them excellent customer service. It is about creating strategies that help build customer loyalty. Customer loyalty is not simply preferring one brand over another, but it is more about the reluctance to shop with competitor companies. Customer excellence can also be achieved by offering **superior** customer service. While it is more difficult to develop SCA through offering excellent customer service, because of the variability of humans offering the customer service, once a company develops a reputation for offering good customer service, it makes it difficult for competitors to match. An example of a company that has developed SCA through customer excellence would be Apple or Amazon. Each of these companies has a strong reputation for excellent customer service which has created loyal customers who regularly buy from them (Treacy and Wiersema, 1995). ‡

2.3 Where Strategic Planning Occurs within Companies

LEARNING OBJECTIVES

- Identify the different levels at which strategic planning may occur within companies.
- Understand how strategic planning that occurs at multiple levels in an organization helps a company achieve its overall corporate objectives.

As previously mentioned, strategic planning is a long-term process that helps an organization allocate its resources to take advantage of different opportunities. In addition to marketing plans, strategic planning may occur at different levels within an organization. For example, in large organizations top executives will develop strategic plans for the corporation as a whole. These are **corporate-level plans**. In addition, many large companies have different divisions, or businesses, called strategic business units. A **strategic business unit (SBU)** is a business or product line within an organization that has its own competitors, customers, and profit center for accounting purposes. A company's SBUs may also have their own mission statement (purpose) and will generally develop strategic plans for themselves. These are called **business-level plans**. The different departments, or functions (accounting, finance, marketing, and so forth) within a company or SBU, might also develop strategic plans. For example, a company may develop a marketing plan or a financial plan, which are **functional-level plans**.

Figure 2.9 "Strategic Planning Levels in an Organization" shows an example of different strategic planning levels that can exist within an organization's structure. The number of levels can vary, depending on the size and structure of an organization. Not every organization will have every level or have every type of plan.

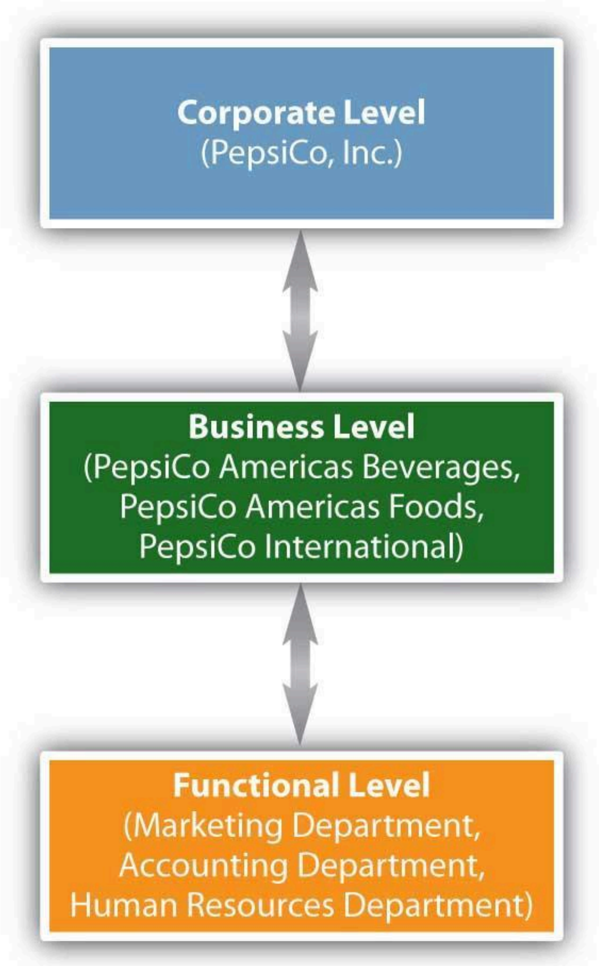

Figure 2.9 – Strategic Planning Levels in an Organization This image is from Principles of Marketing by University of Minnesota and is licensed under a Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License.

The strategies and actions implemented at the functional (department) level must be consistent with and help an organization achieve its objectives at both the business and corporate levels and vice versa. The SBUs at the business level must also be consistent with and help an organization achieve its corporate-level objectives. For example, if a company wants to increase its profits at the corporate level and owns multiple business units, each unit might develop strategic plans to increase its own profits and thereby the company's profits as a whole. At the functional level, a company's marketing department might develop strategic plans to increase sales and the market share of the company's most profitable products, which will increase profits at the business level and help the corporation's profitability. Both business level and functional plans should help the company increase its profits, so that the company's corporate-level strategic objectives can be met.

At the functional (marketing) level, to increase PepsiCo's profits, employees responsible for different products or product categories such as beverages or foods might focus on developing healthier products and making their packaging more environmentally friendly so the company captures more market share. For example, the new Aquafina bottle uses less plastic and has a smaller label, which helps the environment by reducing the amount of waste. Consumers committed to environmental sustainability are likely to look for and purchase products that use recyclable plastic or lower weight plastics which would result in increase share for PepsiCo.

Organizations can utilize multiple methods and strategies at different levels in the corporation to accomplish their various goals just as you may use different strategies to accomplish your goals. However, the basic components of the strategic planning process are the same at each of the different levels.

2.4 Strategic Portfolio Planning Approaches

LEARNING OBJECTIVE

- Explain how SBUs are evaluated using the Boston Consulting Group matrix.

When a company has multiple strategic business units like PepsiCo does, it must decide what the objectives and strategies for each business are and how to allocate resources among them. A group of businesses can be considered a portfolio, just as a collection of artwork or investments compose a portfolio. In order to evaluate each business, companies sometimes utilize what's called a portfolio planning approach. A portfolio planning approach involves analyzing a company's entire collection of businesses relative to one another. One of the many portfolio planning approaches includes the Boston Consulting Group (BCG) matrix.

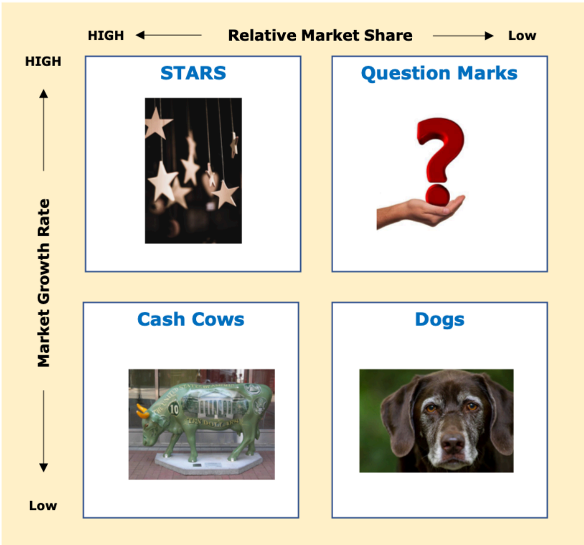

Figure 2.10 – The Boston Consulting Group (BCG) Matrix ‡

The Boston Consulting Group (BCG) matrix helps companies evaluate each of its strategic business units based on two factors: (1) the SBU's **market growth rate** (i.e., how fast the unit is growing compared to the industry in which it competes) and (2) the SBU's **relative market share** (i.e., how the unit's share of the market compares to the market share of its competitors). Because the BCG matrix assumes that profitability and market share are highly related, it is a useful approach for making business and investment decisions. However, the BCG matrix is subjective and managers should also use their judgment and other planning approaches before making decisions. Using the BCG matrix, managers can categorize their SBUs (products) into one of four categories, as shown in Figure 2.10 "The Boston Consulting Group (BCG) Matrix".

In evaluating each of the SBU's, it is important to look at the market growth rate and relative market share for each business unit and then categorize each of them using the two by two matrix in figure 2.9. Market growth rate is the rate at which the market (the total revenues for the industry) will grow in the coming fiscal year. Relative Market share is the SBU's market share divided by the market share of the SBU's largest competitor. Using these two factors, you can know categorize them using the matrix. ‡

Stars

Everyone wants to be a star. A star is a product or SBU with high market growth rate and a high relative market share. For products or SBU's that are categorized as stars, to maintain the growth of their star products, a company may have to invest money to improve them and how they are distributed as well as promote them. Generally, most companies choose to invest in their star products or SBU's. The Apple watch is considered a star product because the overall market for smartwatches is expected to grow by 20.1% over the next seven year and Apples overall smartwatch relative market share is also high (they are the largest competitor) (Acumen Research and Consulting, 2021; Vailshery, 2021).

Cash Cows

A cash cow is a product with low market growth and a high relative market share. Cash cows have a large share of a shrinking market. Although they generate a lot of cash, they may not have a long-term future. For example, iPhones are a cash cow for Apple (Canalys, 2020). iPhones have a high relative market share and the smartphone market has a low overall market growth rate with a 1.1% growth rate recorded in Q4 2020 (IDC, 2021). Companies with cash cows need to manage them so that they continue to generate revenue to fund star products.

Question Marks

Question mark products are the hardest ones to determine if they will be successful or not. They often have low relative market share in a high growth rate market. Managers classify these products as question marks or problem children. They must decide whether to invest in them and hope they become stars or gradually eliminate or sell them as they become dogs. For example, the Amazon Fire tablet had a low relative market share (StatCounter, 2021) in a market that had an expected growth rate of 19.3% in 2020 (Vikhyaat, 2021).

Dogs

In business, it is not good to be considered a dog. A dog is a product with low market growth and low relative market share. Dogs do not make much money and do not have a promising future. Companies often get rid of dogs. However, some companies are hesitant to classify any of their products as dogs. As a result, they keep producing products and services they shouldn't or invest in dogs in hopes they'll succeed.

In conclusion, the BCG matrix helps managers make resource allocation decisions once different products are classified. Depending on the product, a company might decide on a number of different strategies for it. One strategy is to build market share for a business or product, especially a product that might become a star. Many companies invest in question marks because market share is available for them to capture. The success sequence is often used as a means to help question marks become stars. With the success sequence, money is taken from cash cows (if available) and invested into question marks in hopes of them becoming stars.

Holding market share means the company wants to keep the product's share at the same level. When a company pursues this strategy, it only invests what it has to in order to maintain the product's market share. When a company decides to harvest a product, the company lowers its investment in it. The goal is to try to generate short-term profits from the product regardless of the long-term impact on its survival. If a company decides to divest a product, the company drops or sells it. That's what Procter & Gamble did in 2008 when it sold its Folgers coffee brand to Smuckers. Proctor & Gamble also sold Jif peanut butter brand to Smuckers. Many dogs are divested, but companies may also divest products because they want to focus on other brands they have in their portfolio.

As competitors enter the market, technology advances, and consumer preferences change, the position of a company's products in the BCG matrix is also likely to change. The company has to continually evaluate the situation and adjust its investments and product promotion strategies accordingly. The company must also keep in mind that the BCG matrix is just one planning approach and that other variables can affect the success of products.

2.5 Discussion Questions and Activities

REVIEW QUESTIONS

1. What factors in the external environment are affecting the "Big Three" U.S. automobile manufacturers?
2. What are some examples of Walmart's strengths?
3. Suppose you work for a major hotel chain. Using Porter's five forces model, explain what you need to consider with regard to each force.
4. How do product development strategies differ from market development strategies?
5. Explain why some strategies work for some companies but not others.
6. What factors do companies entering foreign markets need to consider?
7. How do franchising and licensing strategies differ?
8. What different levels of planning can organizations utilize?
9. Give an example and explain how a corporation that wants to help protect the environment can

do so at its corporate, business, and functional levels.

10. How would you classify a product that has a low market share in a growing market?
11. What does it mean to hold market share?
12. What factors are used as the basis for analyzing businesses and brands using the BCG approach?

DISCUSSION QUESTIONS

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

ACTIVITIES

1. Outline a strategic plan for yourself to begin planning for a job after graduation. Include your value proposition, targeted organizations, objectives, strategies, and the internal and external factors that may affect your plans.
2. A mission statement outlines an organization's purpose and answers the question of how a company defines its business. Write a mission statement for a campus organization.
3. The Web site "My M&Ms" (http://www.mymms.com) allows customers to personalize M&M candies with words, faces, and colors and select from multiple packaging choices. Identify and explain the product market or market development strategies Mars pursued when it introduced personalized M&Ms.
4. Explain how changing demographics and the social and cultural environment have impacted the health care industry. Identify new venues for health care that didn't exist a decade ago. (Hint: emergency care services are available outside a hospital's emergency room today.)
5. Select an organization for which you would like to work. Look up its mission statement. What do you think the organization's objectives and strategies are? What macro and micro environmental and internal factors might affect its success?

6. Break up into teams. Come up with as many real-world examples as you can of companies that pursued market penetration, market development, product development, or diversification strategies. Explain what the company did and how successful you think each strategy will be.

CHAPTER 3 - CONSUMER BEHAVIOUR: HOW PEOPLE MAKE BUYING DECISIONS

3.1 Importance of Understanding Buyer Behaviour

LEARNING OBJECTIVE

- To understand the importance of understanding buyer behaviour.

Consumer behaviour looks at the many reasons why people acquire products or services. The more you understand how and why people buy products or services, the better your company can create, produce, and deliver what they will buy. However, people are complicated and many factors motivate their purchase decisions.

Figure 3.1 – "Social apps in smartphone" by Wallboat is licensed under CC0 1.0

When a company doesn't understand consumer behaviour it can have major consequences. The forecasts for the size and growth of the legal Cannabis Market in Canada were widely exaggerated by companies in order to attract investors. The result for many companies has been an oversupply of product, layoffs, financial losses and even bankruptcy (Lamers, 2020). Companies entered the market assuming a demand that was not there and did not address key concerns that consumers had about buying cannabis, whether legal or not (Grow Opportunity, 2020). ‡

3.2 Consumer Decision Making Process

LEARNING OBJECTIVES

- Understanding the stages of the Consumer Decision Making Process.
- The implication of the product disposal.

The Consumer Purchase Decision Process

The Consumer Purchase Decision Process is used to describe purchase behaviour and acquisition behaviour. It has also been used to explain the decision process for purchase behaviour as well as the process that a person goes through before deciding to download a free app, or why they decided to upgrade to pay for the app. In this book, we use the term 'buy' or 'purchase' to keep things simple. ‡

The process describes a rational step-by-step approach to decision making, and for many purchases it works well to explain the process. However, there are times when consumers don't act in a rational way, may reconsider information received at one step, and so may repeat a stage or even start again, or are influenced by other internal and external factors (Erasmus et al., 2001). All of this needs to be considered by companies. We will discuss a few of the major influences in this chapter, but if you are pursuing a marketing career, you are encouraged to take a consumer behaviour course to find out more, along with other marketing courses that go into more detail. ‡

Figure 3.2 "Consumer Purchase Decision Process" shows the Consumer Decision Process with five stages: (1) Need recognition: realizing the need or want for something, (2) Search: searching for information, (3) Evaluation: evaluating different alternatives, (4) Choice: selecting a product and purchasing it, (5) Post Purchase Evaluation: using and evaluating the product (Engel et al., 1968). ‡

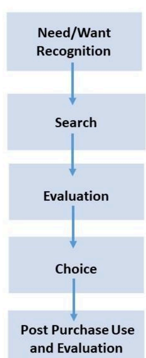

Figure 3.2 – Consumer Purchase Decision Process ‡ Joanne McNeish, Ryerson University CC BY-NC 4.0

To explore the five stages, let's use an example of buying a backpack for travel. Note that some items that consumers purchase are needs (e.g. food) whereas other things are wants (a new generation smart phone or a new backpack). Often a 'want' reflects an underlying 'need'. A new generation smart phone is the want but the underlying need is to be able to communicate. ‡

Stage 1: Need/Want Recognition

You plan to travel with a friend after you graduate. You want a bag that is easily carried and can be taken on the airplane with you so you don't have to pay for checked luggage, but it needs to be big enough to hold enough clothes and other items for one month. You do not have a bag that is big or strong enough for a long trip. You realize that you may need to buy a new one and conclude that a backpack would be the ideal product. Notice that recognizing a need for a product or service is based on how you think about the problem. First you had to think about the task you wanted to accomplish. Your friend could be thinking about the same task and even the same criteria such as size and ease of carrying, may conclude that a suitcase on wheels is what they are looking for.‡ At the recognition stage, marketers make potential customers aware how their products and services add value and would help satisfy customer's needs or wants. For example, seeing an advertisement for a Harvey's plant-based burger may remind you that you haven't had lunch yet. The company's advertising helped you recognize a need. ‡

Stage 2: Search

Now, you will need to get information on different alternatives. Maybe you have owned several backpacks and know what you like and don't like about them. There might be a particular brand that you've purchased in the past that you liked and want to purchase in the future. Any company wants to be in the position of being a preferred brand. If what you already know about backpacks doesn't provide you with enough information, you'll probably continue to gather information from various sources.

People may ask friends, and family about their experiences with products. They check online review site or related magazines or blogs. A review site offers product ratings, buying tips, and price information. Amazon.com also offers product reviews written by consumers. People prefer “independent” sources such as this when they are looking for product information. However, depending on the product being purchased they will consult non-neutral sources of information, for example such as Mountain Equipment Coop, a camping and sports retailer (MEC, n.d.). ‡

Figure 3.3 – “Queen Street West MEC” by wyliepoon is licensed under CC BY-NC-ND 2.0

Stage 3: Evaluation

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

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

Figure 3.4 – "Backpack" by slgckgc is licensed under CC BY 2.0

Companies want to convince you that the evaluative criteria you are considering reflect the strengths of their products. For example, you might not have thought about the need for extra pockets or the type of zippers used for the backpack you want to buy. However, a backpack manufacturer such as Osprey will remind you about the various features of its backpacks through information on its website, tags attached to backpack and social media. That's one feature they might use to differentiate their brands from others in a consumer's mind. ‡

Stage 4: Choice

Once you have considered the alternatives, you decide which one to purchase. In addition to which backpack, you are probably also making other decisions at this stage, including where and how to purchase the backpack, and on what terms (e.g. debit card, credit card, Apple Pay). Maybe the backpack was cheaper at one store than another, but the salesperson there was rude. You may decide to order online from a retailer such as MEC because the backpack you selected was sold out in store, or you decided to buy it directly from the manufacturer because the selection of products was broader or an online intermediary such as Amazon because the price was cheaper than buying from the retailer or manufacturer. Or, maybe you object to Amazon's business practices so you decide to buy from a business selling on Shopify, an e-commerce platform for online stores. ‡

Stage 5: Post Purchase Use and Evaluation

At this point in the process you decide whether the backpack you purchased is everything you wanted. Sometimes, after you purchase, you may experience **post-purchase dissonance**. Typically, dissonance occurs when a product or service does not meet all your expectations. Consumers are more likely to experience dissonance with products that are relatively expensive, or that are purchased infrequently. That's why some retail stores have generous return policies. Even if the product was exactly what you wanted, you may wonder whether you should have waited to get a better price, purchased something else, or gathered more information first. One way in which companies handle the potential for cognitive dissonance is with guarantees. Osprey offers the following guarantee called the "All Mighty Guarantee, Any Reason, Any Product, Any Era."

> "Osprey will repair any damage or defect for any reason free of charge – whether it was purchased in 1974 or yesterday. If we are unable to perform a functional repair on your pack, we will happily replace it. We proudly stand behind this guarantee, so much so that it bears the signature of company founder and head designer, Mike Pfotenhauer" (Ospray, n.d.). ‡

Product Disposal

When the consumer decision model was first developed, there was little awareness of the risks to the earth's climate, water and air from consumption behaviours. The production of products and services that flows from raw materials, to created product, to the point they are discarded as waste is called the linear economy. However, many consumers and companies are concerned about the amount of waste being created at every stage of the production and selling process. Companies use the term **circular economy** to describe a business production model that at every stage in the process: takes out waste and pollution; keep the products and materials they are made of in use for as long as possible; protects and regenerates natural systems (Ellen MacArthur Foundation, n.d.).

Using our example of buying a backpack for travel. When you returned, you went to work and put it in the back of a closet. Recently when cleaning out that closet, you came across it again. You don't think you will use it again, but you don't want to keep it. Under the linear economy model, you are responsible for disposing of it. You could throw it in the garbage but that would end up in landfill. You may try to sell it on e-Bay to get some of your money back. You could donate to a company such as Value Village where it will be resold to someone else. Another alternative would be to send it to TerraCycle. They claim to have a zero waste solution for recycling backpacks. You order a TerraCycle waste box, fill it and ship it back for them to recycle. DwellSmart is the place where the recycled products from TerraCycle are sold (DwellSmart, n.d.). ‡

Under the circular economy model, companies change the product so they help the consumer avoid creating more waste. Windex is a window glass cleaner. The only option used to be to buy it ready to use in a plastic bottle that you threw away when it was empty. Recently, the company produced the product as a concentrate to which you can add water and continue to use a reusable plastic bottle (Windex, n.d.). The consumer saves money because the concentrate is less expensive than the ready to use product and they avoid sending another plastic bottle to landfill. If possible, the ultimate goal of the circular economy is to avoid product purchase altogether. Instead of buying specialized window cleaning products that contain harmful chemicals, consumers can make their own. For example, window cleaner is easily made using vinegar and dish detergent (Schwartz & Vila, n.d.). ‡

Figure 3.5 – "Windex (33/366)" by Michael J is licensed under CC BY-NC 2.0

‡ signifies new material that Ryerson University authors have added to this adaptation of Principles of Marketing published by University of Minnesota Library Publishing, licensed under a Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License.

3.3 Low-Involvement Versus High-Involvement Buying Decisions

LEARNING OBJECTIVE

- Distinguish between low and high involvement buying decisions.

One of the ways that the purchase decision process is modified is by consumers' level of involvement in the decision. Low-involvement decisions usually pose a low risk to the buyer if they make a mistake by purchasing them. High-involvement decisions carry a high risk and limited-involvement products fall somewhere in between. Many factors influence a consumer's behaviour. Depending on a consumer's experience and knowledge, some consumers may be able to make quick decisions, and other consumers may need to be more involved before making a purchase.

The **level of involvement** reflects how important or interested the consumer is in the decision. That changes the amount of information they need to make a decision. The level of involvement may be considered a continuum from decisions that are fairly routine, sometimes called habits, to decisions that require extensive thought and a high level of involvement. Whether a decision is low, high, or limited, involvement typically varies by consumer rather than by the product or service. For example, for most consumers, purchasing a car is high-involvement decision because it doesn't happen often, it is expensive compared to their income and it is a complex and long term decision. When a consumer is engaged in the purchase process for the car, they might engage in extensive search using word of mouth, online product reviews, and safety ratings.

For high-involvement products, the brand reputation may important to consumers. For example, beginning in the 1970s, American-made cars had such a poor reputation for quality that Japanese car brands were able to enter and dominate the market. Since then, due to government regulation, the quality of American cars has improved (with the exception of Tesla) but American cars continue to have a lower product quality brand image than Japanese cars. In the 2021 Consumer Report's Annual Report on Car Performance, Reliability, Satisfaction, Safety & Emissions, Mazda, Toyota, and Lexus have consistently been the top three brands (Consumer Reports, 2021). ‡

Consumers do not go through all the stages in the decision process for low involvement products such as bread or rice because they don't need to search for information or evaluate alternatives. **Low-involvement decisions** are typically inexpensive (compared to income), purchased regularly and pose low risk to buyers if they make a mistake or there is a problem with them. Not going through all the stages is called **routine response behaviour**, that is, they make automatic purchase decisions based on limited information or information they have gathered in the past. For example, if you always order bottled water at lunch, you are exhibiting routine response behaviour. You likely don't think about other drink options because your routine is to order bottled water.

Similarly, if you run out of your bottled water at home, you may buy more without going through information search.

Unanticipated low-involvement purchases are made without planning or previous thought. These are called **impulse buying**. While you're waiting to check out at the grocery store, perhaps you see a protein bar and buy it simply because you want it. You might see a roll of tape at a check-out stand and remember you need one or you might see a bag of popcorn and realize you're hungry or just want them.

To reach as many consumers as possible at the moment of decision, low involvement products, such as chocolate bars, often place them in as many locations as possible. Products that are typically high-involvement such as cars may use more personal selling to answer consumers' questions. Brand names can also be very important regardless of the consumer's level of purchasing involvement. Consider a low- versus high-involvement decision, for example, purchasing a tube of toothpaste versus a new car. You might routinely buy your favorite brand of toothpaste, not thinking much about the purchase (engage in routine response behaviour), but not be willing to switch to another brand either. Having a brand you like saves you "search time" and eliminates the evaluation period because you know what you're getting.

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

High-involvement decisions can cause buyers a great deal of post-purchase dissonance (anxiety) if they are unsure about their purchases or if they had a difficult time deciding between two alternatives. Companies that sell high-involvement products are aware that post purchase dissonance can be a problem. They offer potential customers lots of information about their products, including why they are superior to competing brands and how well they function post purchase. Real salespeople, either in person or as live chats, or artificial intelligence in the form of chatbots may be used to answer questions and reassure customers. ‡

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

3.4 Factors That Influence Consumers' Buying Behaviour

LEARNING OBJECTIVE

- Understanding the many influences on the consumer behaviour.

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

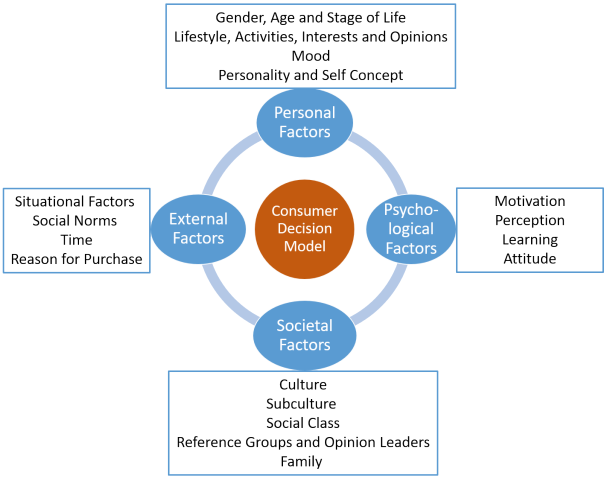

Figure 3.6 – Influences on Consumer Behaviour‡ Joanne McNeish, Ryerson University CC BY-NC 4.0

External Factors

Situational Factors

Have you ever been in IKEA and couldn't find your way out? Marketing professionals take physical factors such as a store's design and layout into account when they are designing their facilities. The longer you wander around a facility, the more you are likely to spend. However, Ikea also understands that sometimes you want to get in and out quickly so they have added in-store maps with that show you where you are in the store and shortcuts that help you navigate more quickly through the store.

Figure 3.7 – "Ikea Map" by Jaysin Trevino is licensed under CC BY 2.0

Grocery stores frequently place fruits and vegetables, and cleaning products on the opposite ends of the stores because people often need both types of products. To buy both, they have to walk around an entire store, which increases the chance the consumer will see something else they want to buy. Also think about products positioned at the end of aisles or on separate displays in the middle of major aisles. ‡

Store locations also influence behaviour. Tim Hortons has done a good job in terms of locating its stores. It has over 4,000 restaurants across Canada so whether you are in downtown Toronto or driving past a small town in Springhill, Nova Scotia, you are likely to pass a Tim Hortons. You can also buy Tim Hortons coffee at airports, or any place where there is foot traffic, that is many people passing by a location. ‡

Physical factors that companies can control, such as the layout of a store, music played at stores, the lighting, temperature, and even the smells you experience are called **atmospherics**. Perhaps you've visited the office of an apartment building and noticed how great it looked and even smelled. It's no coincidence. The managers of the building were trying to get you to stay for a while and have a look at their facilities. Research shows that "strategic fragrancing" results in customers staying in stores longer, buying more, and leaving with better impressions of the quality of stores' services and products. Mirrors near hotel elevators are another example. Hotel operators have found that when people are looking at themselves in the mirrors, they don't feel as if they are waiting as long for their elevators (Moore, 2008).

Not all physical factors are under a company's control, however. Rainy weather can be great for some companies, such as umbrella manufacturers such as Totes, but a problem for others (Totes-Isotoner, n.d.). Beach resorts, outdoor concert venues, and golf courses suffer when it is raining heavily. Businesses such as automobile dealers also have fewer customers because most people don't want to be test driving a car in the rain.

Companies often attempt to deal with physical factors such as bad weather or situations that affect consumer purchase patterns by offering price discounts or alternative ways to shop. For example, many resorts offer consumers price discounts to travel to beach locations during hurricane season. During the COVID-19 pandemic, stores moved to a Click and Collect model when customers were unable to enter the stores and the delivery capacity could not be expanded fast enough to deliver products direct to customers' homes. Customers were able to order products online and then go to the store when the item was ready to be picked up. Employees brought the items out to the customers. ‡

Crowding is another situational factor. Have you ever not purchased anything or left the store because it was just too crowded? Some studies have shown that consumers feel better about retailers who attempt to prevent overcrowding in their stores. However, other studies have shown that to a certain extent, crowding can have a positive impact on a person's buying experience. Herd behaviour refers to a kind of decision making where people act as a group, rather than making decisions as individuals (Gaumer & LaFief, 2005). People are naturally curious. If people are lined up to buy something, you want to know why. Should you get in line to buy it too? Black Friday Sales is a time when stores offer special deals for one day and open very early in the morning. ‡

Social Norms

It used to be that buying individual one-time use plastic water bottle was considered to be the healthy and safe way to consume water instead of drinking tap water. Now, the trend is toward carrying recyclable water bottles that you refill with tap water. **Social norms** refers to expectations what you should say or do in specific situations based on the values of the social group or society. Today, some people will judge you negatively for carrying non-recyclable plastic bottle. Thus, what others think of you might affect the product you will be seen by others in your social group. ‡

Companies like Pampered Chef that sell their products at parties understand that the social situation makes a difference. When you're at a friend's Pampered Chef party, you don't want to look cheap or disappoint your friend by not buying anything. If you have drunk too much when you were out with friends because you were worried about what they thought, your consumption was affected by the people you were with (Gregory and Munch, 1997).

Time

The time of day, time of year, and how much time consumers feel like they have to shop affect what they buy. Researchers have even discovered whether someone is a “morning person” or “evening person” affects shopping patterns. Have you ever gone to the grocery store when you are hungry or after getting paid when you have money to spend? When you are hungry or have cash, you may purchase more than you would at other times. Seven-Eleven is a company that is extremely sensitive to time and how it affects buyers. The company’s point-of-sale systems at its checkout counters monitor what sells well and when. The goal is to get the products on the shelves when and where consumers want them. For example, Seven-Eleven Australia offers Krispy Kreme donuts, a brand of fresh donuts, in the morning. Seven-Eleven Indonesia has free internet, seats, inside and out, and live music at night. 7-Eleven, Denmark offers fast snacks and healthy food all day (Klook Team, 2020). ‡

Companies worldwide are aware of people’s lack of time and are finding ways to accommodate them. Some doctors’ offices offer drive-through shots for patients who are in a hurry and for elderly patients who find it difficult to get out of their cars. During the COVID-19 pandemic, drive through testing and vaccines were offered as a way to keep people at a distance from each other and to expedite the process. ‡ On Amazon, for example, if you know what you want to order, to speed up the ordering process, you just click on Buy Now and Amazon uses information stored about you, your default method of payment and delivery address to complete the transaction. ‡

Reason for the Purchase

The reason you are shopping also affects the amount of time you will spend shopping. Are you making an emergency purchase? Are you shopping for a gift or for a special occasion? Are you buying something to complete a task and need it quickly? In recent years, Shoppers Drug Mart locations have sprung up all over Canada. One-stop shopping is one of the key reasons. Shoppers offers a wide variety of goods and services, everything from prescribed drugs and over the counter drugs, to gifts and cards, as well as groceries. It means that you can go to one store and get everything you need. Many of these stores are open 24/7 in locations where there may not be a grocery store open. ‡

Purchasing a gift might not be an emergency situation, but you might not want to spend much time shopping for it either. Gift cards have become more popular because you don't have to figure out what the person would like, or spend time browsing in a store or online. You can purchase gift cards for online or offline merchants at their store, online or at your local grocery or drug store.

By contrast, suppose you need to buy something expensive, such as a luxury watch. You could buy one online but you may hesitate to do that. What if the watch was fake? What if you didn't like the way it fit your wrist and you wanted to return it?‡ You would have to consider how to ship it securely so that it gets back to the seller, making the overall purchase more complicated (Hornik & Miniero, 2009). Amazon has noticed the reluctance among consumers to buy clothing online. They offer 'try-before-you-buy' method for Amazon Prime members (Amazon, n.d.). You order the item, not pay for it, try it at home when it arrives, and select what you are buying on the website. You are only charged for the items you select if return the items you did not like.

Personal Factors

Gender, Age, and Stage of Life

While demographic variables such as income, education, and marital status are important, we will look at how gender, gender orientation, stage of life and age influence purchase decisions.

It used to be a strongly held belief that those who self-identify as male or female need and buy different products (Ward & Tran, 2007). It was thought that they shopped differently and in general, had different attitudes about shopping. For some products and while many people wish it weren't true, in a study commissioned by PEW, a research nonpartisan fact tank, women who have a male partner and children report that they are more likely to do the most of the meal preparation and grocery shopping (Schaeffer, 2019).

Recent research into many product categories suggest focusing on sexual orientation reflects an unnecessary stereotype (Eisend and Hermann, 2020). While certain products could be considered as a predominately female or male product, best practice suggests that you consider what biases you are bringing to the decision about gender. Here are some questions you should be asking not only about gender, but other potential biases about people. ‡

> Are you bringing in gender or gendering the product or service when your company doesn't need to?
>
> Who do you think the product or service is for, and why do you think that?
>
> Are there other customer segments who share some characteristics with this group who might also be interested in the product or service? ‡

Surprisingly some brands still make assumptions about gendered behaviours. Making assumptions like this can be costly in a social media world where groups can target your brand and company for inappropriate communication. Here you can find some examples of ads using inappropriate gender tropes.

You have probably noticed that the things you buy have changed as you age. Think about what you wanted and how you spent five dollars when you were a child, a teenager, and an adult. When you were a child, the last thing you probably wanted as a gift was clothing. As you became a teen, however, cool clothes probably became a bigger priority. Depending on your **stage of life**, what you purchase will change.

If you're single and working after graduation, you probably spend your money differently than a newly married couple. How do you think spending patterns change when someone has a young child or a teenager? Diapers and day care, tuition, electronics, regardless of the age, children affect the spending patterns of families. Once children leave home the parents spending patterns may change again. ‡

Ageism is an increasingly serious issue as more people live longer and are healthier. Like other forms of discrimination, it is important not to make assumptions about people based on age. The World Health Organization cautions that there is no 'average' older person. Their interests and capabilities are shaped by a variety of factors. Older doesn't equal dependent. Adopting healthy lifestyles and with medical interventions, older Canadians will continue to participate in the workforce, in their communities and with their friends and family, longer than any previous generation. "Biological ageing is only loosely associated with person age in years. Some 80 year-olds have physical and mental capacities similar to many 20 year-olds. Other people experience declines in physical and mental capacities at much younger ages" (World Health Organization, 2020). ‡

For example, the group sixtyandme has information on their website devoted to encore career—that is, businesses and careers that women have started after they turned 60 years of age. Note that they make extensive use of social media tools and online connections (Sixty and Me, n.d.). One advantage of older consumers is that the major expenses of the middle stage of life are over. Many have more disposal money than ever and those marketers that target them may reap the benefit (Beer, 2019). ‡

Have a look at this ad from Nike. One of the ads in their "Unlimited" campaign highlighted 86-year-old Ironman athlete Sister Madonna Buder, the "Iron Nun." ‡

Your **chronological age**, or actual age in years, is one thing. Your **cognitive age**, or how old you perceive yourself to be, is another. A person's cognitive age affects his or her activities and sparks interests consistent with his or her perceived age (Barak & Gould, 1985). Chronological age used to be considered a significant predictor of consumer behaviours, including people's dining out, watching television, going to bars, playing video games, and shopping (Barak & Gould, 1985). However, companies have discovered that the group known as Baby Boomers (roughly 57-75 years of age) are redefining older age and many have taken up activities traditionally only done by younger adults. ‡

Figure 3.8 – Masters Rowing "IMG_2170" by mr. dandro is licensed under CC BY 2.0

Figure 3.9 – "Mercer Loons Motorcycle Club" by chumlee10 is licensed under CC BY-NC-SA 2.0

Lifestyle, Activities, Interests and Opinions

If you have ever watched the reality TV shows such as the Real Housewives franchise, you can see that despite the fact the women are chosen for where they live, their lifestyles (the way in which they live and present themselves) can differ radically.

In order to understand consumers, companies may interview people about their lifestyles, activities, interests, and opinions. Consumers are asked about what they do, that is, how they spend their time and what their priorities, values, opinions, and general outlook on the world are.

Asking people directly is not only a way to understand them. During the COVID-19 pandemic, researchers used GPS data collected from cell phone carriers to view human mobility and social interactions in order to understand which groups or locations tended to increase the risk of infection. Some companies have paid people to keep a daily written or photographic journal of their activities and routines. ‡

Unilever took a very creative approach to understanding how women think of themselves as part of the Dove Real Beauty campaign. Women were asked to describe their face in detail to an FBI trained Forensic artist from behind a curtain. After the first sketch was complete they met with another person who went onto describe the women to the sketch artist. More than 80% of the women had distorted versions of themselves. You can watch the video on YouTube to see the reaction of the women and the conclusions they drew after looking at both sketches.

A number of research organizations examine lifestyle and psychographic characteristics of consumers. **Psychographics** combines the lifestyle traits of consumers and their personality styles with an analysis of their attitudes, activities, and values to determine groups of consumers with similar characteristics.

Mood

Have you ever felt like going shopping for fun, but other times, you weren't interested? People's moods temporarily affect their spending patterns. Some people enjoy shopping. They find it entertaining. Internal and external factors can affect a person's mood.

Let's say you normally work out in the morning, but you slept late and didn't have time to fit it in. For the rest of the day, you might feel out of sorts and upset with yourselves for not getting up on time. When grocery shopping that afternoon, you may be more tempted buy snack food rather than fruits and vegetables. It is difficult for marketers to know how each consumer is feeling. However, snack food companies understand from marketing research how people are thinking about snack food. They will promote their products by connecting the product to a healthy ingredient even if the snack has high fat or sugar content. For example, Nature Valley Protein Bars come in various flavors including coconut almond. That sounds healthy so you feel as if you are having a treat but also eating healthily. ‡

Figure 3.10 – "Nature Valley Protein" by Like_the_Grand_Canyon is licensed under CC BY-NC 2.0

Personality and Self-Concept

Personality describes a person's disposition, helps show why people are different, and encompasses a person's unique traits.

The “Big Five” personality traits that psychologists discuss frequently include **openness** or how open you are to new experiences, **conscientiousness** or how diligent you are, **extraversion** or how outgoing or shy you are, **agreeableness** or how easy you are to get along with, and **neuroticism** or how prone you are to negative mental states.

Do personality traits predict people’s purchasing behaviour? Can companies successfully target certain products to people based on their personalities? How do you find out what personalities consumers have? Do extraverts really spend money and introverts only save? ‡

The link between people’s personalities and their buying behaviour is somewhat unclear to the outside observer. While there are lists of questions that can help a company understand their customers in detail, it is an expensive process and the cost of the research as well as product development may not result in a positive Return on Marketing Investment.

Marketers have had better luck linking people’s self-concepts to their buying behaviour. Your **self-concept** is how you see yourself, whether positive or negative. Your **ideal self** is how you would like to see yourself, whether it’s more attractive, more popular, more eco-conscious, and how you think others see you. Your self-concept influences your purchase behaviour. Marketing researchers believe people buy products to enhance how they feel about themselves to get themselves closer to their ideal selves. Many beauty products and cosmetic procedures are advertised in a way that’s supposed to appeal to the ideal self people seek. All of us want products that improve our lives.

Psychological Factors

Motivation

Motivation is the inward drive we have to get what we need. In the mid-1900s, Abraham Maslow, an American psychologist, developed the hierarchy of needs shown in Figure 3.11 "Maslow's Hierarchy of Needs".

Figure 3.11 – Maslow's Hierarchy of Needs This image is from Principles of Marketing by University of Minnesota and is licensed under a Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License.

Maslow theorized that people have to fulfill their basic needs, food, water, and sleep, before they can begin fulfilling higher-level needs. Have you ever gone shopping when you were tired or hungry? Even if you were shopping for something that you really wanted you wanted to sleep or eat even more.

The need for food is recurring. Other needs, such as shelter, clothing, and safety, tend to be enduring. Still other needs arise at different points in time in a person's life. For example, during grade school and high school, your *social* needs probably rose to the forefront. You wanted to have friends and get a date. Perhaps this prompted you to buy certain types of clothing or electronic devices. After high school, you began thinking about how people would view you in your "station" in life, so you decided to pay for college and get a professional degree, thereby fulfilling your need for *esteem*. While Maslow believed that people can attain and maintain a state of self-actualization, other researchers do not. However, the idea that people move through different motivational stages and that they affect their buying decisions has been widely tested and found to be useful in persuading people to buy products and services. ‡

Achieving self-actualization and the manifestation of each of the motivational needs will vary by culture and other external factors. Countries with a Western culture such as Canada or the United States are more strongly focused on the individual, and so these consumers will be more motivated by messages about products and services that will help them attain self-actualization. Consumers living in countries with an Eastern culture such as India or China that are more group focused, tend to more motivated by belongingness and group needs.

Perception

Perception is how you interpret the world around you and make sense of it in your brain. You do so via stimuli that affect your different senses, sight, hearing, touch, smell, and taste. How you combine these senses also makes a difference. In one study, consumers were blindfolded and asked to drink a new brand of clear beer. Most of them said the product tasted like regular beer. However, when the blindfolds came off and they drank the beer, many of them described it as "watery" tasting (Ries & Ries, 2009).

Daily, consumers receive hundreds of messages from television, radio, magazines, websites, social media and even bathroom doors. Consumers are online, watching television, and checking their smartphones simultaneously. Some, but not all, information makes it into their brains. Selecting information from all that is received is called **selective exposure**.

Companies spend money on a variety of communication channels to be sure that you are aware of their message and that you remember it. Have you ever read or thought about something and then started noticing ads and information about it popping up everywhere? Facebook and Google make use of our information when we access their platform to create search results and advertisers use that information to make sure their brand is the one you see. ‡

In addition, when you are interested in a product or service, you become more aware or attuned to information about it. We are not aware of everything we are exposed. **Selective attention** is the process of filtering out information based on how relevant it is to you. At other times, people ignore or forget information and this is called **selective retention**. We may be busy or stressed or the information contradicts ourbeliefs is more likely to be ignored or forgotten. For example, cigarette smokers may ignore or not even notice the anti-smoking warnings on a package of cigarettes. ‡

Figure 3.12 – Cigarette Packages with Warning Label "Smoking kills" by Lexinatrix is licensed under CC BY-NC-SA 2.0

Another potential problem that consumers may experience is **selective distortion** or misinterpretation of the intended message. Promotions for weight loss products show models that look slim and trim after using their products, and consumers may believe they will look like the model if they use the product. The company makes use of this misinterpretation by the way the present the model before and after, the lighting used or even the clothing worn. Sometimes the misinterpretation is not created by the company, but instead by the way in which consumers use the product or service. On many Ikea products, there is a symbol to indicate that for the furniture to be used safely, it should be attached to the wall to prevent it falling if full, the drawers open and a child climbs on it.

Learning

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

Companies try to get consumers to learn about their products in different ways. Car dealerships offer test drives. Food companies give free samples. To promote its coffee, McDonald's gave customers a free cup of coffee. Have you ever eaten the food samples in a grocery store? While sampling is an expensive strategy, it allows consumers to try the product with no risk. Often after trying, consumers buy the product.

Another kind of learning is **operant or instrumental conditioning**. Learning occurs through repetitive behaviour that has positive or negative consequences. Companies engage in operant conditioning by rewarding consumers with incentives, which cause consumers to want to repeat their purchasing behaviours. Some examples are toys that come in McDonald's Happy Meals, free tans offered with gym memberships and a free sandwich after a certain number are purchased.

Another learning process called **classical conditioning** occurs by associating a conditioned stimulus (CS) with an unconditioned stimulus (US) to get a particular response. The more frequently the CS is linked with the US, the faster learning occurs and this is what advertisers and businesses try to do. How does this operate?

Think about the last time you were at a restaurant to celebrate your birthday. You had a great time with your friends and you remember that the food and service was great. It could be that classical conditioning occurred. That is, the event, celebrating your birthday with good friends made you feel happy. You associate the feelings about the event and your friends with the food you ate and the service you received. The next time you are thinking about a restaurant, you will have good thoughts about the place you celebrated your birthday, regardless of the whether the food and service was actually as good as you remember it. To take advantage of associating conditioned stimulus with an unconditioned stimulus, when promoting their restaurants, many chains show people having a good time rather than highlighting the food they offer. ‡

Attitude

Attitudes are “mental positions” or emotional feelings, favorable or unfavorable evaluations, and action tendencies people have about products, services, companies, ideas, issues, or institutions. Attitudes tend to be enduring, and because they are based on people’s values and beliefs, they are hard to change. Companies want people to have positive feelings about their offerings. A few years ago, KFC, a fast food restaurant chain, began running ads to the effect that fried chicken was healthy, until the government department that regulates advertising received a complaint and after an investigation, told the company to stop. Wendy’s slogan is that its products are “way better than fast food” is another example. Some people think fast food doesn’t taste good but for many there are times when fast food is what they want. In using this slogan, Wendy’s is trying to get consumers to think about its offerings as being better than their competitors when consumers are in the mood for fast food.

Societal Factors

Societal factors such as culture, subculture, reference groups and opinion leaders, and family are external but may have far-reaching influence on consumer's attitudes, beliefs and behaviour.

Culture

Culture refers to the shared beliefs, customs, behaviours, and attitudes that characterize a society. Culture is communicated between people, and other actors in the society, and even by the products and services available. It is often considered the broadest influence on a consumer's behaviour. Your culture prescribes the way in which you should live and can have a strong effect on the things you purchase.

When we think about a concept called modest fashion, we may think first about the hijab which is worn by Muslim women. However, other religious faiths also have female head coverings. In some cases, these are prescribed by law and in other cases, prescribed by a particular religion. Other traditions such as a national holiday such as Canada Day reflect the way the pride citizens have in their country.

The way in which culture manifests itself in these holidays might be emphasis on military capability versus music, food and drink and parades. Defender of the Fatherland Day in Russia is celebrated with parades and processions in honor of veterans. Women give small gifts to men in their lives. July 1st is celebrated as the founding of Canada with festivities ranging from fireworks, parades and concerts to more casual family gatherings and barbecues. ‡

Subculture

A **subculture** is a group of people within a culture who are different from the dominant culture but have something in common with one another such as common interests, vocations or jobs, religions, ethnic backgrounds, and geographic locations. Marketing products based on the ethnicity of consumers is useful but may become harder to do in the future because the boundaries between ethnic groups are blurring. According to Statistics Canada this is ethnic breakdown of Canada in 2016: Canadian, English, Scottish, French, Irish, German, Chinese, Italian, First Nations, East India, plus others.

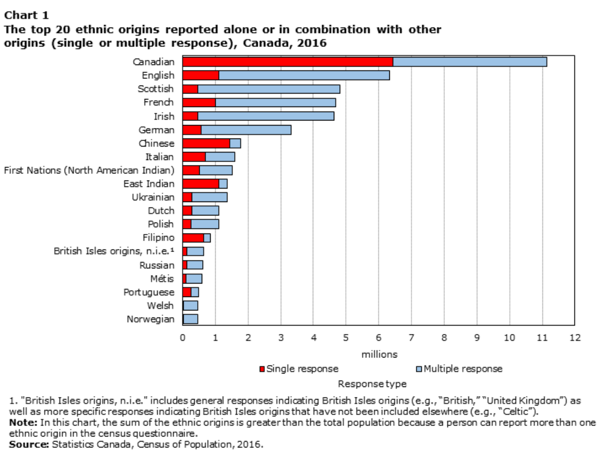

Figure 3.13 – Breakdown of 20 Ethnic Origins in Canada

Note: percentages add up to more than 100% because respondents were able to identify more than one ethnic origin (2016 est.) (Statistics Canada, 2016). ‡

Subcultures may be created out of people's interests, similarities, and behaviours. Marketing professionals may design specific products for them. You have may have heard of Cosplay which is an activity and performance art in which people wear costumes to represent a specific character. ‡

Social Class

Increasingly there is disagreement about the usefulness of social class for marketers' understanding of their customers. There is tremendous variation between countries due to the role of government in providing income and health security such as in Canada. Moreover, social class is a constructed term with some research focusing on income levels, some on the education level achieved and some on the activities, mindset and power associated with the group (Reeves, Guyot & Krause, 2018). Consumers in the same social class are purported to exhibit similar behaviour. One study that examined the rates of smoking, linked it to low socioeconomic status (Parnia and Siddiqi, 2017). ‡

Reference Groups and Opinion Leaders

Reference groups are groups (social groups, work groups, family, or close friends) a consumer identifies with and may want to join. They influence consumers' attitudes and behaviour. If you have ever dreamed of being a professional player of basketball or another sport, you have an aspirational reference group. For example, Nike hires pro-athletes such as Serena Williams to promote the company's products. There may also be **dissociative groups** or groups with whom a consumer does not want to associate.

Opinion leaders are people with expertise in certain areas. Consumers respect these people and often ask their opinions before they buy goods and services. A person dressed as a doctor may be used in a pharmaceutical ad. Doctors are considered by many to be a trusted source of information, therefore their appearance in the advertisement will increase the chances of you paying attention to the information or brand. People whose opinion you trust will also influence you. If you are on Facebook, and someone whom you know has expertise about a product or service, and recommends it to you, this also may influence you.

Family

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

Companies are interested in which family members have the most influence over certain purchases. Children have a great deal of influence over many household purchases. In a 2016 survey, 44 percent of parents said they give their kids more of a say in family decisions than they had as a child, while 45 percent said they are more generous with their kids than their parents were with them (Wong-Li, 2016). ‡

IKEA used this knowledge to design their showrooms. The children's bedrooms feature fun beds with appealing comforters so children will be prompted to identify and ask for what they want.

Marketing to children has come under increasing scrutiny. Some critics accuse companies of promoting their products to children during children's television programs or movies to motivate them to ask their parents to buy the product. Some television programs or movies are only created in order to promote the characters in them as toys. The first Lego movie came out in 2014 and not only was the movie a financial success, it sold even more Lego. ‡

‡ signifies new material that Ryerson University authors have added to this adaptation of Principles of Marketing published by University of Minnesota Library Publishing, licensed under a Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License.

3.5 Formal and Informal Methods of Understanding the Customer

LEARNING OBJECTIVE

- To understand the formal and informal techniques used to understand customers.

There are a variety ways in which we can understand consumers. Steve Jobs said:

> "Some people say give the customers what they want, but that's not my approach. Our job is to figure out what they're going to want before they do. I think Henry Ford once said, 'If I'd ask customers what they wanted, they would've told me a faster horse.' People don't know what they want until you show it to them. That's why I never rely on marketing research. Our task is to read things that are not yet on the page" (Smith, 2019).

However, Steve Jobs actually did do marketing research. He did it by reading, talking to people and informally observing the way people do things and having products built over and over until he had a product that he thought would do the job people wanted.

Most products and services fail in part because the companies involved didn't take time to understand who their product or service was for, why that person or company might pay for or use the product or service, and how best to communicate the benefits of the product or service to them (Matthews, 2018).

In this section we will cover the formal marketing research process as well as what we will call the informal processes such as marketing intelligence and secondary research. However, the use of the term formal and informal doesn't connate the importance of either, rather the degree to which the data collected can be depended on, projected to the total population under study and whether the information can be replicated. ‡

Many marketing problems and opportunities can be solved by gathering information from a company's daily operations and analyzing it. Market intelligence involves gathering information on a regular, ongoing basis to stay in touch with what's happening in the marketplace. Marketing research is what a company used if it can't answer a question by using market intelligence, internal company data, social media data, or analytical software. Marketing research is the most controllable of the various sources of information. That is because marketing research is designed for the specific problem. The other sources are designed for other purposes. ‡

Marketing Research

Marketing research is what a company uses to answer specific questions. The name you should give your new product is an example. Unless your company has previously done some specific research on product names, what consumers think of them, good or bad, you're probably not going to find the answer to that question in your internal company data. Also, unlike internal data, which is generated on a regular basis, marketing research is not ongoing. Marketing research is done on an as-needed or project basis. If an organization decides that it needs to conduct marketing research, it can either conduct marketing research itself or hire a marketing research company to do it.

So when is marketing research the right choice? The specific objectives of the research, whether sufficient data already exists, and the company needs to balance the cost of research against the revenue earned, or additional costs for making a wrong decision by not doing the research. Whether primary or secondary research, it takes time to collect and synthesize the information. If a quick decision is needed for a small problem, it might not be possible or necessary to do the research. Sometimes the answer is obvious to the company, so there is no point in conducting the research. If one of your competitors comes up with a new offering, you may be able to understand whether their product launch was successful by informally talking to their suppliers, or distributers.

Marketing research can help companies avoid making costly mistakes. When, Target entered Canada from the U.S, they assumed that the shoppers in the two countries were the same based on the Canadians who crossed the border to shop in U.S. Target stores. Unfortunately, Target failed to meet its profit objectives and closed its Canadian stores after only two years. There are many reasons why Target failed (Dahlhoff, 2015). However, marketing research and/or using available market intelligence would have improved the company's chances of success. ‡

Figure 3.14 – Steps in the Marketing Research Process This image is from Principles of Marketing by University of Minnesota and is licensed under a Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License.

Step 1: Define the Problem (or Opportunity)

Defining the problem to be answered by the data from the research is the most critical part of the study. Suppose your product is tutoring other students in a subject in which you do well. You have been tutoring for a while, but suddenly, your business activity changes. Perhaps it drops off, or it explodes, and you can't handle the number of students you're being asked to tutor. If the business has exploded, should you try to expand your services? Perhaps you should subcontract with some other students. You could send them students to be tutored and you might negotiate a cut of their pay for each student you referred to them.

A decrease or increase in demand sounds like a problem but it is not the problem being referred in Step 1. An increase or decrease in demand is a symptom of a potential problem. For example, maybe your business has dropped off because your school is experiencing financial trouble and has lowered the number of scholarships given to incoming students. Consequently, there are fewer total students on campus who need your services. Conversely, if you're swamped with people who want you to tutor them, perhaps your school awarded more scholarships than usual, so there are a greater number of students who need your services. Alternately, perhaps you ran an ad in your school's newspaper, and that led to the increase in the number of students wanting you to tutor them.

Businesses face similar changes in demand as you do as a tutor. They might look at the symptoms, for example, decrease in sale or profit, for example, and try to understand the potential causes. If you decide to conduct your own research or approach a marketing research company you or the company will think through questions such as:

In what semester(s) did your tutoring revenues fall (or rise)?

In what subject areas did your tutoring revenues fall (or rise)?

In what sales channels did revenues fall (or rise): Were there fewer (or more) referrals from professors or other students? Did the ad you ran result in fewer (or more) referrals this month than in the past months?

Among what demographic groups did your revenues fall (or rise), women or men, people with certain majors, or first-year, second-, third-, or fourth-year students?

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

The next task for the researcher is to put into writing the research objective. The research objective is the goal(s) the research is supposed to accomplish. The marketing research objective for your tutoring business might be to survey professors who teach the first year marketing course to determine why the number of students referred for tutoring dropped in the second semester.

Step 2: Design the Research

The next step in the marketing research process is to do a research design. It outlines what data you are going to gather and from whom, how and when you will collect the data, and how you will analyze it once it's been obtained.

There are two basic types of data you can gather. The first is primary data. **Primary data** is information you collect yourself, using hands-on tools such as interviews or surveys, specifically for the research project you're conducting. **Secondary data** is data that has already been collected by someone else, or data you have already collected for another purpose. Collecting primary data is the right way to go when you want greater control over the data collected to answer your problem. Before embarking on primary research, secondary research can be a great place to start. We will discuss secondary research as part of the marketing intelligence section. ‡

Primary Research

Types of Marketing Research Design

Research designs fall into one of the following three categories:

- Qualitative Research
- Quantitative Research
- Causal Research (experiments)

Qualitative Research

An **exploratory research design** is useful when you are investigating a problem but you would like to have more detail or a better understanding of the topic before conducting quantitative research. Perhaps on social media you noticed a potential new opportunity. You would then do exploratory research to investigate it further.

One form of exploratory research is qualitative research. Qualitative research is any form of research that explores consumers' attitudes and behaviours through questions such as *why* rather than *what* or *how much*. Different forms, such as depth interviews and focus group interviews, are commonly used.

The **depth interview**, engaging in detailed, one-on-one, sessions with potential buyers, is an exploratory research technique. The moderators prepares a set of general topics, uses questions that are open ended, so that the participant follows their own thinking and provides lots of detail.

"How did you feel about the app after you downloaded the software?" is an example of a question that might be asked. A depth interview also allows a researcher to ask logical follow-up questions such as "Can you tell me what you mean when you say you felt uncomfortable about downloading it?"‡ or "Can you give me some examples?" to help dig further and shed additional light on the research problem. Depth interviews can be conducted in person, over the phone or online with the moderator taking notes or recording the interview.

Sometimes, you want to understand different points of view so your company decides to recruit a group of people to talk about the topic in which your company is interested. A **focus group** is a group of people who are brought together to discuss a marketing research topic with one another. They may be users, influencers, or buyers.‡ A moderator is used to focus the discussion, the sessions are recorded, and the main points of consensus are later summarized by the marketing researcher. For example, textbook publishers may gather groups of professors at educational conferences to participate in focus groups. As with depth interviews, focus groups can be conducted in person, over the phone or online.

The Basic Steps of Conducting a Focus Group

- Establish the objectives of the focus group. What is its purpose?
- Identify the people who will participate in the focus group. What makes them qualified to participate? How many of them will you need and what they will be paid?
- Obtain contact information for the participants and send

out invitations (usually e-mails are most efficient).

- Develop a list of questions.
- Choose a moderator.
- Choose a location in which to hold the focus group, in person or online.
- Conduct the focus group. Almost always a focus group is audio or video recorded unless it done in store or at a location where recording is more difficult. If conducted online, using upgraded versions of Zoom will also provide a reasonable transcript from the recording. ‡
- Summarize the notes from the focus group and write a report.

Another useful technique is **ethnography** (in-person or online). In ethnographic research, researchers interview, observe, and often videotape people while doing day-to-day activities. The Walt Disney Company used ethnographers to uncover the likes and dislikes of boys aged six to fourteen, a financially attractive market segment for Disney, but one in which the company has been losing market share. The ethnographers visit the homes of boys, observe the things they have in their rooms to get a sense of their hobbies, and accompany them and their mothers when they shop to see where they go, what the boys are interested in, and what they ultimately buy (Barnes, 2009).

In some cases, your research questions may be sufficiently answered with exploratory research techniques. However, exploratory research is not sufficient to understand how the larger group of customers will think or behave. For other questions, you need to quantify the demand or understand from larger groups of customers, which reasons are more important to a majority of them, or the specific reasons why they will prefer, or buy your brand versus the competition.‡ Then quantitative research such as descriptive research or causal research is required.

Quantitative Research

Anything that can be observed or counted falls into the category of quantitative research. **Descriptive research design** involves gathering hard numbers, often via surveys, to describe or measure a phenomenon so as to answer the questions of who, what, where, when, and how. "On a scale of 1–5, how satisfied were you with your service?" is a question that illustrates the information a descriptive research design is supposed to capture.

Descriptive research, for example, can tell you how many of, and how satisfied your customers are. It is not as effective at telling you in detail why, even if you use open-ended questions. That's because quantitative research depends on standardizing the questions and answers so that each participant receives the same information.‡ Open-ended questions on a quantitative survey can be done but are not considered projectable to the total customer group and are not a complete substitute for qualitative or causal research design (Wagner, 2007).

Causal Research

Causal research design examines cause-and-effect relationships. Using a causal research design allows researchers to answer "what if" types of questions. For example, if a company changes *X* (say, a product's price, design, placement, or advertising), what will happen to *Y* (say, sales or customer loyalty)? The researcher designs an experiment that "controls," or holds constant, all of a product's marketing elements except one (or using advanced techniques of research, a few elements can be studied at the same time). One variable is changed, and the effect is measured. Sometimes the experiments are conducted in a laboratory using a simulated setting designed to replicate the conditions buyers would experience. Or the experiments may be conducted in a virtual computer setting. Due to the availability of online software, companies are using causal research more often.

An experiment conducted in a natural setting such as a store is referred to as a **field experiment or test market**. Companies sometimes do test markets either because it is more convenient or because they want to see if buyers will behave the same way in the “real world” as in a laboratory or on a computer. Before a large company rolls out a product to the entire marketplace, it will often place the offering in a test market to see how well it will be received. Due to their cost and that the company is exposing a new product to their competition, companies make only use a test market when the risks of failure is high and they have few competitors who can copy the product.

Step 3: Design the Data-Collection Forms

There are many different types of data collection forms. The range from a discussion guide used in a depth interview or focus group to a structured questionnaire in quantitative research to code book in content analysis or an observer form in ethnographic research. Questionnaires are used when surveying people. Since they are widely used we discuss them in a little more detail.

Questionnaire Design

To produce the best results, survey questionnaires needs to be carefully designed. If the behaviour of buyers is being formally observed, , the data need to be recorded on a standardized data-collection form that is likely to be digital. Asking the same questions with pre-set answers ensures that the data collected will be comparable.‡ Most questionnaires follow a similar format. They begin with an introduction describing the study. That is followed by instructions for completing the questionnaire and, how to submit it. The first few questions that appear on the questionnaire are usually basic, warm-up type of questions the respondent can readily answer, such as product usage or easy to answer questions. The warm-up questions are then followed by a logical progression of more detailed, in-depth questions that get to the heart of the question being researched. Questions such as the respondent's age, level of education, place of residence should be put at the end of the questionnaire. The questionnaire often ends with thanking the respondent for participating in the survey. ‡

How the questions are worded is extremely important. Care needs to be taken that the survey questions are written in an unbiased, neutral way. In other words, they shouldn't lead a person taking the questionnaire to answer a question one way or another by virtue of the way they are worded. The following is an example of a leading question:

> *Don't you agree that students deserve an A grade in every course*?

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

> *Which brand of toothpaste do you use*?

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

> *Which brand of toothpaste have you used at home in the past six months? If you have used more than one brand, please list each of them.*

Multiple-choice and yes-and-no questions are examples of closed-ended questions. Open-ended questions, or questions that ask respondents to write in their own answers can be included. However, they are harder to tabulate than closed-ended questions.

If you are interested in learning more about how to design an effective questionnaire refer to the article “Designing a Questionnaire that Dives Beneath the Surface”. ‡

Step 4: Specify the Sample

Once you have created your questionnaire or other marketing study, you select a sample or subset of potential buyers or users in the market. First, you must define your population of, for example current or potential customers. The next step is to put together the sampling frame, which is the list from which the sample is drawn. The sampling frame can be put together using for example, customer lists (Wrenn et. al., 2007). Keep in mind that the sampling frame won’t exactly match the population. Some people will be included on the list who shouldn’t be and some who should be included, may be omitted. Think about if you were to conduct a survey of, say, 25 percent of your friends, using their numbers in cell phone. You may have all of your friends in your phone, but some of their phone numbers might have changed or be out of service. Therefore a certain amount of sampling error is to be expected.

For example, if a grocery store needs to quickly conduct some research on shoppers to get ready for an upcoming promotion, they need to make sure that all shoppers are represented. They need to consider those who shop at the store before and after work as well as those who visit during the day. What about people who work a night shift?

Lastly, the size of the sample has an effect on the amount of sampling error. Larger samples generally produce more accurate results. The larger your sample is, the more data you will have, which will give you a more complete picture of what you're studying. Statistics is used to determine a sample's optimal size. If you take a marketing research or statistics class, you will learn more about how to determine the optimal size.

Step 5: Collect the Data

Data can be collected in a number of ways including surveys, taking physical measurements, and observing people. Survey data can be collected using many methods. Online and mobile surveys are the most commonly used. In-person, telephone and mail methods are less used because they are more expensive however, they provide more reliable data. ‡

Regardless of the methods, if people are aware that a company is collecting data, it may have an effect on their answers or their behaviour. For example, a customer has several bags of chips in their shopping cart but realizing she is being observed, out of embarrassment she may decide to put some of the bags back before getting to the checkout station. To get around problems such as these, some companies set up less visible cameras to observe customers. Note using cameras can raise privacy issues in Canada so companies must be careful to indicate to customers and employees that they are being recorded. Similarly Facebook observes your behaviour not only on their website but across many other websites you visit by using cookies and agreements with software app providers. ‡

Step 6: Analyze the Data

Step 6 involves cleaning, exploring and organizing the data to understand what customers told you. ‡ Once all the data is collected, the researchers begin the data cleaning, which is the process of removing data that have accidentally been duplicated (entered twice into the computer) or correcting data that have obviously been recorded wrong. Programs such as Microsoft Excel or IBM SPSS can be used to tabulate quantitative data, as well as graphical presentations of the data.

Quantitative data can be used to draw conclusions. For example what a proportion of the study participants liked or didn't like about an offering can be used to anticipate what the larger target group will like or dislike. Data can also be used to spot differences between groups of people. For example, the research might show that people in one area of the country like the product better than people in another area.

Part of analyzing quantitative data is to see if it seems sound. You can't do the same sort of analysis on qualitative data. Are the conclusions that become apparent from it reasonable? Generally, researchers will report on the validity and reliability of the data. The data is valid if it actually tested what it was designed to test. If you were to repeat the study, and get similar results, the data is said to be reliable. The data collected can also be compared to data from other sources to see if is the conclusions are consistent across different sources.

Step 7: Write the Research Report and Present Its Findings

Whether the research is conducted internally by the company, or with the help of an external research company, it is important to write a report and to create a centralized place to house the reports. This creates an archive of the ideas that a company has investigated and allows for repeated data collection across time for the same research question to show changes or progress.

There are many ways to write up a report but traditionally a research report has the following elements: ‡

- *Title Page* explains what the report is about, when it was conducted and by whom, and who requested it.
- *Table of Contents* outlines the major parts of the report, as well as any graphs and charts, and the page numbers on which they can be found.
- *Executive Summary* summarizes all findings and recommendations of the research. Many people who receive the report may not have time to read the entire report. Instead, they will rely on the executive summary to get an idea of the key results and recommendations.
- *Methodology and Limitations* section of the report explains the technical details of how the research was designed and conducted. The section explains how the data was collected and by whom, the size of the sample, how it was chosen, and whom or what it consisted of (e.g., the number of women versus men or children versus adults). It also includes information about the statistical techniques used to analyze the data. Every study has errors; sampling errors, interviewer errors, and so forth. The methodology section should explain these details, so decision makers can consider their overall impact.
- *Findings* section is a longer, more detailed version of the executive summary that goes into more detail about the data uncovered by the research that support the study's findings.
- *Recommendation*s section should state what should be done as a result of the research.‡

Sources of Secondary Data

In addition to the company's internal information available, external information is also critical to making good decisions. For example, what is the business environment like? Are credit-lending terms loose or tight, and how will they affect what you and your customers are able to buy or not buy? How will rising fuel prices and alternate energy sources affect your company and your products? Do changes in the environment present business obstacles or opportunities? How are your competitors behaving? Online comments and reviews add to the array of data available to a company.

Libraries are a good place to gather free secondary data. They have searchable databases as well as handbooks, dictionaries, and books, some of which you can access online. Government agencies also collect and report information on demographics, economic and employment data, health information, and balance-of-trade statistics, among a lot of other information. In Canada, several federal government departments collect and provide information on Canada. Statistics Canada, Industry, Canadian Radio and Television Commission publish reports and databases with data that can be manipulated to answer your research questions.

https://www.statcan.gc.ca/eng/start

https://www.ic.gc.ca/

https://crtc.gc.ca/eng/home-accueil.htm

In addition, you can check the list of government departments with available information:

https://www.canada.ca/en/government/dept.html

Industry associations and trade publications often provide free information to non-members. Some of the information that is locked can also be accessed through a university, college or public library. The Canadian government has created a list of major industry association in Canada so this is a good place to start.

https://www.canada.ca/en/environment-climate-change/corporate/transparency/briefing-materials/corporate-book/national-industry-organizations.html

Here are a few others that publish research that may be of interest to marketing professional.

https://www.thecma.ca/

https://www.nationalgrocers.org/

https://cba.ca/

https://www.careersinfood.com/canadian-food-and-beverage-trade-associations-resource-73.htm‡

When you are gathering secondary information, you should answer the following questions before your using the data in the reports or dataset:

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

Marketing Intelligence Systems

Marketing information is being gathered all the time by companies as they engage in their daily operations. When a sale is made and recorded whether on the company's website or at a retail store, this is useful marketing information. When a sales representative records the shipping preferences of a customer in a company's customer relationship management (CRM) system, this is useful information. When a company gets a customer complaint and records it, that's useful. All this data can be used to generate consumer insight.

In addition, other information can be collected that indirectly tells the company what transactional data and customer surveys may not indicated. For example, many companies track the return rates on products or cancellation of services. Research has categorized returns as controllable and uncontrollable. The information provides a timely understanding of the quality, appeal and utility of the products and services, to understand, for example, whether to restock the items, to continue a relationship with the company providing the product or service and for retailers, think about creating their own private label products. The Bay, a department store retailer, minimizes the number and cost of product returns because the wrong size was ordered by offering a feature on their website called True Fit. It asks the customers to answer a few questions to determine the best fit, size and style for them. True Fit has built a database from customer data, garment specifications, style attributes about products and transactional data brands and retailer partners (True Fit, n.d.).‡

Integrating all the information you collect so that it can be used by as many people as possible is critical to making good decisions. A marketing information system (MIS) is a way to manage the vast amount of information companies have and could be used to make decisions.

3.6 Discussion Questions and Activities

REVIEW QUESTIONS

1. How do low-involvement decisions differ from high-involvement decisions in terms of relevance, price, frequency, and the risks their buyers face? Name some examples.
2. What stages do people go through in the buying process for high-involvement decisions?
3. Explain what physical factors, social situations, time factors, and/or moods have affected your buying behaviour for different products.
4. Describe how buying patterns and purchase decisions may vary by age, gender, and stage of life.
5. How does the process of perception work and how can companies use it to their advantage in their marketing?
6. Explain what physical factors, social situations, time factors, and/or moods have affected your buying behaviour for different products.
7. Why are companies interested in consumers' cognitive ages and lifestyle factors?

8. How do Maslow's hierarchy of needs and learning affect how companies market to consumers?
9. Why do people's cultures and subcultures affect what they buy?
10. How do subcultures differ from cultures? Can you belong to more than one culture or subculture?
11. Explain why it's important to carefully define the problem or opportunity a marketing research study is designed to investigate.
12. What sections should be included in a marketing research report? What is each section designed to do?

DISCUSSION QUESTIONS

1. Why do people in different cultures buy different products? Discuss with your class the types of vehicles you have seen other countries. Why are they different, and how do they better meet buyers' needs in those countries? What types of cars do you think should be sold in the Canada today?
2. What is your opinion of companies like Google that gather information about your browsing patterns? What advantages and drawbacks does

this pose for consumers? If you were a business owner, what kinds of information would you gather on your customers and how would you use it?

3. Are there any areas in which you consider yourself an opinion leader? What are they? How are companies getting information about opinion leaders?
4. What purchasing decisions have you been able to influence in your family and why? Is marketing to children a good idea? If not, what if one of your competitors were successful in doing so? Would it change your opinion?
5. Name some products or services that have led you feel purchase dissonance. Then categorize them as high- or low-involvement products.
6. Describe the decision process for impulse purchases at the retail level. Would they be classified as high- or low-involvement purchases?
7. Explain the relationship between extensive, limited, and routine decision making rel-ative to high- and low-involvement decisions. Identify examples of extensive, limited, and routine decision making based on your personal consumption behaviour.
8. Why is understanding consumer behaviour so important for companies? Think of examples where you do not think companies understood their consumers.
9. You want to conduct research on consumer acceptance for a new health app. Describe the process you would use. How would your project

change if you want to promote the app for both IOS and Android phones? What would your challenges be if the app is for adults 50 years and older?

10. Given the way people use social media such as tweeter to comment on their experience with a company, why do companies still need to do marketing research? Why not simply use for example, number of tweets and content to see if service is good?
11. You are working for an organization that provides clean water technology to communities in Africa. They've never worked in Malawi but want to and need to understand how consumers source water, how they prepare it (sterilize or clean it), and how they use it. You know that a study was done on water sources, water preparation, and water uses in Kenya. What type of research would the Kenya study be considered and how would you go about validating its findings for Malawi (a different country in Africa)? How would your answer change if your organization was considering a community in a remote area of Nicaragua?

ACTIVITIES

1. Go to http://www.ospreypacks.com and click on

the tab called Stories. Do the Stories make you more or less inclined to purchase an Osprey backpack?

2. Select three advertisements and describe the needs identified by Abraham Maslow that each ad addresses. Find an international version of an advertisement for one of the products or services. What differences do you detect in the international version of the ad?
3. Identify how McDonald's targets both users (primarily children) and buyers (parents, grandparents, etc.). Provide specific examples of strategies used by the fast-food marketer to target both groups.
4. Would you like to own an all-electric car? Do you think there is a viable market for such a product? Team up into small groups of three or four people. As a team, use secondary data to research the viability of selling electric cars profitably. Utilize some of the sources mentioned in the chapter. Try to determine the population of electric-car buyers. Lastly, write a research report based on your findings. Each group should present its findings to the class. Do the findings differ from group to group? If so, why?

CHAPTER 4 - BUSINESS BUYING BEHAVIOUR

4.1 The Characteristics of Business-to-Business (B2B) Markets

LEARNING OBJECTIVES

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

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

Many transactions had to happen before you could purchase your computer.

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

Business products can be very complex. Some need to be custom built or retrofitted for buyers. The products include everything from high-dollar construction equipment to commercial real estate and buildings, military equipment, and billion-dollar cruise liners used in the tourism industry. A single customer can account for a huge amount of business. Some businesses, like those that supply the auto industry, have just a handful of customers—Tesla, Toyota, and/or Ford. Consequently, you can imagine why these suppliers become very worried when the number of cars being bought is declining.

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

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

Unlike many consumers, most business buyers demand that the products they buy meet strict standards. Take for example the Five Guys burger chain, based in Virginia. The company taste-tested eighteen different types of mayonnaise before settling on the one it uses. Would you be willing to taste eighteen different brands of mayonnaise before buying one? Probably not (Steinberg, 2009).

Another characteristic of B2B markets is the level of personal selling that goes on. Salespeople personally call on business customers to a far greater extent than they do consumers. A few of us have had door-to-door salespeople call on us. However, businesses often have multiple salespeople call on them in person or by phone daily, and some customers even provide office space for key vendors' salespeople. Figure 4.1 "Business-to-Consumer Markets versus Business-to-Business Markets: How They Compare" outlines the main differences between B2C and B2B markets.

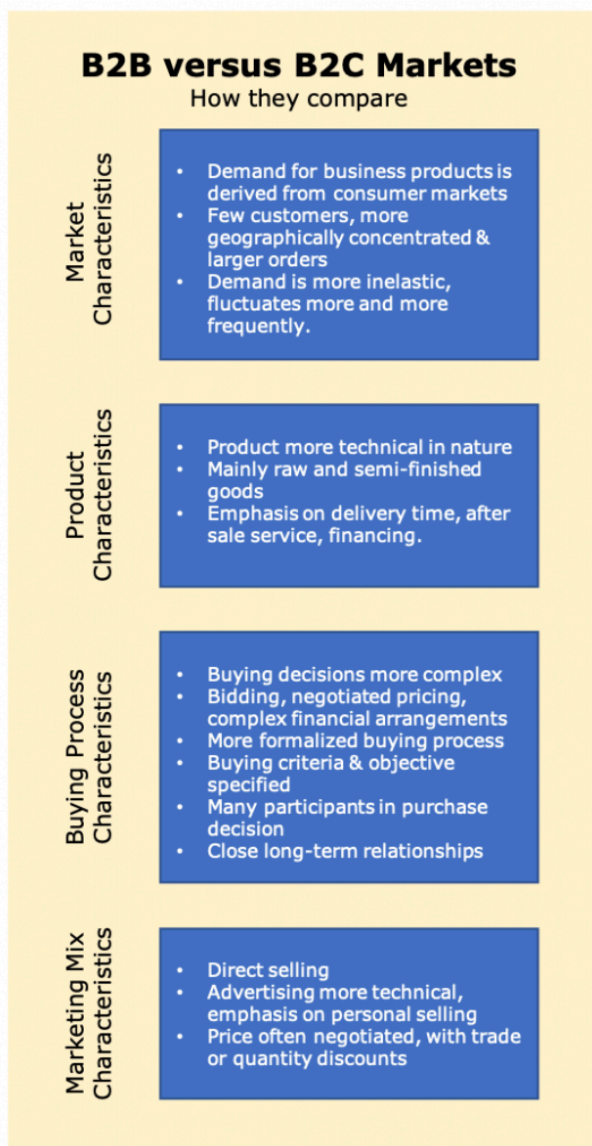

Figure 4.1 – Business-to-Consumer Markets versus Business-to-Business Markets: How They Compare ‡ Anthony Francescucci, Ryerson University CC BY-NC 4.0

Market Characteristics

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

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

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

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

Video Clip

Intel Animations Over the Years

(Click to see video)

Does this commercial make you want to buy a computer with "Intel Inside"? Intel hopes so.

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

Product Characteristics

Let's look at how the characteristics of products in the business market are different than products for consumer markets. Products sold in business to business markets often tend to be more technical in nature because they are often large complex system for things like machinery and equipment. For example, many businesses purchase manufacturing equipment or machines to produce their finish goods. The purchase of these types of equipment tends to be more technical because of the complexity of this type of equipment. ‡

Additionally, some businesses are also buying goods. Business goods often differ from consumer goods because business goods are often raw materials or semi-finished goods. For example, Kellogg's, who manufactures many types of cereal, will purchase goods such as wheat or other types of grains to manufacture the cereals they sell to consumers. These types of products purchased by businesses are considered raw materials, because they require further processing to manufacture the final product sold to consumers. Other businesses may also buy semi-finished goods. These are goods that don't require further processing by the businesses who purchase them. They are simply assembled into the finished good without further processing. For example, Apple will purchase semi-finished goods such as Samsung solid state drives (SSD) to put into their iPhones. When Apple purchases these SSD's, they are in a finished state and are simply assembled into the Apple products, which becomes the finished product sold to the consumer. ‡

Finally, a key focus B2B purchases is on delivery times, availability of parts and after sale service, and financing. Businesses want to ensure their products arrive when needed, that their technical services and parts are made available when required after purchase. Finally, because these purchases typically involve high monetary costs, many businesses will also look for financing availability.‡

Buying Process Characteristics

The business buying process is also different in some ways than the consumer buying process. In business buying situations, the buying decisions are often more complex due to the number of individuals involved and the type of product being purchased. Furthermore, often times, sellers will bid for the business of the customer. When a business purchaser has a large purchase to make, they will most likely put out a bid to potential sellers asking them to bid for their business. Also, the buying process is often more formal with a buying team, which will tend to specify their buying criteria and the specific objective they want from a product purchase. Lastly, in business to business buying situations, the seller will often attempt to build close long-term relationships to help secure their current and future business with the buying company. ‡

Marketing Mix Characteristics

If we look at the marketing mix (4 P's) characteristics in a business to business market, there are also many differences with consumer markets. First, in B2B marketing, many companies will tend to employ personal selling as a promotion strategy to reach business customers. This is because of the complexities and large price tags commonly associated with business products, which necessitate a technical or professional salesperson to help close the sale. If communication is required, the focus tend to be more on the technical aspects of the products versus building brand awareness in consumer markets. Finally, unlike consumer markets, in business marketing, price often tends to be negotiated between the buyer and the seller, and it may incorporate trade or quantity discounts. ‡

4.2 Types of B2B Buyers

LEARNING OBJECTIVES

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

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

Producers

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

Resellers

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

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

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

Governments

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

Institutions

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

That said, a smart B2B marketer will look at all the markets we have mentioned to see if they represent potential opportunities. The Red Cross will have no use for a fighter jet, of course. However, a company that manufactures toilet paper might be able to market it to both the Red Cross and the government. B2B opportunities abroad and online B2B markets can also be successfully pursued.

Who Makes the Purchasing Decisions in Business Markets?

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

Consequently, B2B sellers largely concentrate their efforts on those people.

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

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

4.3 Stages in the B2B Buying Process

LEARNING OBJECTIVES

- Outline the stages in the B2B buying process.
- Explain the scorecard process of evaluating proposals.
- Stages in the B2B Buying Process.

Next, let's look at the stages in the B2B buying process. They are similar to the stages in the consumer's buying process, however, there are some distinct differences as well. Figure 4.2 "The Business Buying Process" shows the stages that a business goes through when they make business purchases.

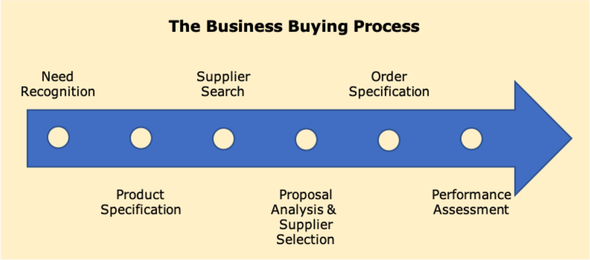

Figure 4.2 – The Business Buying Process‡ Anthony Francescucci, Ryerson University CC BY-NC 4.0

1. A need is recognized

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

2. The need is described and quantified (specified)

Next, the buying center, or group of people brought together to help make the buying decision, work to put some parameters around what needs to be purchased. In other words, they describe what they believe is needed, the features it should have, how much of it is needed, where, and so on. For more technical or complex products the buyer will define the product's technical specifications. Will an off-the-shelf product do, or must it be customized?

Users and influencers come into play here. In the case of our electronic book, the professor who teaches the online course, his teaching assistants, and the college's information technology staff would try to describe the type of book best suited for the course. Should the online book be posted on the Web as this regular book is? Should it be downloadable? Maybe it should be compatible with Amazon's Kindle. Figure 4.3 "An Example of Product Specifications Developed for a B2B Purchase" shows the specifications developed for a janitorial-services purchase by the state of Kentucky.

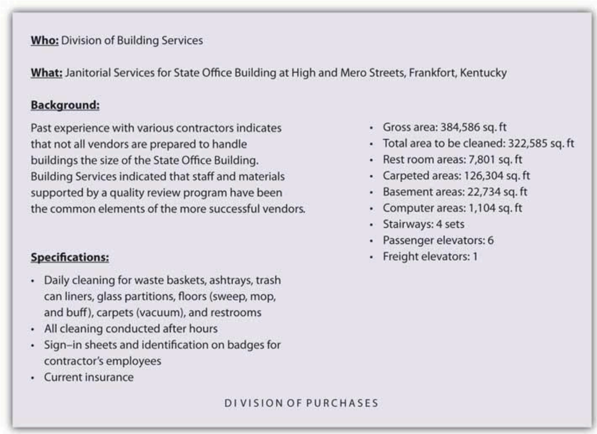

Figure 4.3 – An Example of Product Specifications Developed for a B2B Purchase Source: http://www.state.ky.us/agencies/adm/leadership/best/sld047.htm.

3. Potential suppliers are searched for

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

Each vendor that makes the cut is sent a request for proposal (RFP), which is an invitation to submit a bid to supply the good or service. An RFP outlines what the vendor is able to offer in terms of its product—its quality, price, financing, delivery, after-sales service, whether it can be customized or returned, and even the product's disposal, in some cases. Good sales and marketing professionals do more than just provide basic information to potential buyers in RFPs. They focus on the buyer's problems and how to adapt their offers to solve those problems.

Oftentimes the vendors formally present their products to the people involved in the buying decision. If the good is a physical product, the vendors generally provide the purchaser with samples, which are then inspected and sometimes tested. They might also ask satisfied customers to make testimonials or initiate a discussion with the buyer to help the buyer get comfortable with the product and offer advice on how best to go about using it.

4. The proposals are evaluated, and supplier(s) selected

During this stage, the RFPs are reviewed, and the vendor or vendors selected. RFPs are best evaluated if the members agree on the criteria being evaluated and the importance of each criterion. Different organizations will weigh different parts of a proposal differently, depending on their goals and the products they purchase. The price might be very important to some buyers, such as discount and dollar stores. Other organizations might be more focused on top-of-the-line goods and the service a seller provides. Still other factors include the availability of products and the reliability with which vendors can supply them. Reliability of supply is extremely important because delays in the supply chain can shut down a company's production of goods and services, and cost the firm its customers and reputation.

For high-priced, complex products, after-sales service is likely to be important. A fast-food restaurant might not care too much about the after-sales service for the paper napkins it buys—just that they are inexpensive and readily available. However, if the restaurant purchases a new drive-thru ordering system, it wants to be assured that the seller will be on hand to repair the system if it breaks down and perhaps train its personnel to use the system.

A scorecard approach can help a company rate the RFPs. Figure 4.4 "A Scorecard Used to Evaluate RFPs" is a simple example of a scorecard completed by one member of a buying team. The scorecards completed by all the members of the buying team can then be tabulated to help determine the vendor with the highest rating.

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

Figure 4.4 – A Scorecard Used to Evaluate RFPs
This image is from Principles of Marketing by University of Minnesota and is licensed under a Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License.

Selecting Single versus Multiple Suppliers

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

5. An order specification is established

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

6. A post-purchase evaluation is

conducted, and the feedback provided to the vendor (performance assessment)

Just as consumers go through an evaluation period after they purchase goods and services, so do businesses. The buying unit might survey users of the product to see how satisfied they were with it.

Some buyers establish on-time performance, quality, customer satisfaction, and other measures for their vendors to meet, and provide those vendors with the information regularly, such as trend reports that show if their performance is improving, remaining the same, or worsening. (The process is similar to a performance evaluation you might receive as an employee.) For example, Food Lion shares a wide variety of daily retail data and performance calculations with its suppliers in exchange for their commitment to closely collaborate with the grocery-store chain.

Keep in mind that a supplier with a poor performance record might not be entirely to blame. The purchasing company might play a role, too. For example, if the U.S. Postal Service contracts FedEx to help deliver its holiday packages on time, but a large number of the packages are delivered late, FedEx may or may not be to blame. Perhaps a large number of loads the U.S. Postal Service delivered to FedEx were late, the weather played a role, or shipping volumes were unusually high. Companies need to collaborate with their suppliers to look for ways to improve their joint performance. Some companies hold annual symposiums with their suppliers to facilitate cooperation among them and to honor their best suppliers (Copacino, 2009).

4.4 Factors Affecting the Buying Process

LEARNING OBJECTIVES

- Explain what a buying center is.
- Explain who the members of buying centers are and describe their roles.
- Explain the how organizational culture affects the business buying process.
- Describe how the buying situation affects the business buying process.

Similar to the consumer buying process, there are three categories of actors that affect the business buying process. They include 1. the buying centre, 2. the organizational culture and 3. the buying situation. Let's look at each of these areas in some detail.

The Buying Centre

The professors who form a committee at your school to choose textbooks are acting like a buying centre. **Buying centres** are groups of people within organizations who make purchasing decisions. Large organizations often have permanent departments that consist of the people who, in a sense, shop for a living. They are professional buyers, in other words. Their titles vary. In some companies, they are simply referred to as buyers. In other companies, they are referred to as purchasing agents, purchasing managers, or procurement officers. Retailers often refer to their buyers as merchandisers. Figure 4.5 "The Buying Centre" shows the most common types of players that make up the buying centre.

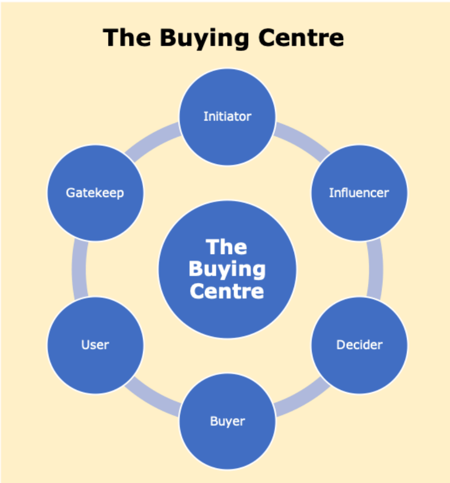

Figure 4.5 – The Buying Centre ‡ Anthony Francescucci, Ryerson University CC BY-NC 4.0

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

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

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

Other Players

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

Initiators

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

Users

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

Influencers

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

Gatekeepers

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

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

Deciders

The **decider** is the person who makes the final purchasing decision. The decider might or might not be the purchasing manager. Purchasing managers are generally solely responsible for making decisions on routine purchases and small purchases. However, the decision to purchase a large, expensive product that will have a major impact on a company is likely to be made by, or with the help of, other people in the organization, perhaps even the CEO. The decision may be made by a single decider, or there may be a few who reach consensus. Further, deciders may take into account the input of all of the other participants: the users, influencers, and so forth. Sellers, of course, pay special attention to what deciders want. "Who makes the buying decision?" is a key question B2B sales and marketing personnel are trained to find out about their potential customers.

Types of B2B Buying Situations

The stages an organization goes through, and the number of people involved, often depend on the buying situation. Figure 4.6 "Buying Situations" illustrates the different types of buying situations. Is this the first time the firm has purchased the product or the fiftieth? If it's the fiftieth time, the buyer is likely to skip the search and other phases and simply make a purchase. A **straight rebuy** is a situation in which a purchaser buys the same product in the same quantity from the same vendor. In other words, nothing about their order changes. Postpurchase evaluations are often skipped, unless the buyer notices an unexpected change in the offering such as deterioration of its quality or delivery time.

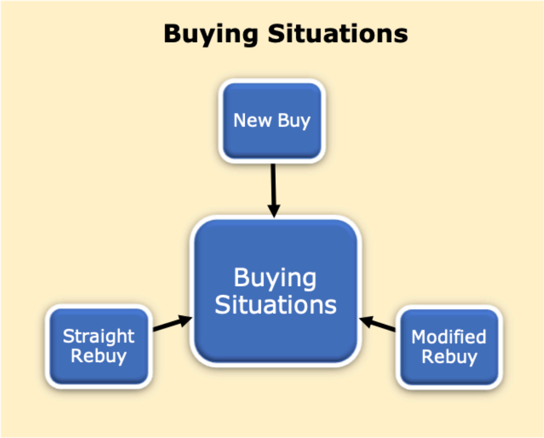

Figure 4.6 – Buying Situations ‡ Anthony Francescucci, Ryerson University CC BY-NC 4.0

Sellers like straight rebuys because the buyer doesn't consider any alternative products or search for new suppliers. The result is a steady, reliable stream of revenue for the seller.

Consequently, the seller doesn't have to spend a lot of time on the account and can concentrate on capturing other business opportunities. Nonetheless, the seller cannot ignore the account. The seller still has to provide the buyer with a top-notch, reliable service or the straight-rebuy situation could be jeopardized.

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

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

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

A **modified rebuy** occurs when a company wants to buy the same type of product it has in the past, but make some modifications to it. Maybe the buyer wants a different quantity, packaging, or delivery, or to customize the product slightly differently. For example, a manufacturer of leather handbags may have purchased rawhide leather in the past. They decide to make new handbags in a different colour or with a different texture. While they have purchased rawhide leather before, they now want to purchase it in a different colour or texture.

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

The buying situation—whether new-buy, modified rebuy, or straight rebuy—will determine the steps that tend to be taken in the decision process. Figure 4.7 "Buying Situations and Business Buying Decisions" shows which steps may or may not be completed in the buying decision process based on the buying situation.

Buying Situations & Business Buying Decisions

Buy Stage	New Buy	Modified Rebuy	Straight Rebuy
1. Need Recognition	Yes	Maybe	No
2. Product Specification	Yes	Yes	Yes
3. Supplier Search	Yes	Maybe	No
4. Proposal Analysis	Yes	Maybe	No
5. Order Specification	Yes	Maybe	No
6. Performance Assessment	Yes	Yes	Yes

Figure 4.7 – Buying Situations and Business Buying Decisions ‡ Anthony Francescucci, Ryerson University CC BY-NC 4.0

The Buying Culture

The last category of factors that affect the buying decision process is the buying culture. Figure 4.8 "Organizational Buying Cultures" shows the different organizational buying cultures that affect business buying decisions.

Figure 4.8 – Organizational Buying Culture ‡ Anthony Francescucci, Ryerson University CC BY-NC 4.0

Autocratic culture is one in which the buying centre has multiple participants but in the end only one person makes the decisions, typically the decider. In a **consultative** culture, the buying centre has one person who makes the decision, however, the decider consults with the rest of the buying centre members before making the decision. Unlike the autocratic or consultative buying culture, in a democratic buying culture, there isn't a single decision-maker. A **democratic** culture involves a group decision, where the majority of the members of the buying centre decide. While a **consensus** culture also involves a group decision, instead of a majority of the buying centre deciding, all members must agree with the decision. Given the different styles, it is important for business to business marketers to understand these different types of buying cultures and the various type of decision-making styles in order to ensure they are influence the appropriate decision-maker(s) (Edge-Leadership Consulting, 2009). ‡

The Interpersonal and Personal Dynamics of B2B Marketing

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

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

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

In short, B2B marketing is very strategic. Selling firms try to gather as much information about their customers as they can, and use that information to their advantage. Thinking strategically, you might try to find out everything you could about the person and then try to arrange a meeting. That way when you did meet the person, you would be better able to strike up a conversation and develop a relationship with them. B2B selling is similarly strategic. Little is left to chance.

4.5 Networks and B2B Relationships

LEARNING OBJECTIVES

- Understand networks within B2B relationships.
- Explain the nature of key relationships constructs; Commitment and trust.

A newer perspective in B2B marketing looks at business marketing from a business relationship and network perspective. The complex nature of long term B2B relationships and the interactions within these network relationships make B2B marketing different when compared to B2C marketing. B2B marketing involves complex long-term relationships within a network of buyers and sellers. A number of important concepts are evolving in B2B Marketing. They include relationships, interaction and networks in business marketing. Let's look at each of these areas in more detail. ‡

Relationships in Business Marketing

When considering relationships in business marketing, there are two important concepts to delve into: relationship commitment and relationship trust. ‡

Relationship commitment is defined as a belief that a relationship with a business partner is so important that it is worth maximum effort at maintaining it indefinitely. If one of the companies in a relationship perceives there to be a breakdown in commitment it often results in a reduction in the relationships. ‡

Relationship trust occurs when one of the business partners has confidence in the other partners reliability and integrity. ‡

Interactions in Business Marketing

Unlike consumer marketing and customer relationship within, which tend to be more transactional in nature, business marketing is more long term in nature. This is why business relationships are typically built through a series of interactions between the two business. This not only includes transactions between the parties, but also negotiations, discussions, and customizations which are not typically seen in consumer marketing.

The Industrial Marketing and Purchasing (IMP) Group is a leader in the development of the interaction approach. They define interaction as the focus on what is happening not within the company, but rather on what is actually happening between companies. They suggested that we cannot understand business marketing by looking at a set of disassembled transactions that occur. Instead, it is necessary to consider the complex relationships that exist between buyers and sellers, where exchange of value is created through the interactions between the parties. ‡

Networks in Business Marketing

Unlike consumer marketing where there are individual relationships between the manufacturers or retailers and the consumers, business to business marketing is about a network of buyers and sellers. It looks at the factors and forces around and between the buyers and sellers. In the network approach, it is less about what one business can accomplish by itself, and more about how a business can achieve greater results by cooperating with the actors within the network. ‡

‡ signifies new material that Ryerson University authors have added to this adaptation of Principles of Marketing published by University of Minnesota Library Publishing, licensed under a Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License.

4.6 Discussion Questions and Activities

REVIEW QUESTIONS

1. Why are there more transactions in B2B markets than B2C markets? Why are there fewer buyers?
2. Explain what derived demand is. Why do firms experience a bullwhip effect in the demand for their products when consumers demand changes?
3. What sorts of products do producers buy?
4. What role do resellers play in B2B markets, and why are they important to sellers?
5. How do sellers find government buyers? Institutional buyers?
6. Why is it difficult to figure out whom to call on in business markets?
7. What buying stages do buying centers typically go through?
8. Why should business buyers collaborate with the companies they buy products from?
9. Explain how a straight rebuy, new buy, and modified rebuy differ from one another.

DISCUSSION QUESTIONS

1. Assume your company makes shop towels, hand-washing stations, and similar products. Make a list of all the companies that could be potential customers of your firm. Then identify all the markets from which their demand is derived. (Who are their customers and their customers' customers?) What factors might influence the success or failure of your business in these markets?
2. How might a buying center be different for a company that is considering building a new plant versus choosing a new copier?
3. Imagine you are a salesperson for a company that sells maintenance items used in keeping a manufacturing plant running. There is a large plant in your territory that buys 60 percent of its products from one competitor and the other 40 percent from another competitor. What could you do to try to make a sale in that plant if they have never purchased from you before? How would your answer change if you were the 40 percent vendor and wanted to increase your share of the buyer's business? Would your answer change if you were the other vendor? Why or why not?
4. When your family makes a major purchase, such as choosing a vacation destination or buying furniture, does it resemble a buying center? If so, who plays what roles?

5. Katie is a forklift operator who is tired of her forklift breaking down. She points out to her boss, the plant supervisor, that her forklift is broken down at least 20 percent of the time, and it is beginning to impact production. The plant supervisor tells the purchasing agent that a new forklift is needed and asks the purchasing agent to get three bids on new ones with similar features. The purchasing agent calls three companies and gets bids, which the plant supervisor uses to narrow it down to two. He then has Katie test drive the two and since she liked the Yamamatsu best, he decides to purchase that one. What roles do the supervisor and Katie play in this firm's buying center? Does the process followed resemble the process outlined in the chapter? If not, why not?
6. Someone who works in a company is also a consumer at home. You have already learned about how consumers buy. How does what you already know about how consumers buy relate to what you would expect those same people to do at work when making a purchase?
7. A major office equipment manufacturer and an airline once teamed up to offer a special deal: Buy a copier/printer and get a free round-trip ticket anywhere in the United States where the airline flies. The promotion didn't last long—buyers complained it was unethical. What about it was unethical? Who was really doing the complaining?
8. Congratulations, you just made a sale! For the first time in five years, the Humongo Corporation

purchased from your company. How do you turn this into a straight rebuy? What product characteristics might make this goal easier to accomplish? What buyer characteristics might make it more difficult to accomplish?

9. Consider a company where marketing and sales are two different departments. Their customers are other businesses. Using both the buying center and buying process, decribe what the marketing department actually does. What do salespeople actually do?

ACTIVITIES

1. Interview someone you know who makes purchasing decisions as part of the job. The person may or may not be a professional purchasing agent as long as business purchasing decisions are a fairly regular part of his or her position. What are the key principles to making good purchasing decisions at work? How do those principles influence people's purchases for their own personal consumption?
2. Locate three different types of Web sites that cater to markets discussed in this chapter. How do these differ from sites like eBay or Overstock.com? How are they similar? B2C models like Groupon

and LivingSocial are being adopted by B2B companies. Examples include Bizy Deal; take a look at their site and identify the types of offerings that seem prevalent. What characteristics of the product or service would make such a model right for a B2B company?

3. Go to http://www.ism.ws/. What is the purpose of this site and the organization that created it? How does the ISM help its members with ethical dilemmas? Be specific, with specific examples from the site.
4. Many B2B marketers use NAICS to segment their market. Go to http://www.censusgov/epcd/www/naics.html. Click on the FAQs link to answer these questions. What is NAICS and how is it used? How does NAICS handle market-based rather than production-based statistical classifications, and why is that distinction important?

CHAPTER 5 - MARKET SEGMENTING, TARGETING, AND POSITIONING

5.1 Targeted Marketing versus Mass Marketing

LEARNING OBJECTIVES

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

The segment(s) or group(s) of people and organizations you decide to sell to is called a **target market**. **Targeted marketing**, or differentiated marketing, means that you may differentiate some aspect of marketing (offering, promotion, price) for different groups of customers selected. **Mass marketing**, or undifferentiated marketing, came first. It evolved along with mass production and involves selling the same product, at the same price and using the same promotion and place channels to everybody. You can think of mass marketing as a popcorn approach: you blast out as many promotional messages as possible on every medium available as often as you can afford (Spellings, 2009). By contrast, targeted marketing is more like shooting a dart; you take careful aim at one type of customer by crafting a message that meets their needs.

Automaker Henry Ford was very successful at both mass production and mass marketing. Ford pioneered the modern-day assembly line early in the twentieth century, which helped him cost-effectively pump out huge numbers of identical Model T automobiles. They came in only one color: black. “Any customer can have a car painted any color he wants, so long as it is black,” Ford used to joke. He also advertised in every major newspaper and persuaded all kinds of publications to carry stories about the new, inexpensive cars. By 1918, half of all cars on America’s roads were Model Ts (Ford, 1922).

Then Alfred P. Sloan, the head of General Motors (GM), appeared on the scene. Sloan began to segment consumers in the automobile market—to divide them up by the prices they wanted to pay and the different cars they wanted to buy. The idea was to offer a car for every target market, which he differentiated based on potential customers’ income level. His efforts were successful, and in the 1950s, GM overtook Ford as the nation’s top automaker (Manzanedo, 2005). You might be interested to know that before GM declared bankruptcy in 2009, it was widely believed the automaker actually had too many car models. As a result of simplifying their product mix and other decisions, General Motors became profitable and in 2020 reported profits of $6.43 billion US (Krisher, 2021).

Benefits of Segmenting and Targeting Markets

The story of General Motors raises an important point, which is that segmenting and targeting markets doesn’t necessarily mean reducing the number of customers. In fact, it can help you enlarge your customer base by giving you information with which to successfully adjust some component of your marketing mix—the product itself, its price, the way you service and promote it. More specifically, the process can help you do the following:

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

The trend today is toward more precise, targeted marketing. Figuring out "who's who" in terms of your customers involves some detective work, though—often market research. A variety of tools and research techniques can be used to segment markets. Government agencies, such as Statistics Canada, collect and report vast amounts of population information and economic data that can reveal changing consumption trends. Technology is also making it easier for even small companies and entrepreneurs to gather more detailed information about potential customers. With the increased use of social media, companies are able to get information on consumers' search behavior, which can tell us about their interests and needs. The use of promotional tools such as loyalty cards that consumers scan at many grocery and drug stores also provide an incredible amount of information on consumers' buying behavior. When we combine this historical data with other information (e.g., time of year, current promotions, price discounts, etc.) we can identify patterns in their behavior to understand what factors into their choices, and predict how they might respond in the future.

Companies are now using the Internet to track people's Web browsing patterns and segment them into target groups. Even small businesses are able to do this cost-effectively because they don't need their own software and programs. They can simply sign up online for products like Google's AdSense and AdWords programs. You can locate potential customers by looking at blog sites and discussion forums on the Web. Big-boards.com has thousands of discussion forums you can mine to find potential customers interested in your product. If you have a website, you can download an application onto your iPhone that will give you up-to-the-minute information and statistics on your site's visitors for free, and if you want you can pay for more detailed information.

Getting a read on potential target markets doesn't necessarily have to involve technology. Your own personal experience and talking to would-be buyers is an important way to start your investigation. Go where you think would-be buyers go, restaurants, malls, gyms, subways, grocery stores, daycare centers, and offices, and ask questions to find out what they do during the day, what they talk about, what products or services do you see them using, and do they seem to be having an enjoyable experience when using those products or are they frustrated?

Segmenting and Targeting a Firm's Current Customers

Finding and attracting new customers is generally far more difficult and costly than retaining your current customers.

Think about how much time and energy you spend when you switch your business from one firm to another even when you're buying something as simple as a haircut. If you aren't happy with your hair stylist and want to find a new one, you first have to talk to people with haircuts you like, or read reviews of salons. Once you decide on a particular salon, you have to find it and explain to the new hairdresser how you want your hair cut and hope he or she gets it right. You also have to figure out what payment options are available (e.g., do they accept Apple Pay?) the new salon will accept and whether tips can be easily added.

Finding new customers, getting to know them, and figuring out what they really want is also a difficult process, one that's fraught with trial and error. That's why in many cases it's so important to get to know, form close relationships with, and focus selling efforts on current customers (Birchall, 2009).

Many companies try to create and maintain a good relationship with their customers through a variety of routes, one of the more popular means being the social media. For example, Twitter is a popular outlet through which companies are keeping in touch with their customers and boosting their revenues. When the homemaking maven Martha Stewart, a food and lifestyle influencer schedules a book signing, she tweets to her followers, and many of them show up at the bookstore she's appearing at to buy copies. Finding ways to interact with customers that they enjoy, whether it's meeting or "tweeting" them, or putting on events and tradeshows they want to attend, is one of the keys to forming relationships with them.

Many firms, even small ones, are using Facebook to develop closer relationships with their customers. San Remo Bakery, a Toronto (Ontario) bakery, has about 15,000 customers who follow its Facebook page and 98,000 followers on Instagram. The bakery posts "cakes updates" and photos of the goodies they are working on to the site. Along with information about the cakes and other baked goods, they post their featured donuts.

Regardless of how well companies know their customers, it's important to remember that some customers are highly profitable, others aren't, and others actually end up costing your firm money to serve. Consequently, you will want to interact with some customers more than others. Believe it or not, some firms deliberately "untarget" unprofitable customers. Best Buy got a lot of attention (not all of it good) when it was discovered they had categorized its buyers into "personas," or types of buyers, and created customized sales approaches for each.

The knife cuts both ways, though. Not all firms are equal in the minds of consumers who will choose to do business with some companies rather than others. To consumers, market segmentation means: meet *my* needs—give me what *I* want ("Market Segmentation," n.d.).

The steps companies take to target their best customers, form close, personal relationships with them, and give them what they want is a process called **one-to-one marketing**. In terms of our popcorn versus dart board approach, you can think of one-to-one marketing as a dart board approach, but with an added advantage: now you have sharpened your dart.

One-to-one marketing is an idea proposed by Don Peppers and Martha Rogers in their 1994 book *The One to One Future*. The book described what life would be like after mass marketing. We would all be able to get exactly what we want from sellers, and our relationships with them would be collaborative, rather than adversarial. Are we there yet? Not quite, but it does seem to be the direction the trend toward highly targeted marketing is leading.

Steps in One-to-One Marketing

1. Establish short-term metrics to evaluate the consequences of your efforts

Determine how you will measure the consequences of your effort. Will you use higher customer satisfaction ratings, increased revenues earned per customer, number of products sold to customers, transaction costs, or another measure?

2. Identify your customers

Gather all the information you can about your current customers, including their buying patterns, likes, and dislikes. When conducting business with them, include an "opt in" question that allows you to legally gather and use their phone numbers and e-mail addresses so you can remain in contact with them.

3. Differentiate among your customers

Determine who your best customers are in terms of what they spend and will spend in the future (their customer lifetime value), and how easy or difficult they are to serve. Identify and target customers that spend only small amounts with you, but large amounts with your competitors.

4. Interact with your customers, targeting your best ones

Find ways and media in which to talk to customers about topics they're interested in and enjoy. Spend the bulk of your resources interacting with your best (high-value) customers. Minimize the time and money you spend on low-value customers with low growth potential.

5. Customize your products and promotional messages to meet their needs

Try to customize your promotional messages and products in order to give your customers exactly what they want—whether it's the product itself, its packaging, delivery, or the services associated with it (Harler, 2008; Peppers & Rogers, 1999; Peppers, et. al., 1999).

5.2 How Markets Are Segmented

LEARNING OBJECTIVES

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

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

Different factors influence consumers to buy certain things. Many of the same factors can also be used to segment customers. A firm will often use multiple **segmentation bases,** or criteria to classify buyers, to get a fuller picture of its customers and create real value for them. Each variable adds a layer of information. Think of it as being similar to the way in which your professor builds up information on a PowerPoint slide to the point at which you are able to understand the material being presented.

There are all kinds of characteristics you can use to slice and dice a market. "Big-and-tall" stores cater to the segment of population that's larger sized. What about people with wide or narrow feet, or people with medical conditions, or certain hobbies? Next, we look primarily at the ways in which consumer markets can be segmented. Later in the chapter, we'll look at the ways in which B2B markets can be segmented.

Figure 5.1 "The Segmentation-Targeting-Positioning Process" illustrates the various steps that a marketer will go through to identify, target and develop their positioning for each market segment they will go after.

The process of segmentation begins by understanding customers' needs first. Looking at a product's market, the process of segmentation attempts to examine the differentiating factors for customers within that market to determine which customers have similar needs, and subsequently group them together into a market segment. A product's market could have more than one market segment, with each segment having different needs for the product. For example, consider the printer market. There are many different kinds of printers that meet the needs of various customers who belong to different market segments. Think about your own needs for a printer. You may be looking for a basic black and white toner printer that is sufficient for printing out various reports or papers you may have to write during your post-secondary career. A photographer or graphic designer, on the other hand, may have different needs than yourself. They may be looking for a printer that prints full colour photo quality pictures. A post-secondary student may have very different needs than a photographer or a graphic designer. Therefore, printer companies, may treat these two types of customers as two different market segments and will develop a marketing mix (product, price, place and promotion) that would position different printers to these two different market segments. ‡

The Segmentation-Targeting-Positioning Process

Step	Description
1. Needs-Based Segmentation	Group customers into segments based on similar needs and benefits sought by customer in solving a particular consumption problem.
2. Segment Identification	For each needs-based segment, determine which demographics, lifestyles, and usage behaviors make the segment distinct and identifiable.
3. Segment Attractiveness	Using predetermined segment attractiveness criteria, determine the overall attractiveness of each segment.
4. Segment Profitability	Determine segment profitability.
5. Segment Positioning	For each segment, create a "value proposition" and product-price positioning strategy based on that segment's unique customer needs and characteristics.
6. Marketing-Mix Strategy	Expand segment positioning strategy to include all aspects of the marketing mix: product, price, promotion, place, and people.

Figure 5.1 – The Segmentation-Targeting-Positioning Process ‡ (adapted from Goyat 2011) Anthony Francescucci, Ryerson University CC BY-NC 4.0

Segmentation Identification

Once each of the segments' needs are identified, we overlay additional characteristics that help to describe or understand various aspects of the customers within that particular segment. The segment identification process looks at various categories of characteristics that help to describe the customers within a particular market segment that have the same needs. This category of characteristics can include geographic, demographic, psychographic and behavioural characteristics.

Table 5.1 "Common Ways of Identifying Segment Buyers" shows some of the different types of buyer characteristics used to identify segment markets. Notice that the characteristics fall into one of four categories: *behavioural*, *demographic*, *geographic*, or *psychographic*.

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

Table 5.1 – Common Ways of Identifying Segment Buyers This image is from Principles of Marketing by University of Minnesota and is licensed under a Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License.

By Behaviour

Behavioural characteristics identifies people and organization into groups according to how they behave with or act toward products.

Another way in which businesses identify segment buyers is by their **usage rates**—that is, how often, if ever, they use certain products. Companies are interested in frequent users because they want to reach other people like them. They are also keenly interested in nonusers and how they can be persuaded to use products. By identifying the reasons behind why these consumers do not use the particular product, companies try to create a version of the product that can overcome these reasons and turn nonusers into users.

By Demographics

Identifying a segment of buyers by personal characteristics such as age, income, ethnicity and nationality, education, occupation, religion, social class, and family size is quite common. Demographics are commonly utilized to identify segment markets because demographic information is publicly available in databases around the world. You can obtain a great deal of demographic information on the Statistics Canada Web site.

While demographics cannot capture everyone's needs in all its details, it is often a good way to start understanding a target segment. For example, think about yourself in terms of your age, and what they may mean for your current product choices. At this point in your life, you are probably more likely to buy a small to medium sized car than a large family sedan. Marketing professionals know this. That's why they try to segment consumers by their ages. You're probably familiar with some of the age groups (see Table 5.2 "Generations and Their Characteristics"). Which category do you fall into?

Generations and Their Characteristics

Generation	Birth Years	Characteristics
Seniors	Before 1946	• Experienced very limited credit growing up • Tend to live within their means • Spend more on health care than any other age group • Internet usage rates increasing faster than any other group
Baby Boomers	1946-1964	• Biggest consumers of traditional media like TV, radio, magazine & newspapers • Grew up in prosperous times
Generation X	1965-1980	• Comfortable but cautious about borrowing • Embrace technology and multitasking • Still consume newspapers, magazine, radio & TV • Spend up to 7 hours per week on facebook • Buying habits characterized by life stages
Generation Y	1981-1996	• Grew up with credit cards • Adept at multitasking, technology use innate • Ignore irrelevant media • Still watch TV, but Netflix is preferred • Typically have multiple social media accounts
Generation Z	1997-2012	• Receive first mobile phone at 10 years old • Hyper connected, smartphone preferred method of communication • More fiscally conservative than Gen X, avoid debt

Table 5.2 – Generations and Their Characteristics ‡ Anthony Francescucci, Ryerson University CC BY-NC 4.0

By Geography

Geographic identification divides the market into areas based on location, and explains why the checkout clerks at stores sometimes ask for your postal code. It's also why businesses put codes on print or e-coupons that correspond to a city or postal code. When the coupons are redeemed, the store can find out where its customers are located. City size and population density (the number of people per square mile) are also used for identification purposes. Have you ever noticed that in rural towns, McDonald's restaurants are hard to find, but Dairy Queens (DQ) are usually easy to locate? McDonald's generally won't put a store in a town of fewer than five thousand people. However, this is prime turf for the "DQ"—because it doesn't have to compete with bigger franchises like McDonald's.

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

In addition to figuring out where to locate stores and advertise to customers in that area, geographic identification helps firms tailor their products. Chances are you won't be able to find the same heavy winter coat you see at a Walmart in Montreal at a Walmart in Victoria because of the climate differences between the two places. Market researchers also look at migration patterns to evaluate opportunities. Ethnically diverse restaurants are more commonly found in the major metropolitan cities in Canada. However, as major cities become over populated and immigrants move to smaller cities or the suburbs of larger cities, we are now seeing more ethnically diverse restaurants even in small cities.

By Psychographics

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

Psychographic identification can help fill in some of the blanks. Psychographic information is frequently gathered via extensive surveys that ask people about their activities, interests, opinion, attitudes, values, and lifestyles.

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

- Am I looking at the consumers the way they see themselves?
- Am I looking at life from their point of view?

Identification in B2B Markets

Much like consumer market segmentation, business market segmentation is very important because it helps companies to separate its business customers into groups with common business needs.

Many of the same bases used to identify consumer markets are also used to identify B2B markets. B2B sellers often identify their customers by geographic areas and tailor their products to them accordingly. Identifying behaviors is common as well. B2B sellers frequently divide their customers based on their product usage rates. Customers that order many goods and services from a seller often receive special deals and are served by salespeople who call on them in person. In contrast, smaller customers are more likely to have to rely on a firm's website, customer service people, and salespeople who call on them by telephone.

B2B sellers, like B2C sellers, are exploring new ways to reach their target markets. Trade shows and direct mail campaigns are two traditional ways of reaching B2B markets. Now, however, firms are finding they can target their B2B customers more cost-effectively via e-mail campaigns, search-engine marketing, and "fan pages" on social networking sites like Facebook. Companies are also creating blogs with cutting-edge content about new products and business trends of interest to their customers. For a fraction of the cost of attending a trade show to exhibit their products, B2B sellers are holding Webcasts and conducting online product demonstrations for potential customers.

5.3 Selecting Target Markets and Target-Market Strategies

LEARNING OBJECTIVES

- Describe the factors that make some markets more attractive targets than others.
- Describe the different market-segmenting strategies companies pursue and why.
- Outline the market-segmentation strategies used in global markets.

Segment Attractiveness

After you segment buyers and gather consumer insight data about them, you can begin to see those that have more potential. Now you are a dart thrower instead of a popcorn maker. An attractive market has the following characteristics:

It is identifiable

Are you able to determine or identify which customers are within the market segment in order to be able to design products or services to meet their needs? More importantly, are the customers within each market segment distinct from the other segments such that there isn't sufficient overlap? If multiple segments you have identified are not distinctly different in their needs for the product offering, then maybe a different segmentation scheme should be considered.

It is accessible (or you can find a way to reach it)

Accessibility, or the lack of it, could include geographic accessibility, political and legal barriers, technological barriers, or social barriers. It can also include the ability to reach the customers through persuasive communication. However, less accessible segments are not necessarily lost. Whether they become your target depends on your ability to find a way to reach them. For example, to overcome geographic barriers, Unilever hires women in third-world countries to distribute the company's products to rural consumers who lack access to stores.

Is it responsive

In order to be successful with your marketing strategy, it is necessary for customers within that segment to respond positively and similarly to your marketing efforts. If the customers within that segment are not likely to respond positively and similarly to a company's marketing efforts, then it is not an attractive segment to target.

It is sizeable (large) enough to be profitable given your operating cost

A lower percentage of consumers in China own cars than that of consumers in Canada. However, because the country's population is so large (more than 1.4 billion people in 2021), more cars are sold in China than in Europe or Canada. 4.88 billion people in the world own mobile phones. But that still leaves three billion who don't (Turner, 2021).

It is growing

The middle class of India is growing rapidly, making it a very attractive market for consumer products companies. People under thirty make up the majority of the Indian population, fueling the demand for "Bollywood" (Indian-made) films. A growing segment means that there will be more potential customers with time, which increases the segments' attractiveness and long-term profitability

It is not already swamped by competitors, or you have found a way to stand out in a crowd

IBM used to make computers. However, after the marketplace became crowded with competitors, IBM sold the product line to a company called Lenovo. IBM made this move because the market's profitability for the company reduced, given that too many companies were competing for the same number of consumers.

The company has the resources to compete in it

You might have a great idea to compete in the wind-power market. However, it is a business that is capital intensive. What this means is that you will either need a lot of money or must be able to raise it. You might also have to compete with the likes of T. Boone Pickens, an oil tycoon who is attempting to develop and profit from the wind-power market. Does your organization have the resources to do this?

It "fits in" with your firm's mission and objectives

Consider TerraCycle, which has made its mark by selling organic products in recycled packages. Fertilizer made from worm excrement and sold in discarded plastic beverage bottles is just one of its products. It wouldn't be a good idea for TerraCycle to open up a polluting, coal-fired power plant, no matter how profitable the market for the service might be.

Target-Market Strategies: Choosing the Number of Markets to Target

Henry Ford proved that mass marketing can work—at least for a while. Mass marketing is also efficient because you don't have to tailor any part of the offering for different groups of consumers, which is more work and costs more money. The problem is that buyers are not all alike. If a competitor comes along and offers these groups a product (or products) that better meet their needs, you will lose business.

Multi-Segment Marketing

Most firms tailor their offerings in one way or another to meet the needs of different segments of customers. Because these organizations don't have all their eggs in one basket, they are less vulnerable to competition. Marriott International is an example of a company that operates in multiple market segments. The company has different types of facilities designed to meet the needs of different market segments. Marriott has invested in unique brands so consumers don't get confused about their umbrella brand, and that the brand's image is not diluted. Some of the Marriott sub-brands and their target markets are as follows:

- **Marriott Courtyard.** Targeted at over-the-road travelers.
- **Ritz-Carlton Hotels.** Targeted at luxury travelers.
- **Marriott Conference Centers.** Targeted at businesses hosting small- and midsized meetings.
- **Marriott ExecuStay.** Targeted at executives needing month-long accommodations.
- **Marriott Vacation Clubs.** Targeted at travelers seeking to buy timeshares.

A multi-segment marketing strategy can allow firms to respond to demographic changes and other trends in markets. For example, the growing number of people too old to travel have the option of moving into one of Marriott's "Senior Living Services" facilities, which cater to retirees who need certain types of care. A multi-segment strategy can also help companies weather an economic downturn by allowing customers to trade up or down among brands and products. Suppose you take a pay cut and can't afford to stay at Marriott's Ritz-Carlton hotels anymore. A room at a JW Marriott, the most luxurious of the Marriott-brand hotels but cheaper than the Ritz, is available to you. A multi-segment strategy can also help companies deal with the product life cycle issues. If one brand or product is "dying out," the company has others to compete.

Concentrated Marketing

Some firms—especially smaller ones with limited resources—engage in concentrated marketing. **Concentrated marketing** involves targeting a very select group of customers. Concentrated marketing can be a risky strategy because companies really do have all their eggs in one basket. The auto parts industry is an example. Traditionally, many North American auto parts makers have supplied parts exclusively to auto manufacturers. But when General Motors, Ford, Chrysler, and other auto companies experienced a slump in sales following the recession that began in 2008, the auto parts makers found themselves in trouble. Many of them began trying to make and sell parts for wind turbines, aerospace tools, solar panels, and construction equipment (Simon, 2009).

Niche Marketing

Niche marketing involves targeting an even more select group of consumers. When engaging in niche marketing, a company's goal is to be a big fish in a small pond instead of a small fish in a big pond (Business Dictionary, n.d.). **Microtargeting**, or narrowcasting, is a new effort to isolate markets and target them. It was originally used to segment voters during elections, including the 2008 U.S. presidential election. Microtargeting involves gathering all kinds of data available on people—everything from their tax and phone records to the catalogs they receive. (Schiffman & Kanuk, 2010). Clearly, microtargeting has ethical implications and privacy issues.

5.4 Positioning and Repositioning Offerings

LEARNING OBJECTIVES

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

Why should buyers purchase your offering versus another? If your product faces competition, you will need to think about how to "position" it in the marketplace relative to competing products. After all you don't want the product to be just another "face in the crowd" in the minds of consumers. **Positioning** is how consumers perceive a product relative to the competition. Companies want to have a distinctive image and offering that stands out from the competition in the minds of consumers. Positioning is not only what you do to a product, but how you want your customer to perceive the product offering. Positioning is often developed based on the marketing mix (product, price, place and promotion) strategies that you develop for your offering. All the decisions around your marketing mix strategy should be designed to support whatever positioning you are trying to create within the minds of the target market segment.

Once you have determined which market segment you plan to target, it is necessary to develop a positioning statement. A **positioning statement** is not only used internally within the company to communicate how you want customers to perceive your product, but also outside the company, with market research and marketing communication firms. A positioning statement typically includes four elements that describe;

- Target market characteristics
- Customer need(s)
- Customer benefit(s)
- Clear point(s) of differentiation

An example of a good positioning statement is one from Amazon (parentheses added for illustrative purposes);

> "For customers who want to purchase a wide range of products online with quick delivery (customer needs), Amazon provides a one-stop online shopping site (customer benefit). Amazon sets itself apart from other online retailers with its customer obsession, passion for innovation, and commitment to operational excellence (points of differentiation)" (Hart, 2021)

In developing a positioning statement, one of the key features is the **point of differentiation (POD)**. POD is the unique aspect of your offering that cannot be found in any other competitive offerings. It is a unique aspect of your offering that customers value that cannot be found in a competitive offering. Figure 5.2 "Differentiation Strategies" illustrates the major categories and subcategories upon which to develop a point of differentiation.

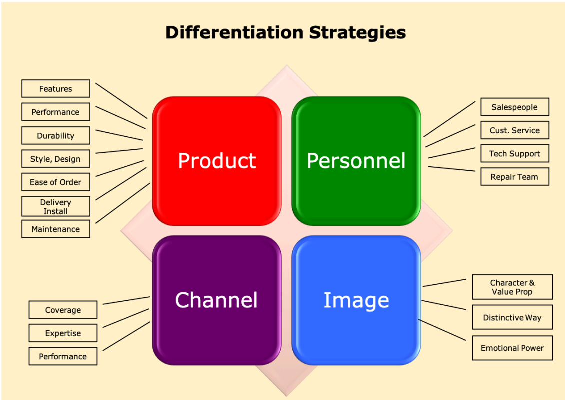

Figure 5.2 – Differentiation Strategies ‡ Anthony Francescucci, Ryerson University CC BY-NC 4.0

One way to position your product is to plot customer survey data on a perceptual map. A **perceptual map** is a two-dimensional graph that visually shows where your product stands, or should stand, relative to your competitors, based on criteria important to buyers. The criteria can involve any number of characteristics—price, quality, level of customer service associated with the product, and so on. An example of a perceptual map is shown in Figure 5.3 “An Example of a Perceptual Map”. To avoid head-to-head competition with your competitors, you want to position your product somewhere on the map where your competitors aren’t clustered.

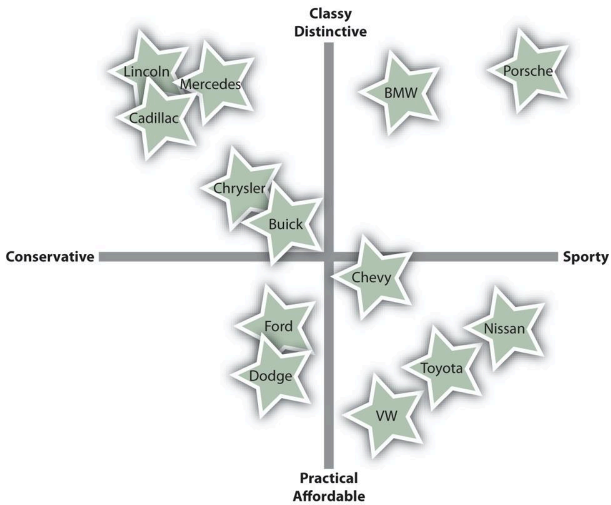

Figure 5.3 – An Example of a Perceptual Map "Perceptual map – cars" by Mydogategodshat is licensed under CC BY-SA 3.0 / Adapted??

Many companies use **taglines** in their advertising to try to position their products in the minds of the buyer, where they want them, of course. A tagline is a catchphrase designed to sum up the essence of a product. Wendy's has used the tagline "It's better than fast food." The tagline was designed to set Wendy's apart from restaurants like McDonald's and Burger King, to plant the idea in consumers' heads that Wendy's offerings were less "fast foodish," given the bad rap fast food gets these days.

Sometimes firms find it advantageous to reposition their products—especially if they want the product to begin appealing to different market segments. Repositioning is an effort to "move" a product to a different place in the minds of consumers. A good example of a brand that has attempted to reposition itself is the men's body wash "Old Spice". Due to the length of time on the market, the product used to be perceived as a fragrance targeted at much older men (into their senior years). While its competitors' offerings, such as the "Axe" body wash brand, were disrupting the body wash market for younger men, Old Spice was perceived to be for old men. In order to reposition the Old Spice brand to a much younger target market, it developed a new ad campaign that caught the attention of this much younger audience (Viau, 2020).

5.5 Discussion Questions and Activities

REVIEW QUESTIONS

1. Using the popcorn and dart board analogy, how do mass marketing, targeted marketing, and one-to-one marketing compare with one another?
2. How is technology making it easier for firms to target potential customers?
3. Outline the steps companies need to take to engage in one-to-one marketing with their customers.
4. What buyer characteristics do companies look at when they segment markets?
5. What two types of information do market researchers gather to develop consumer insight?
6. What factors does a firm need to examine before deciding to target a market?
7. Why do companies position products?
8. Explain what a tagline is designed to do.
9. Why might an organization reposition a product?

DISCUSSION QUESTIONS

1. Think about some of your friends and what you have discovered by visiting their homes. Do they buy different things than you do? If so, why? How might a company distinguish you from them in terms of its targeting?
2. Staples and The Limited have attempted to thwart shoppers who abuse store return policies. When a customer returns items, store clerks swipe the customer's driver's license through electronic card readers that track buying and return patterns for any suspicious activity (Weston, n.d.). What drawbacks do you think such a strategy could have?
3. Is it always harder to find new customers than it is to retain old ones or does it depend on the business you're in?
4. Does one-to-one marketing have to be expensive? How can small organizations interact with their customers in a cost-effective way?
5. Are large companies better off using multisegment strategies and small companies better off using niche strategies? Why or why not?
6. How have companies such as JCPenney and Sears tried to change their position (reposition their stores)?
7. Do you think hotel companies have segmented the market too much and confused customers?

ACTIVITIES

1. Visit http://aclu.org/pizza/images/screen.swf to see a video created by the American Civil Liberties Union in an effort to warn consumers about the information being collected about them. Do you think the video is far-fetched? Or do you think consumers should be alarmed? In your opinion, do the potential benefits of CRM databases exceed the potential downsides—or not?
2. Form groups of three students. Think of a product or service that one of you purchased recently on campus. How might you go about developing a customer profile for the product? List the sources you would use.
3. Describe a product you like that you believe more people should use. As a marketer, how would you reposition the product to increase its use? Outline your strategy.
4. Look at the latest census data and identify at least two areas of the country that are growing. What type of businesses would you recommend enter the growing markets?
5. Think of an idea for a new product or service. Who would be the target market(s) and how would you position your offering?

CHAPTER 6 - PRODUCT STRATEGY & NEW PRODUCT DEVELOPMENT: CREATING OFFERINGS

6.1 What Comprises an Offering?

LEARNING OBJECTIVES

- Distinguish between the three major components of an offering—product, price, and service.
- Explain, from both a product-dominant and a service-dominant approach, the mix of components that compose different types of offerings.
- Distinguish between technology platforms and product lines.

People buy things to fulfill needs. **Offerings** are products and services designed to deliver value to customers—either to fulfill their needs, satisfy their "wants," or both. We discuss people's needs in other chapters. In this chapter, we discuss how marketing fills those needs through the creation and delivery of offerings.

Product, Price, and Service

Most offerings consist of a **product**, or a tangible good people can buy, sell, and own. Purchasing a classic iPad, for example, will allow you to consume and store content. The amount of storage is an example of a **feature**, or characteristic of the offering. If your content consists of thousands of megabytes, then this feature delivers a benefit to you—the benefit of plenty of storage. However, the feature will only benefit you up to a point. For example, you won't be willing to pay more for the 1 TB of storage if you only need 500 GB. When a certain level of a feature satisfies your need or want, then there is a **benefit**. Features, then, matter differently to different consumers based on each individual's needs. Remember the value equation is different for every customer!

Value is equal to the benefit received from the purchase of a product minus the cost of purchasing that product. Therefore an offering also consists of a price, or the amount people pay to receive the offering's benefits. The price paid can consist of a one-time payment, or it can consist of something more than that. Many consumers think of a product's price as only the amount they paid; however, the true cost of owning an iPad, for example, is the cost of the device itself plus the cost of the music, videos, apps or other content downloaded onto it. **The total cost of ownership (TCO)**, then, is the total amount someone pays to own, use, and eventually dispose of a product.

TCO is usually thought of as a concept that businesses use to compare offerings. However, consumers also use the concept. For example, suppose you are comparing two sweaters, one that can be hand-washed and one that must be dry-cleaned. The hand-washable sweater will cost you less to own in dollars but may cost more to own in terms of your time and effort. A smart consumer would take that into consideration. When we first introduced the personal value equation, we discussed effort as the time and energy spent making a purchase. A TCO approach, though, would also include the time and energy related to owning the product—in this case, the time and effort to hand wash the sweater.

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

Many tangible products have an intangible service component attached to them, however. For example, Apple provides support for many of the computers as well as other devices. Could a company such as Apple back up the product, should something go wrong with it? As you can probably tell, a service does not have to be consumed to be an important aspect of an offering. Apple's ability to provide good after-sales service in a timely fashion was an important selling characteristic of its products, even if buyers never had to use the service.

Sport Clips is a barbershop with a sports-bar atmosphere. The company's slogan is "At Sport Clips, guys win." So, although you may walk out of Sport Clips with the same haircut you could get from Pro Cuts, the experience you had getting it at Sport Clips was very different, which adds value for some buyers.

From the traditional product-dominant perspective of business, marketers consider products, services, and prices as three separate and distinguishable characteristics. To some extent, they are. Apple could, for example, add or strip out features from its products and not change its service policies or the equipment's price. The product-dominant marketing perspective has its roots in the Industrial Revolution. During this era, businesspeople focused on the development of products that could be mass produced cheaply. In other words, firms became product-oriented, meaning that they believed the best way to capture market share was to create and manufacture better products at lower prices. Marketing remained oriented that way until after World War II.

The Service-Dominant Approach to Marketing

Who determines which products are better? Customers do, of course. Thus, taking a product-oriented approach can result in marketing professionals focusing too much on the product itself and not enough on the customer or service-related factors that customers want. Most customers will compare tangible products and the prices charged for them in conjunction with the services that come with them. In other words, the *complete* offering is the basis of comparison. So, although a buyer will compare the price of product A to the price of product B, in the end, the prices are compared in conjunction with the other features and services of the products. The dominance of any one of these dimensions is a function of the buyer's needs.

The advantage of the **service-dominant approach** is that it integrates the product, price, and service dimensions of an offering. This integration helps marketers think more like their customers, which can help them add value to their firm's products. In addition to the product itself, marketers should consider what services it takes for the customer to acquire their offerings (e.g., the need to learn about the product from a sales clerk), to enjoy them, and to dispose of them (e.g., someone to move the product out of the house and haul it away), because each of these activities create costs for their customers—either monetary costs or time and effort costs.

Critics of the service-dominant approach argue that the product-dominant approach also integrates services (though not price). The argument is that at the core of an offering is the product, such as an iPad, as illustrated in Figure 6.1. The physical product, in this case an iPad, is the **core product**. Surrounding it are services and accessories, called the **augmented product**, that support the core product. Thus, a core product is the central functional offering, but it may be augmented by various accessories or services, known as the augmented product. Together, these make up the complete product. One limitation of this approach has already been mentioned; price is left out. But for many "pure" products, this conceptualization can be helpful in bundling different augmentations for different markets.

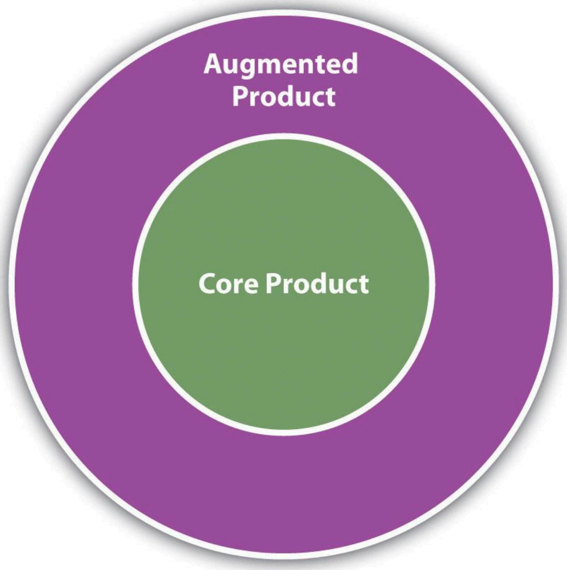

Figure 6.1 – An Offering through the Lens of the Product-Dominant Approach This image is from Principles of Marketing by University of Minnesota and is licensed under a Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License.

Customers are now becoming more involved in the creation of benefits. Let's look at the "pure" product, Campbell's Cream of Chicken Soup. The consumer may prepare that can as a bowl of soup, but it could also be used as an ingredient in making King Ranch Chicken. For the customer, no benefit is experienced until the soup is eaten; thus, the consumer plays a part in the creation of the final "product" when the soup becomes an ingredient when they cook a King Ranch Chicken. Or suppose your school's cafeteria made King Ranch Chicken for you to consume; in that case you both ate a product and consumed a service.

Some people argue that focusing too much on the customer can lead to too little product development or poor product development. These people believe that customers often have difficulty seeing how an innovative new technology can create benefits for them. Researchers and entrepreneurs frequently make many discoveries, and then products are created as a result of those discoveries. 3M's Post-it Notes are an example. The adhesive that made it possible for Post-it Notes to stick and re-stick was created by a 3M scientist who was actually in the process of trying to make something else. Post-it Notes came later.

Product Levels and Product Lines

A product's **technology platform** is the core technology on which it is built. Take for example, the iPad, which is based on iPadOS technology. In many cases, the development of a new offering is to take a technology platform and re-bundle its benefits in order to create a different version of an already-existing offering. For example, in addition to the iPad Classic, Apple offers the iPad Air, iPad Mini and iPad Pro. All are based on the same core technology.

In some instances, a new offering is based on a technology platform originally designed to solve different problems. For example, a number of products originally were designed to solve the problems facing NASA's space-traveling astronauts. Later, that technology was used to develop new types of offerings. EQyss's Micro Tek pet spray, which stops pets from scratching and biting themselves, is an example. The spray contains a trademarked formula developed by NASA to decontaminate astronauts after they return from space.

A technology platform isn't limited to tangible products. Knowledge can be a type of technology platform in a pure services environment. For example, the "bioesthetic" treatment model was developed to help people who suffer from TMJ, a jaw disorder that makes chewing painful. A dentist can be trained on the bioesthetic technology platform and then provide services based on it. There are, however, other ways to treat TMJ that involve other platforms, or bases of knowledge and procedures, such as surgery.

Few firms survive by selling only one product. Most firms sell several offerings designed to work together to satisfy a broad range of customers' needs and desires. A **product line** is group of related offerings. Product lines are created to make marketing strategies more efficient. Campbell's condensed soups, for example, are basic soups sold in cans with red labels. But Campbell's Chunky is a ready-to-eat soup sold in cans that are labeled differently. Most consumers expect there to be differences between Campbell's red-label chicken soup and Chunky chicken soup, even though they are both made by the same company.

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

As Figure 6.2 "Product Levels" shows, there are four offering levels. Consider the Macbook Air. There is (1) the basic offering (the device itself), (2) the offering's technology platform (the MacOS format or storage system used by the MacBook), (3) the product line to which the MacBook belongs (Apple's MacBook line of laptops), and (4) the product category to which the offering belongs (laptops as opposed to desktops, for example).

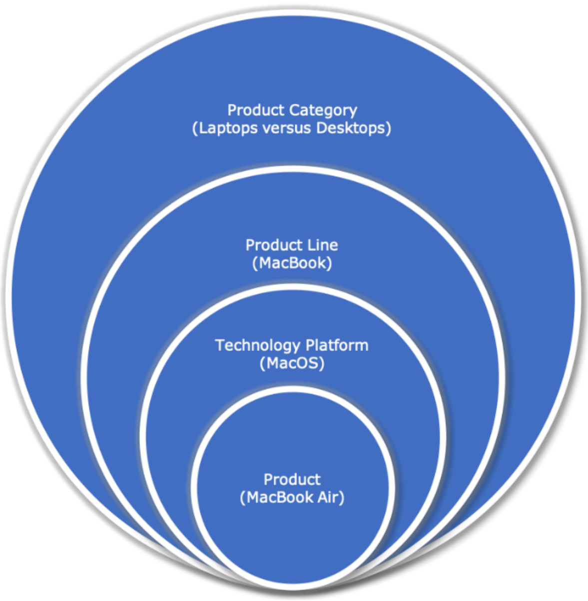

Figure 6.2 – Product Levels ‡ Anthony Francescucci, Ryerson University CC BY-NC 4.0

So how does a technology platform become a new product or service or line of new products and services? Later in this chapter, we take a closer look at how companies design and develop new offerings.

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6.2 Types of Consumer Offerings

LEARNING OBJECTIVES

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

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

- Convenience offerings
- Shopping offerings
- Specialty offerings
- Unsought offerings

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

Convenience Offerings

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

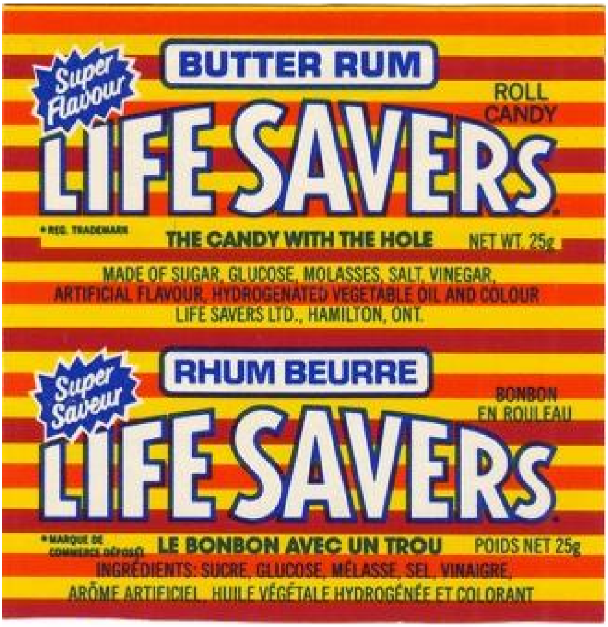

Figure 6.3 – "LifeSavers – Canadian Butter Rum – 1980" by Jason Liebig is licensed under CC BY-NC 2.0

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

Shopping Offerings

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

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

Figure 6.4 – Ben Lucier – Crest Toothpaste – CC BY 2.0

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

Specialty Offerings

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

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

Figure 6.5 – "Motorcycle" by Massimiliano Morosinotto on Unsplash

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

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

Unsought Offerings

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

6.3 Types of Business-to-Business (B2B) Offerings

LEARNING OBJECTIVES

- Define the various types of offerings marketed to businesses.
- Identify some of the differences with regard to how the various types of business offerings are marketed.

Just like there are different types of consumer offerings, there are different types of business-to-business (B2B) offerings as well. But unlike consumer offerings, which are categorized by how consumers shop, B2B offerings are categorized by how they are used. The primary categories of B2B offerings are;

- capital equipment offerings,
- raw materials offerings,
- original equipment manufacturer (OEM) offerings,
- maintenance, repair, and operations (MRO) offerings,
- facilitating offerings.

Capital Equipment Offerings

A **capital equipment offering** is any equipment purchased and used for more than one year and depreciated over its useful life. Machinery used in a manufacturing facility, for example, would be considered capital equipment. Professionals who market capital equipment often have to direct their communications to many people within the firms to which they are selling because the buying decisions related to this type of product can be rather complex and involve many departments. From a marketing standpoint, deciding who should get what messages and how to influence the sale can be very challenging. Refer to the Buying Centre in Chapter 4 for more information on the different types of individual involved in a B2B purchase decision

Raw Materials Offerings

Raw materials offerings are materials firms offer other firms so they can make a product or provide a service. Raw materials offerings are processed only to the point required to economically distribute them. Lumber is generally considered a raw material, as is iron, nickel, copper, and other ores. If iron is turned into sheets of steel, it is called a **manufactured material** because it has been processed into a finished good but is not a stand-alone product; it still has to be incorporated into something else to be usable. Both raw and manufactured materials are then used in the manufacture of other offerings.

Raw materials are often thought of as commodities, meaning that there is little difference among them. Consequently, the competition to sell them is based on price and availability. Natuzzi is an Italian company that makes leather furniture. The wood Natuzzi buys to make its sofas is a commodity. By contrast, the leather the company uses is graded, meaning each piece of leather is rated based on quality. To some extent, the leather is still a commodity, because once a firm decides to buy a certain grade of leather, every company's leather within that grade is virtually the same.

MRO Offerings

Maintenance, repair, and operations (MRO) offerings refer to products and services used to keep a company functioning. Janitorial supplies are MRO offerings as is hardware used to repair any part of a building or equipment. MRO items are often sold by distributors. However, you can buy many of the same products at a retail store. For example, you can buy nuts and bolts at a hardware store. A business buyer of nuts and bolts, however, will also need repair items that a consumer may not need, such as very strong solder used to weld metal. For convenience sake, the buyer would prefer to purchase multiple products from one vendor rather than driving all over town to buy them. So, the distributor sends a salesperson to see the buyer. Most distributors of MRO items sell thousands of products, set up online purchasing websites for their customers, and provide a number of other services to make life easier for them.

Facilitating Offerings

Facilitating offerings include products and services that support a company's operations but are not part of the final product it sells. Marketing research services, banking and transportation services, copiers and computers, and other similar products and services fall into this category. Facilitating offerings might not be central to the buyer's business, at least not the way component parts and raw materials are. Yet to the person who is making the buying decision, these offerings can be very important. If you are a marketing manager who is selecting a vendor for marketing research or choosing an advertising agency, your choice could be critical to your own personal success. For this reason, many companies that supply facilitating offerings try to build strong relationships with their clients.

6.4 Elements of an Offering: Branding, Labeling, and Packaging

LEARNING OBJECTIVES

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

What comes to mind when someone says Apple, Coca Cola, Nike, or Microsoft? According to *Forbes* magazine and InterBrand, the Apple brand is the strongest brand in the world in 2020 (Swant, 2020; Interbrand, n.d.). What is a "brand" and what do these studies mean when they report that one brand is the strongest or the best?

Branding

We have mentioned brands periodically throughout this chapter. But what is a brand? A **brand** is a name, picture, design, or symbol, or combination of those items, used by a seller to identify its offerings and to differentiate them from competitors' offerings. **Branding** is the set of activities designed to create a brand and position it in the minds of consumers. Did you know that the 1960's musical group The Beatles started a recording studio called Apple? When Apple Computer (the iPhone company) was formed, Apple Corp., Ltd. (the Beatles' recording studio), sued Apple Computer because two companies with the same name can create confusion among consumers. This wasn't much of a problem when Apple was only selling computers, but following the release of the iPod and launch of Apple's iTunes program, a case could be made that the companies' offerings are similar enough for consumers to confuse the two companies and their products. In fact, it wasn't until very recently that the lawsuit over the name was settled, some thirty years after the initial lawsuit was filed. Nonetheless, the situation signifies how important brand names are to the companies that own them.

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

A **brand name**, like Apple, is the spoken part of a brand's identity. A **brand mark** is the symbol, such as Nike's swoosh or Puma leaping wild cat, associated with a brand. Brand names and brand marks are important to companies because consumers use them to make choices. That's why it was important to sort out the Apple brand. Each company wanted to make sure that consumers were getting what they wanted and would know what each brand meant.

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

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

One thing firms have to consider when they're branding a new offering is the degree of cannibalization that can occur across products. **Cannibalization** occurs when a firm's new offering eats into the sales of one of its older offerings. (Ideally, when you sell a new product, you hope that all of its sales come from your competitors' buyers or buyers that are new to the market.) A completely new offering will not result in cannibalization, whereas a line extension likely will. A brand extension will also result in some cannibalization if you sell similar products under another brand. For example, if Black & Decker already had an existing line of coolers, and portable radios when the Dewalt line of them was launched, the new Dewalt offerings might cannibalize some of the Black & Decker offerings.

Some marketers argue that cannibalization can be a good thing because it is a sign that a company is developing new and better offerings. These people believe that if you don't cannibalize your own line, then your competitors will.

Packaging Decisions

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

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

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

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

Primary packaging holds a single retail unit of a product. For example, a bottle of Coke, a bag of M&Ms, or a ream of printer paper (five hundred sheets) are all examples of primary packages. Primary packaging can be used to protect and promote products and get the attention of consumers. Primary packaging can also be used to demonstrate the proper use of an offering, provide instructions on how to assemble the product, or any other needed information. If warning or nutrition labels are required, they must be on the primary packaging. Primary packaging can be bundled together as well. Consumers can buy bottles of Coke sold in six-packs or cans of Coke in twelve-packs, for example.

Secondary packaging holds a single wholesale unit of a product. A case of M&M bags is an example, as are cartons of reams of paper. Secondary packaging is designed more for retailers than consumers. It does not have to carry warning or nutrition labels but is still likely to have brand marks and labels. Secondary packaging further protects the individual products during shipping.

Tertiary packaging is packaging designed specifically for shipping and efficiently handling large quantities. When a Coca-Cola bottler ships cases of Coke to a grocery store, they are stacked on pallets (wooden platforms) and then wrapped in plastic. Pallets can be easily moved by a forklift truck and can even be moved within the grocery store by a small forklift.

A product's packaging can benefit the customer beyond just protecting the offering while it's being shipped. No-spill caps, for example, can make it easier for you to use your laundry detergent or prevent spills when you're adding oil to your car's engine. And, as we have noted, secondary packaging (and also tertiary packaging) can serve as part of an in-store display, thereby adding value for your retailers.

6.5 Managing the Offering

LEARNING OBJECTIVES

- Understand product mix and product line decisions.
- Understand the people involved in creating and managing offerings.
- Recognize the differences in organizing product marketing for consumer versus B2B companies.

Managing all of a company's offerings presents a number of challenges. As a company introduces new products, they are confronted with decisions about what a product mix might consist of. A product mix is the complete set of products offered by a company. See Figure 6.6 "Campbell's Product Mix" for a sample product mix. This product mix is made up for various product lines and each of the product lines will contain a number of product categories. A product line is a group of closely related products with similar function. For example, Nike product lines include footwear, apparel, and sports equipment. The number of product lines is considered the product breath (or width) of the product mix. The number of categories within a product line is considered the product depth. The combination of the product width and the product depths form the overall product mix.‡

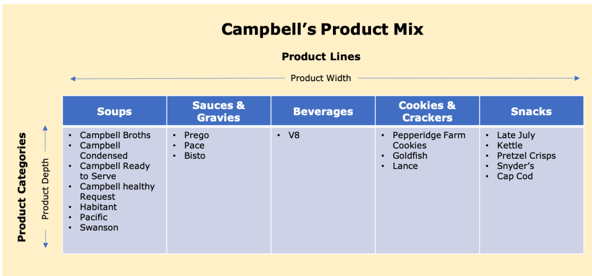

Figure 6.6 – Campbell's Company Product Mix ‡ Anthony Francescucci, Ryerson University CC BY-NC 4.0

Over time, the product mix will become larger and marketing managers are confronted with a number of possible decisions on how to manage the product mix. They include;

Line Stretching

Line stretching is a strategy where a company may choose to expand its current product offering beyond the current product range. Line stretching can be done by going down market or up market or both ways. An example of line stretching is when The Gap company decided to launch a new clothing product range which is a more premium product, known as Banana Republic. The Gap also stretched down market by introducing the value brand Old Navy. ‡

Line Filling

Line filling is a strategy of adding more products to an existing product line in order to fill any potential product gaps into which a competitor may decide to introduce a product. An example of line filling is when Proctor & Gamble introduced new variations of liquid laundry detergent (e.g Tide Hygienic Clean, Tide Cold Water, Tide Plus Sport, etc). ‡

Line Modernization, Featuring and Pruning

A number of strategies to improve the product mix. **Line modernization** is a strategy where you look to improve existing products in the market by adding new features or improving quality issues to prolong the life of the product. **Line featuring** is a strategy where a product is featured through a particular retailer often at a discounted price (e.g. when Coca-Cola products are featured in a Shoppers Drug Mart online or paper flyer). Lastly, **line pruning** is a strategy of retiring or eliminating underperforming products. ‡

Managers

Depending on the size of the company and the breadth of the company's offerings, these decisions may involve managers in several different positions.

A **brand manager** is one such position. A brand manager is the person responsible for all business decisions regarding offerings within one brand. By business decisions, we mean making decisions that affect profit and loss, which include such decisions as which offerings to include in the brand, how to position the brand in the market, pricing options, and so forth. Indeed, a brand manager is often charged with running the brand as if it were its own separate business.

A brand manager is much more likely to be found in consumer marketing companies. Typically, B2B companies do not have multiple brands so the position is not common in the B2B environment. What you often find in a B2B company is a **product manager**, someone with business responsibility for a particular product or product line. Like the brand manager, the product manager must make many business decisions, such as which offerings to include, advertising selection, and so on. Companies with brand managers include Microsoft, Procter & Gamble, SC Johnson, Kraft, Target, General Mills, and ConAgra Foods. Product managers are found at Xerox, IBM, Konica-Minolta Business Solutions, Rockwell International, and many others.

In some companies, a **category manager** has responsibility for business decisions within a broad grouping of offerings. For example, a category manager at SC Johnson may have all home cleaning products, which would mean that brands such as Pledge, Vanish, Drano, Fantastik, Windex, Scrubbing Bubbles, and Shout would be that person's responsibility. Each of those brands may be managed by brand managers who then report directly to the category manager.

At the retail level, a category manager at each store is responsible for more than just one manufacturer's products. The home cleaning category manager would have responsibility for offerings from SC Johnson, as well as Procter & Gamble, Colgate-Palmolive, and many other producers.

Another option is to create a **market manager**, who is responsible for business decisions within a market. In this case, a market can be defined as a geographic market or region; a market segment, such as a type of business; or a channel of distribution. For example, SC Johnson could have regional insect control managers. Regional market managers would make sense for insect control because weather has an influence on which bugs are pests at any given time. For example, a southern regional manager would want more inventory of the repellent Off! in March because it is already warm and the mosquitoes are already breeding and biting in the southern parts of Ontario.

In B2B markets, a market manager is more likely to be given responsibility for a particular market segment, such as all hospital health care professionals or doctor's offices. All customers such as these (retail, wholesale, and so forth) in a particular industry compose what's called a **vertical market**, and the managers of these markets are called **vertical market managers**. B2B companies organize in this way because buying needs and processes are likely to be similar within an industry, channels of communication are likely to be the same within an industry but different across industries.

Because magazines, websites, and trade shows are organized to serve specific industries or even specific positions within industries, B2B marketers find vertical market structures for marketing departments to be more efficient than organizing by geography.

Market managers sometimes report to brand managers or are a part of their firms' sales organizations and report to sales executives. Market managers are less likely to have as much flexibility in terms of pricing and product decisions and have no control over the communication content of marketing campaigns or marketing strategies. These managers are more likely to be tasked with implementing a product or brand manager's strategy and be responsible for their markets. Some companies have market managers but no brand managers. Instead, marketing vice presidents or other executives are responsible for the brands.

6.6 The New Offering Development Process

LEARNING OBJECTIVES

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

Most new offerings go through similar stages in their development process. Although the size of a company will affect how the different stages of their new product development process are conducted and whether products are test marketed before being introduced, the steps are generally the same. Figure 6.7 "The New Offering Development Process" summarizes these steps.

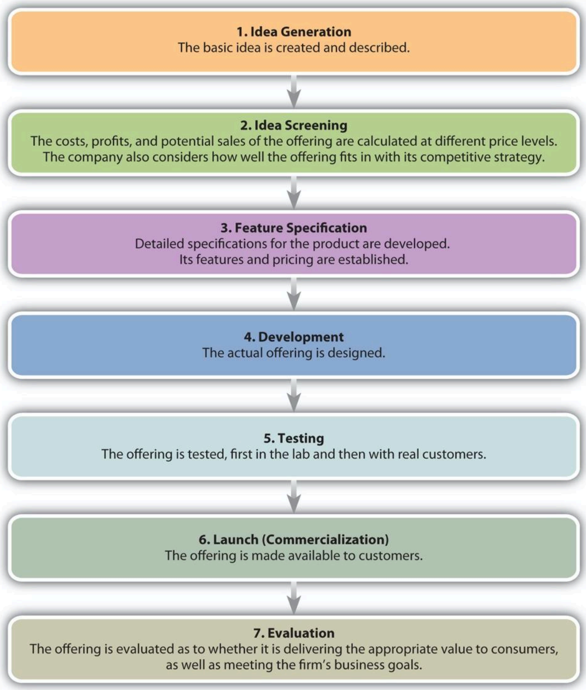

Figure 6.7 – The New Offering Development Process This image is from Principles of Marketing by University of Minnesota and is licensed under a Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License.

Idea Generation

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

Ideas can come from anywhere, including your customers. In fact, in business-to-business (B2B) markets, customers are probably the biggest source of new product ideas. Customers know what customers need and want, which provides organizations an indication of market needs. Customers who are good at generating new product ideas or applications of products are called **lead users**. These people are often courted by manufacturers for this purpose. Lead users exist in consumer markets, too. JCPenney, for example, utilizes a panel of women who help develop and improve the company's Ambrielle line of lingerie products.

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

Suppliers provide another source of ideas for new products. A supplier might develop a new product or technology that can be used to make yet another product, and then go to the makers of those products and suggest new versions of them. For example, McClancy Seasoning Co. makes spices that restaurants and food processing companies use in their food products. McClancy's research and development department works with companies such as Campbell's to help them develop new and better offerings.

Of course, companies also watch their competitors to see what they're doing. Some offerings are protected by patents or copyrights and can't be legally duplicated. The software that runs Apple's iPhone is an example. There are, however, different ways to achieve the same results as Apple has with its iPhone. The Droid, manufactured by Motorola, and the G5, a copy of the Google phone, are devices similar to the iPhone that operate with software serving the same purpose.

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

Idea Screening

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

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

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

Some organizations conduct **concept testing** at this stage. Concept testing involves running the idea of the offering by potential consumers. The purpose is to get early consumer feedback before investing too much money in an offering that won't work. Some of the methods used to test concepts include **focus groups**, in which groups of eight to twelve consumers gather and react to the concept, and **depth interviews**, in which individuals are presented with the concept and can react to it individually. Focus groups and depth interviews are research techniques that can also be used later in the offering development process to test ideas, or for other purposes. Focus groups working virtually on the Web and by phone actually helped to develop this textbook. Concepts may also be tested online by creating an image and having people representative of the target market provide feedback. Whether using focus groups, depth interviewing, or online methods, concepts must be evaluated by people representative of the target market or the feedback is not relevant.

Because screening considers the feasibility of actually making and servicing an offering, price and cost are important components. If the company cannot sell the product in sufficient quantities to generate a profit, the idea must be scrapped. Understanding the customer's personal value equation is an important consideration, too. If the value consumers receive from the product is less than the price the company charges for it, they will not buy it. In other words, the offering must be financially feasible to justify investing in it.

The offering must also have process feasibility. **Process feasibility** is the degree to which the company can actually make and service the product. Process feasibility affects **financial feasibility**. If the product's costs cannot be controlled when it's being made or serviced, the firm's financial goals won't be met. Process feasibility also affects customer satisfaction. For example, many manufacturers make great-looking faucets, yet one of your authors had to have the “guts” of one faucet replaced three times before it would work, only to find two other friends had the same experience with the same model. A great-looking design is really only great if it works right.

Feature Specification

The next step involves narrowing down the product’s features. Again, price enters the picture as the company considers which features are important to consumers at different price points. A premium (high-priced) offering is likely to be loaded with extra features. By contrast, a low-priced offering is likely to be a “bare-bones” product with few features.

Quality function deployment (QFD) is a process whereby a company begins with the customer’s desired benefits and then designs an offering that delivers those benefits. The benefits are linked to certain characteristics of the offering, which are then broken down into component-part characteristics. From this list of component parts, the product is designed. Thus, the feature specifications process begins with a strong understanding of what consumers want and need.

HP has developed a number of computer printers using the QFD process. The QFD process has been particularly helpful when it comes to bundling the right features within the HP’s printer line because each printer model can be targeted to specific customer needs. Customers can then purchase the model that best suits their needs and doesn’t have a bunch of features that don’t add value for them.

Development

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

Testing

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

The next step is **beta testing**. During beta testing, actual customers make sure the offering works under real-world conditions. Beta testing not only tests whether the offering works as advertised but also tests the offering's delivery mechanisms, service processes, and other aspects of marketing the product. This step can be an expensive.

Depending on the product, some companies might find it better to simply launch the product and let the market respond to, or test, it once it is available for purchase.

In B2B settings, beta tests are usually conducted with lead users and preferred customers. The developer of the product needs a strong relationship with these customers because the product might still have bugs that need to be ironed out. If the relationship between the parties is “iffy,” and the product or service needs a significant amount of changes, beta testing could damage the relationship between the two parties and hurt the developer of the product’s sales.

Simultaneous to testing the offering’s ability to meet its specs, the company is also developing and testing the marketing communication plan that will be used to launch the product. Many companies involve consumer panels or user communities, both for testing the offering and the communication plan. As we mentioned, JCPenney solicits the advice of a user community for its Ambrielle line of lingerie. The company frequently runs concepts by the group as well as sends actual prototypes to users to try on and report back to the company. Similarly, the data warehousing company Teradata has a “partners” organization that consists of a community of users who participate in the firm’s product design and testing.

Launch or Commercialization

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

Some companies test the complete launch of a product's marketing plan to ensure that it reaches buyers, gets positive feedback, and generates sales of the product or service. This is called a market test. Companies may conduct market tests in limited markets or nationwide. For example, London, Ontario is a very common market that is used to test market new products because it has a large enough population and has marketing vehicles that are self-contained within the area that don't spill over into other neighbouring markets.

Evaluation

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

6.7 Managing New Products: The Product Life Cycle

LEARNING OBJECTIVES

- Explain how organizations manage offerings after being introduced to the marketplace.
- Explain how managing an offering may be different in international markets.
- Explain the product life cycle and the objectives and strategies for each stage
- Understand the product adoption curve.

Over 20,000 new offerings, including convenience foods, health and beauty aids, electronics, automobiles, pharmaceutical products, hotels, restaurants, and so on, enter the marketplace each year. Depending on the category, between 40% to 90% of them fail within their first year.

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

The **product life cycle (PLC)** includes the stages the product goes through after development, from introduction to the end of the product's life. Just as children go through different phases in life (toddler, elementary school, adolescent, young adult, and so on), products and services also age and go through different stages. The PLC is a beneficial tool that helps marketers manage the stages of a product's acceptance and success in the marketplace, beginning with the product's introduction, its growth in market share, maturity, and possible decline in market share. Other tools such as the Boston Consulting Group matrix may also be used to manage and make decisions about what to do with products. For example, when a market is no longer growing but the product is doing well (cash cow in the BCG approach), the company may decide to use the money from the cash cow to invest in other products they have rather than continuing to invest in the product in a no-growth market.

The product life cycle can vary for different products and different product categories. Figure 6.8 "Life Cycle" illustrates an example of the product life cycle, showing how a product can move through four stages. However, not all products go through all stages and the length of a stage varies. For example, some products never experience market share growth and are withdrawn from the market.

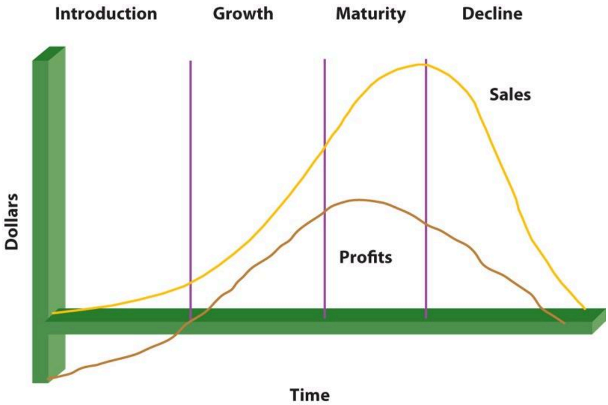

Figure 6.8 – Life Cycle This image is from Principles of Marketing by University of Minnesota and is licensed under a Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License.

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

The Introduction Stage

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

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

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

During introduction, an organization must have enough distribution outlets (places where the product is sold or the service is available) to get the product or service to the customers. The product quantities must also be available to meet demand. Cooperation from a company's supply chain members—its manufacturers, wholesalers, and so forth—helps ensure that supply meets demand and that value is added throughout the process.

When you were growing up, some of you may remember eating Rice Krispies Treats cereal, a very popular product. The product was so popular that Kellogg's could not keep up with initial demand and placed ads to consumers apologizing for the problem. When demand is higher than supply, the door opens for competitors to enter the market, which is what happened when the microwave was introduced. Most people own a microwave, and prices have dropped significantly since Amana introduced the first microwave at a price of almost $500. As consumers in the United States initially saw and heard about the product, sales increased from forty thousand units to over a million units in only a few years. Sales in Japan increased even more rapidly due to a lower price. As a result of the high demand in both countries, many competitors entered the market and prices dropped (Microwave Oven, 2010).

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

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

The Growth Stage

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

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

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

The Maturity Stage

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

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

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

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

Many companies enter different geographic markets or international markets as a strategy to get new users. A product that might be in the mature stage in one country might be in the introductory stage in another market. For example, when the U.S. market became saturated, McDonald's began opening restaurants in foreign markets.

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

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

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

The Decline Stage

When sales decrease and continue to drop to lower levels, the product has entered the **decline stage** of the product life cycle. In the decline stage, changes in consumer preferences, technological advances, and alternatives that satisfy the same need, in a better way, can lead to a decrease in demand for a product. How many of your fellow students do you think have used a typewriter, adding machine, or slide rule? Computers replaced the typewriter and calculators replaced adding machines and the slide rule. Ask your parents about cassette tapes, which were popular before CDs, which were popular before itunes and music streaming services. Some products decline slowly. Others go through a rapid level of decline. Many fads and fashions for young people tend to have very short life cycles and go “out of style” very quickly. (If you ever ask to see your parents’ clothes from the 1990s, you may be amused at how much the styles have changed.) Similarly, many students don’t have landline phones or televisions and cannot believe that people still use these devices. Some devices, such as payphones (phones available on the street and which you paid to use per call), have almost completely disappeared with the advent of cell and smart phones.

Products that rely on the technology of the day, such as smartphones and video games that appeal to young people often have limited life cycles. Companies must decide what strategies to take when the product had entered the decline stage. To save money, some companies try to reduce their promotional expenditures on these products and the number of distribution outlets in which they are sold. They might implement price cuts to get customers to buy the product. **Harvesting** the product entails gradually reducing all costs spent on it, including investments made in the product and marketing costs. By reducing these costs, the company hopes that the profits from the product will increase until their inventory runs out. Another option for the company is **divesting** (dropping or deleting) the product from its offerings. The company might choose to sell the brand to another firm or simply reduce the price drastically in order to get rid of all remaining inventory. If a company decides to keep the product, it may lose money or make money if competitors drop out. Many companies decide the best strategy is to modify the product in the maturity stage to avoid entering the decline stage.

The Product Adoption Curve

In addition to understanding the lifecycle of products, it is also important to understand the different types of consumers and how they adopt new products as they are introduced to the marketplace. This is called the **product adoption curve** or the diffusion of innovation theory. Figure 6.9 "Diffusion of Innovation", illustrates the type of customers who adopt the new product over time. It is the process by which a product or service is adopted by consumers as it spreads throughout the market. Note that some people will never adopt. They are called non-adopters and are not shown on this adoption curve. Over time, various types of adopters will buy the new product. It helps marketers understand the rate at which consumers are likely to adopt new products or services. You will notice that the adoption curve generally follows a bell-shaped curve. Let's look at the characteristics of each group and how they may influence later adopters (Rogers, 2003). ‡

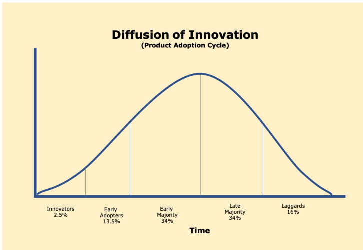

Figure 6.9 – Diffusion of Innovation (Product Adoption Cycle) ‡ Anthony Francescucci, Ryerson University CC BY-NC 4.0

Innovators

Innovators are typically the first to buy the new products when the hit the market. They are characterized as risk takers, because they are willing to buy when the products first come to market, even though there may be some bugs in the new product. Innovators are regarded as highly knowledgeable and are typically not price sensitive when it comes to new products. These types of adopters tend to keep themselves well informed about the product category by subscribing to trade and or specialty publications, talking to other experts, searching the internet and attending product related forums and special events. While they may not represent a sizeable part of the overall market, innovators are crucial to the success of a new product because they tend to influence the next group of adopters with their review of the product. A good example of an innovator might be someone who purchased the first iPhone when it was launched back in 2007. You may not remember, but when the iPhone first launched, it was the first touch-based smartphone to hit the market. ‡

Early Adopters

Early adopters generally take fewer risks and therefore tend to wait for favourable feedback from innovators before they purchase. Early adopters are often regarded as opinion leaders and tend to influence the next group of adopters. This group of adopters tends to represent a greater amount of the overall market, however, still pales in comparison to the next two adopter groups. It is this group which makes or breaks the success of a new product as their adoption and influence leads the next two groups to adopt. ‡

Early Majority Adopters

Early majority adopters tend to avoid most risks. They like to wait for the problems in the new product (identified by the previous groups) to be worked out before they purchase. It is at this point were new competitors tend to peak and the greatest number of price and quality choices also peak. A new product needs to reach this stage of adoption in order to become profitable. ‡

Late Majority Adopters

Late majority adopters are even more risk averse than the previous adopter groups. They tend to be very cautious and skeptical. It is usually when this group adopts that the market for the new product reaches its full potential. It is also true that once the group begins to adopt, sales begin to level off. ‡

Laggard Adopters

Laggard adopters like to avoid change all together and rely on previous technologies often until they are no longer available before they begin to adopt. A good example of a laggard are those who are still using non-smartphone devices. ‡

6.8 Discussion Questions and Activities

REVIEW QUESTIONS

1. How do the product-dominant and service-dominant approaches to marketing differ?
2. Do “product-dominant” and “product-oriented” mean the same thing?
3. What is the difference between a technology platform and a product line?
4. Does a product line have to be built on one technology platform?
5. What is the difference between product depth and product breadth?
6. What are the four types of consumer offerings? How do they differ from one another?
7. Is it possible for cemetery plots or caskets to be a shopping good or a specialty good? Or are they always unsought goods?
8. What types of offerings do businesses buy? How do the offerings differ in terms of how they are marketed?
9. As you learned early in the chapter, consumer offering can belong to different categories

depending on how the buyer wants to purchase them. Is the same true for business offerings?

10. How do brands help companies market their products?
11. What is the purpose of a brand extension?
12. Name the basic types of packaging used in marketing.
13. What is a brand manager?
14. How do brand managers differ from category managers?
15. What is a market manager?
16. Which type of manager has the most marketing responsibility?
17. What are the seven steps in the offering development process? What are the key activities in each step?
18. Who are lead users?
19. How should a company evaluate new ideas? What are the criteria?
20. How does quality function deployment work?
21. Explain what a firm that sells a product with a limited life cycle (such as software) should do in each stage so there is not a lot of inventory left over when a newer version is introduced?
22. Explain why the marketing costs related to a product are typically higher during the introduction stage and why companies must generate awareness of the new product or service and encourage consumers to try it.
23. Explain why and when penetration and skimming pricing are used in the introduction stage.

24. What stage of the life cycle is a product in when the company cannot meet the demand for it and competitors begin to enter the market?
25. What different strategies do firms use to extend the life cycles of their products throughout the maturity stage?
26. How did Kraft extend the mature stage of the product life cycle of Wheat Thins crackers?
27. Explain the difference between harvesting and a divesting when a firm enters the decline stage.

DISCUSSION QUESTIONS

1. How is marketing capital equipment different from marketing MRO offerings?
2. What are the marketing implications for your company if buyers stop viewing your primary offering as a shopping good and begin considering it a convenience good? How would you respond to the change?
3. Can you market unsought goods? If so, how?
4. How does packaging add value for consumers and retailers?
5. If consumers find the most value in the services of your offering rather than the tangible product, how will perishability, intangibility, variability, and inseparability influence your marketing? Be

specific for each characteristic.

6. Choose two of the different marketing jobs or positions described and compare and contrast the challenges associated with each. One position should be one you would want while the other is one you would not. Why did you pick one over the other?
7. Describe three decisions that would be made differently from a product-dominant approach when compared to a service-dominant approach. What is each decision and how would it be different?
8. When would a product orientation be useful? Why?
9. Describe an example of a core product where there are many different augmented products and the augmented products are considered very different by the consumer or user.
10. The text says that branding is much more than labeling or packaging. Provide some examples where you believe the product did not live up to the brand. Using examples to illustrate how consistency works, discuss how the offering and the desired brand image have to be consistent.
11. Who owns an idea? If a customer comes up with an innovation involving your product, and your company thinks that innovation can be commercialized, who owns the new product?
12. Assume you come up with an idea for a new electronic product you think your fellow students would really like. How would you go through the product development process? How would you

accomplish each step within that process?

13. Select a product you are familiar with and explain the stages of the product's life cycle and different ways in which a company can extend its mature stage.
14. Why, given the availability of good research practices, do so many new products fail?
15. What has been Apple's pricing strategy throughout their products' life cycles? If you made iPhone copycat products, what would your price have to be in order to compete successfully?
16. What are the risks associated with beta testing? What criteria would you use to select customers when needing a beta test?
17. This textbook is an open-source text, meaning your professor can modify its contents. Further, multiple delivery mode (online, print black and white, print color) is a relatively new concept for textbooks. What type of screening process would you expect to have been used in developing the concept of open-source, multimode texts? How would that screening process differ from the screening process used to assess this specific book's potential? Describe what you think those two processes would look like. If you don't think the screening process would differ, why?
18. You've got a really great idea for a new online business. But you need capital to get the business going and when you ask investors for money, they want to know if you've done a market test and what the results were. Why are they asking for market test results? What are the risks associated

with a market test? Are there other ways you can answer their real concerns without doing a market test?

19. What characteristics of a product would make it a good candidate for a phased launch? What would make the product a good candidate for a worldwide launch?
20. The product life cycle, the BCG matrix, and the GE matrix have all been criticized for leading to early harvesting of older products and overinvesting in new products. Why did that happen when these tools were applied?

ACTIVITIES

1. Identify three television commercials designed to persuade buyers to view the products being advertised as shopping items rather than convenience items. What is similar about the strategies employed in the commercials? Do you think the commercials are successful? Why or why not?
2. Identify a product for which packaging adds value and describe how that value is added for the consumer. Identify a second brand for which the organization uses primary packaging to distinguish the brand at the point of purchase,

and describe how the package contributes to the branding. Do not use brands used as examples in the chapter. Finally, identify a pure service brand and describe how that service is "packaged."

3. Select two brands that serve the same market but are not discussed in the chapter. Using print advertising, screen shots from Web sites, and stills from commercials (use screen shots from streaming video), assemble supporting material that helps you describe what each brand stands for and how consumers view each brand. Is one brand better than the other? Why or why not?
4. Take two existing offerings and combine them to create a new one. What type of offering is it? To whom would you sell it? What new benefits does the product offer, and how would you communicate them to potential buyers? What evidence could you generate to predict the likelihood of the new offering being successful?
5. Identify two new consumer products sold in a grocery store or by a mass merchandiser such as Walmart. Explore the strategies used to introduce each of the products and which strategy you feel will be most successful.
6. Identify three products that are sold in international markets and explain any differences in how the products have been changed to meet the needs of consumers in the international markets.

CHAPTER 7 - SERVICES STRATEGY

7.1 What is a service and how does it differ from a product?

LEARNING OBJECTIVES

- Define service.
- Explain how services are different from products and how to manage those differences.

As of 2017, services represent more than two-thirds (71%) of Canada's gross domestic products and almost 80% of employment opportunities. These statistics attest to the important role that services play in Canada's economy. In a similar fashion, on a value-added basis (accounting for only domestic goods and services exported), services also make up about 45% of all exports from Canada. Consequently, it is important to understand the marketing implications of the service industry given that many of you may end up working in this industry, whether it be in a marketing capacity or in some other role. While much of the traditional product marketing principles still apply, there are some unique characteristics to consider. ‡

Philip Kotler et al. (2009, p. 372) defines **a service** as "any act or performance that one party can offer to another that is essentially intangible and does not result in ownership of anything. Its production may or may not be tied to a physical product." When we think about products and services, these tend to fall on a continuum from purely product to purely service, with everything in the middle of this continuum consisting of a combination of product and service. See Figure 7.1 "Continuum of Evaluation for Different Product Types" for an illustration. ‡

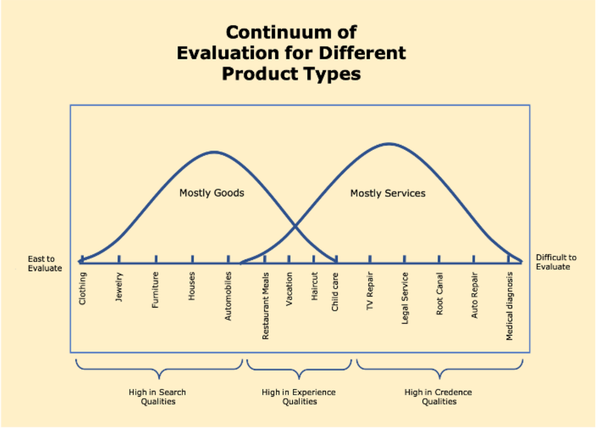

Figure 7.1 – Continuum of Evaluation for Different Product Types (Kotler et al., 2009) ‡ Anthony Francescucci, Ryerson University CC BY-NC 4.0

At one end of the continuum, you have products that do not have a service component attached to them, such as an item of clothing. At the other end you have a service that does not include a physical product element to it, such as an auto repair (tune-up that does not require any parts or materials) or a medical diagnosis. Then in the middle, you have offerings that include both a physical component and an intangible component such as a restaurant meal. The physical product component includes the actual food and drinks you may consume at the restaurant, but for most people there is also an intangible or service component that forms part of the restaurant's meal offering. It may include the atmosphere or environment within the restaurant which may or may not include music or entertainment, but will also include the service received by the wait staff at the restaurant. ‡

It is important to understand this continuum because it will help you to understand the way consumers evaluate these potential offerings and the marketing implications along the continuum. At the purely goods (physical) end of the continuum, it is much easier for consumers to evaluate the product both before and after the purchase. It is easy for consumers to compare and contrast the features and benefits associated with a purely physical product prior to purchase. Similarly, even after purchase and consumption of the purely physical good, it is easy for the consumer to evaluate their purchase.

It is suggested that offerings at the goods end of the continuum are *high in search qualities*—that is, they have characteristics that a buyer can easily use to evaluate before and after purchase. Those offerings in the middle of the continuum are considered *high in experience qualities*—that is, they have characteristics that a buyer can evaluate easily after purchase (e.g., through experiencing a restaurant meal). Finally, the other end of the continuum, where you have offerings that are purely services (i.e., they don't have a tangible element to them), are considered to be *high in credence qualities*—meaning they have characteristics that a buyer finds difficult to be able to evaluate after purchase. For example, with a medical diagnosis, how do you know that a doctor has made the correct diagnosis and has solved the issues? ‡

Those offerings that are in the middle of the continuum (i.e., high in experience qualities) and those at the purely service end of the continuum (i.e., high in credence quality) are considered high risk for consumers because often they can only be evaluated after purchase/consumption. Even then, these products can sometimes be difficult to evaluate for the consumer. Therefore, as you move from left to right along the continuum of offerings, consumers generally tend to rely on word of mouth rather than advertising. In addition, consumers may also consider other cues as an indicator of quality, such as price, personnel, and other physical cues (service equipment used to deliver the offering). Therefore, once a customer has consumed a purely intangible service offering for which they are totally satisfied, they tend to be highly loyal to those service providers and therefore, because of high switching costs and consumer inertia, it becomes difficult for competitors to lure away customers (Ostrom & Lacobucci 1995). ‡

Distinctive Characteristics of Services

This is why it is important to understand what characteristics makes services distinctive and determine how to manage these characteristics from a marketing perspective.

Intangibility

Unlike physical products which are easy to see, touch, feel, taste, smell or compare, services are intangible and you cannot experience them in the same way before purchase. For example, someone who is interested in cosmetic surgery or psychiatric services, cannot easily compare the service offerings from different providers.

Therefore, when marketing service offerings, it is important to tangibilize the intangible aspects of services. Buyers will look for evidence of quality by considering various elements of your service offering. These include the *place* in which your services are offered, the *people* who provide the services, the *equipment* used to deliver the services, the quality of the *communications materials* as well as the use of *symbols,* and, of course, the *price* point. For example, think about the purchase of premium spa services. These types of services are difficult to evaluate in advance of the purchase. Therefore, in making this purchase decision, the customer will look at the surroundings of the environment in which the spa services are offered. If you are offering premium spa services, it is important that the spa use quality finishes to project a luxurious feel, and is kept clean and orderly. Similarly, the people who offer the services must also live up to the premium nature of services. This may necessitate that the people are well groomed, wear high quality and professional uniforms, and are attentive to the guests at the spa. Likewise, the communications materials must also support the premium nature of the spa services. This may mean using a high-quality cardstock, with high quality colour photos taken by a professional photographer. Lastly, the spa services should also be priced accordingly to match with the premium spa services offering. ‡

Inseparability

Unlike physical goods which can be manufactured in advance, stored in inventory, sold by many distribution partners and consumed at a later time, service must be produced and consumed at the same time. If a person is required to render a service, both the service provider and the customer must be present when the service is performed (at a minimum, if a service is provided by machine, the customer must be present at the time that the service is performed). Think of a barber providing a haircut. Both the barber and the customer must be present when the haircut is provided. The barber cannot perform the service in advance (in the absence of a customer) and store it in inventory to be provided at a later time. ‡

The implication of this is that there is limited service availability based on the hours of operation and the presence of customers. If customers are not available at the time that the service is offered, there is revenue loss that cannot be recovered or made up at a later time. ‡

Variability

Unlike physical goods which can be manufactured with the exact same specifications and are subsequently subject to quality checks to ensure consistency, the services provided by human beings are subject to variability. For example, the service provided by the different people can vary depending on their level of experience (e.g., they may be able to provide better service when they accumulate greater experience on the job). Furthermore, the same service can be performed by multiple employees who work for the service provider, leading to differences in the service quality. Unlike self-serve machines, humans, by nature, do things differently. This, if left unchecked, can lead to significant differences in the service that is offered to different customers, or same customers at different visits.

In order to address the potential for service variation, it is important to 1) invest in good hiring and training procedures; 2) standardize the service-performance process; and 3) keep an eye on customer satisfaction. It is important to invest in recruitment practices that attract the right employees, and it is just as important to provide them with the appropriate training on how the service should be performed. Equally important, service providers need to make sure they standardize the way services should be offered and what performance level should be expected from employees. It is important for employees to understand what the customer experience should look like and to deliver this experience to the same standard as every other employee. This might entail the creation of a service blueprint which outlines every aspect of how the service should be offered. Lastly, often when there is service variability, it will show up in customer satisfaction. Therefore, it is important for service providers to monitor customer satisfaction as this will often highlight service variability or failure. ‡

Perishability

Services cannot be stored in inventory, they become perishable. Service providers have a finite number of hours that it can operate with the people they employ. Unfortunately, like most offerings, customer demand for services will fluctuate. This means that if customers are not available when the service can be performed, or if customer demand exceeds service capacity, it means the opportunity to charge for those services is lost. For example, a highly sought-after restaurant has a limited number of seats in the restaurant that can only be turned over an average number of times. If you have more customers show up at the restaurant when you are unable to seat them, it may be difficult to capture that service demand.

Therefore, it is important for service providers to manage customer demand so they can maximize their revenue opportunities. There are several ways to address the fluctuating demand.

On the **demand side** (with customers), there are several strategies a service provider can employ. They could offer *differential pricing* to entice customers to shift their demand to off-peak times when they can take advantage of that demand. A common example is with movie theatres. Often there is a day of the week (e.g. Tuesdays) when demand for movie viewing is lower. Movie theatres will often lower pricing on that day to entice visitors to attend on a lower demand day. Additionally, to increase revenues, some service providers offer *new services during a non-peak period*. For example, Subways sandwiches was often frequented during lunch and dinner. To increase demand during non-peak periods, they introduced breakfast options in the morning. Similarly, to entice customers to wait when they arrive during peak periods, service providers could offer *complementary services*. For example, a restaurant might offer customers a free cocktail while they wait for a table to open up. Lastly, a service provider might employ a *reservation system* to reserve a spot when there is availability and have the customer arrive at that time.

On the **supply side** (with employees), there are additional strategies that can be engaged to deal with the perishability issue. A service provider can *hire part-time employees* to deal with the fluctuations in demand. They can also have their own employees *focus on critical service aspects during peak-times* and address non-critical aspects during non-peak times. For example, wait staff at a restaurant can focus more on the customers during peak-times, and leave the task of dealing with replenishing supplies during non-peak times when possible. Service providers can also encourage *customers to participate in the service delivery* to address demand issues, such as filling out their own medical records during a hospital visit, or bagging their own groceries at the store. ‡

7.2 Providing Great Service: The Service Gap Model

LEARNING OBJECTIVE

- Explain the gaps in the service quality gaps model and understand how to manage customer expectations.

Given the unique or distinctive characteristics outlined above associated with services, it follows that service quality is more difficult to define and measure compared to physical goods. In this sense, service quality is one of the most critical challenges facing many companies. Therefore, it becomes important to understand how customers evaluate service and to understand and identify the gaps that may exist in quality service delivery.

We know that customers evaluate service quality based on the following aspects:

1. Reliability: Often viewed as the most important aspect for customers in measuring service quality. Customers expect that a service will be provided dependably, accurately and consistently. Service has to be delivered right the first time and every time. If a service provider is reliable, they are able

to build brand loyalty with customers.

2. Responsiveness: Customers expect responsiveness when it comes to service delivery. What this may look like may includes returning customer calls in a timely manner, quickly serving lunch to someone in a hurry, or adhering by the appointment times requested by the customer.
3. Assurance: Includes the ability for service provider employees to convey knowledge and courtesy in order to build trust. This is developed when employees treat customers with respect and make them feel that they can trust the service provider.
4. Empathy: Refers to a service provider giving caring and individualized attention to customers. This can be achieved by learning customers' names and their personal requirements.
5. Tangibles: Given the intangibility of services, customers often turn to the tangible aspects available in the service delivery process. They will consider physical evidence of the service which may include the facilities, tools and equipment that are used in the delivery of the service (Zeithaml et al., 1990). ‡

Consequently, customers' evaluation of overall service quality is based on a combination of all five aspects outlined above.

Knowing the way customers evaluate service, it is important to understand, identify and measure the potential gaps that may exist in the service delivery process. The Service Quality Gap Model (Lamb et al., 2019) shown in Figure 7.2 outlines the potential disconnects (failures) or gaps that may occur during the service delivery process. ‡

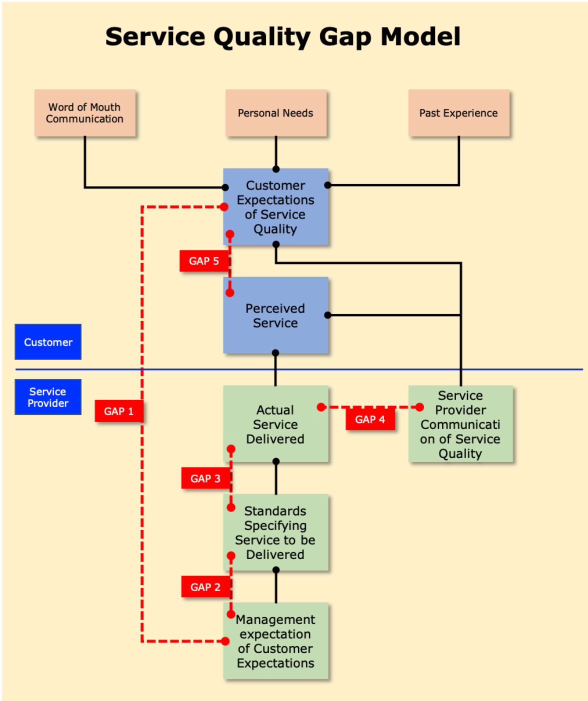

Figure 7.2 – Service Quality Gap Model (Lamb et al., 2019) ‡

The service quality gap model identifies five potential ways that a gap may be created in service delivery and therefore effect customers' evaluation of the service.

Knowledge Gap

The first gap is known as the **knowledge gap**. This occurs when there is a disconnect between what a customer wants or expects in service quality and what the management team of the service provider thinks the customer wants or expects from the service delivery. This gap often occurs because there is a lack of understanding, by the service provider, of what a customer expects from the service. Customers' expectations from the service may vary based on past experience with the service, personal need, or word-of-mouth. Service providers who do little to no customer research may experience this gap. In order to close the gap or ensure a gap is not created, it is important for service providers to stay familiar to customers' needs and wants before the service is provided, well as understand their satisfaction after the service is provided. Both can be accomplished by conducting market research. Furthermore, gathering employee feedback can also help understand more about the customer experience and the knowledge gaps that may exist, as employees often speak directly with customers. These insights can similarly be gathered by conducting research, although the target of the research in this case would be employees (and their insights into customers) rather than the customers themselves. An advantage of this technique is that whereas consumers may be uncomfortable to discuss, or may forget to mention, certain negative aspects of their experiences, employees can provide these insights as outside observers. ‡

Standards Gap

The second gap is the **standards gap**. This occurs when there is a difference between what the management team wants and the actual service delivery specification that management develops for employees to follow in delivering the service. The service delivery specifications are the detailed requirements in terms of how and what service should be provided. This can occur because of management's inability to translate customer expectations in to delivery systems that can meet those needs. The other way to look at it is that the management team has not provided the appropriate service design and standards for employees to deliver the expected service. In order to close or prevent this gap, it is necessary for management to develop policies and procedures on how to deliver the service and to what standard. It also becomes important for management to develop metrics to measure the service standard and to provide the appropriate training to employees. ‡

Delivery Gap

The third gap is the **delivery gap**. This gap can occur when there is a disconnect between the service standard and the actual service delivered to the customer. If the first two gaps are closed, then the delivery gap can occur when employees are unable to do what should be done to deliver the service. This can occur when employees are not given the proper tools to deliver the service and the appropriate feedback when the service delivered does not meet the standard. Again training, tools and feedback are critical to close this gap. ‡

Communications Gap

The fourth gap is the **communications gap**. This happens when there is a difference in what the customer is told they can expect and what service is actually delivered. Customers develop their expectations based on marketing communications materials developed by the service provider. To close this gap, it becomes especially important to be as realistic, honest, and accurate in marketing communications to provide consumers with an accurate representation of what they should expect when the service is delivered. ‡

Expectation Gap

The fifth and final gap is the **expectation gap**. This gap can appear when there is a difference in what the customer expects from the service (prior to consumption or purchase) and what the customer perceives of the service after it has been provided. This gap can be either positive or negative and can affect the customer perception of service quality. Therefore, it is important to understand customer perceptions through ongoing market research to manage their expectations (Mauri et al., 2013). ‡

It is vitally important that companies get service quality right. Based on customer research, 58% of customers indicated that they would switch service providers because of a bad experience . By understanding where the service quality gaps can occur, measuring the gaps and closing the identified gaps, will lead to happier and more loyal customers.

7.3 Discussion Questions and Activities

REVIEW QUESTIONS

1. Describe the four elements that make services different from products.
2. What are the five gaps that may exist in the service quality gap model?

DISCUSSION QUESTIONS

1. Discuss the actions a company can implement to minimize the potential negative impact of service variability.
2. Explain how technology might help companies delivery higher quality service.

ACTIVITIES

1. You have been sitting at the Ministry of Transportation (MoT) for over an hour, while you are waiting for your in-person driver's test appointment. Knowing that products are different than services, think about what the MoT could do to improve overall service delivery. Consider the distinctive nature of services.

CHAPTER 8 - PRICE

8.1 The Pricing Framework and Company's Pricing Objectives

LEARNING OBJECTIVES

- Understand the factors in the pricing framework.
- Explain the different pricing objectives from which companies choose.

The Importance of Price

In previous chapters, we talked about the value exchange between companies and their customers that is the core of marketing. In order for companies to be profitable, they charge money for their products and services. They can get the money from the consumer or business customer, or look to investors to provide their operating revenue and offer an introductory service for free, or below a profitable point for the company.

Companies must understand what their customers are willing to pay against what is economically sustainable in light of the requirements of their private or public shareholders. Note that sometimes, the service is offered for free (e.g. Facebook) because the value exchanged is not money but information about the consumer. However, Facebook needs money to continue to operate. The monetary price is earned from advertisers who are willing to spend money on the audience they can reach by using the advertising services provided by Facebook.‡

For certain products or services such as luxury goods, the price is considered to reflect the quality of the goods or service. However, in many markets the price that a consumer pays no longer communicates reliable information about the quality of the product or service. This is due to several factors such as the ease of checking and comparing price information online, the increasing use of dynamic pricing, and the power of companies such as Wayfair or Walmart to demand a specific price from manufacturers regardless of their costs.‡

When consumers were considered to be operating with limited information about price and a handful of locations from which to make the purchase, price was thought of as a way that consumers evaluate the quality of a product (Milgrom & Roberts, 1986). Companies would set a 'regular' price for products sold to consumers. The price was set to ensure a profit for all partners in the supply chain from manufacturer to wholesaler to retailer. The manufacturer or retailer may offer a discount off the 'regular' price on a limited-time basis but typically the manufacturer ensured that the price of sale was the same across all retailers. Today, price comparison websites such as Trivago or Car Deals provide consumers with access to thousands of data points so that they can easily compare the same product or service.‡

Automatic dynamic pricing, where the price varies according to demand or target group, means that a consumer may see different prices on different websites at different times of the day and when using different browsers. Companies such as Facebook and Google deliver targeted ads where the price for the same product or service varies depending on the size or description of the target group (Bondi et al., 2021). ‡

> **Think about this:** A news outlet reported that Wayfair offered the same chair for four different prices. When asked Wayfair said the differences reflected different manufacturers, however the information was removed and replaced by one chair priced at less than $250. What do you think? Was the chair worth as much as $900 or as little as $250? Did the $900 price tag reflect the quality of the chair or the profit margin that the manufacturer wanted to receive? Or was this just a programming error? ‡

Pricing is important. It is the way in which companies collect revenue. Profits can be increased by raising the price if costs are stable and customers are loyal or without alternatives. As a short term competitive strategy, price is a way to attract customers who were not using the product or service, or to cause competitors' customers to switch brands. It can be used to modify consumers' behaviour.

Pricing can be used attract new customers who are not currently using the product or service. Alternatively it can attract competitor's customers to switch brands. Price can be managed directly by reducing the actual price the customer pays or through price discounts on purchase. Lower prices reduces the financial risk the customer may feel. Loyalty programs are another type of price reduction method. This type of price reduction is a way to reward existing customers without offering the price reduction to all customers (Shin and

Sudhir, 2010). For example, a hotel may offer existing customers access to different prices or free additional services such as early check-in or late checkout if they join the hotel chain's loyalty program. ‡

Price can attract consumers to different retailers and business customers to different suppliers. Unlike product and promotion, which may take time for the competitors to understand and replicate, price is the most visible to and easily matched. For example, Home Depot offers a price matching guarantee with Lowes and Rona. If a consumer can find the same priced product in the competitors' store Home Depot will match that price immediately. Consequently, your product's price alone is not likely to provide your company with a sustainable competitive advantage. ‡

However consistently reducing your price to meet the demands of customers or retailers can ultimately hurt the brand image of the product. Walmart, for example, forces its suppliers to provide their products at the price Walmart decides. That means that many suppliers will remove features from the product in order to reduce their cost and deliver the product at the price Walmart is willing to pay. A laptop may look the same to the consumer but the model sold at Walmart has fewer features than the model you might buy direct from the manufacturer, or from a specialty electronics retailer. Apple doesn't not sell their computers at Walmart for this reason. Apple commands a high price versus the competition for their products because they have a loyal customer base and the function, benefits and quality of the product meets the customers' expectations. ‡

Pricing can be used to modify consumers' behavior. For example, if public policy makers would like to encourage reduction in water or electricity use, they may do so by raising prices during peak demand times. On the flip side, if a company would like to increase demand when there is little, they may also accomplish this by using pricing strategies. For example, airplane ticket prices are often lower during the off season (between October and April) when there is relatively low demand for air travel. This is also an example of dynamic pricing.‡

The price charged does not operate on its own. It should be consistent with a company's product, promotion, and distribution strategies. Dollar stores are retail outlets that carry a wide variety of items at low fixed price points. The largest dollar store in Canada is called Dollarama. In 2021, it was the market leader with 1,356 stores across Canada (Dollarama, n.d.). It's closest competitor is Dollar Tree with only 230 stores (Dollar Tree, n.d.). Since the two companies share a common pricing strategy, one might have thought that the two companies would have the same number of stores. However, Dollarama has been more successful due to its product selection, communication of its brand image, and the development of its retail network. ‡

Price interacts strongly with distribution (place where the product is purchased). When a consumer decides to shop at Dollarama, a low-cost retailer, they expect the prices to be lower than other retailers. If they can buy a paper notebook at Dollarama that they saw being sold for a higher price at Staples, an office supplies retailer, they use this information to reach a conclusion about what the price for that product should be. If the same notebook with the same brand has different regular prices at different locations, which price signals the quality of the notebook? Do the different prices lead consumers to think that one retailer is trying to earn more profit by charging a higher price? ‡

The Pricing Framework

Before pricing a product, a company must determine its **pricing objective**. The company must think about what they want to accomplish with its pricing. Companies must also estimate demand for the product or service, determine the costs and profit by analyze all factors (e.g., competition, regulations, and economy) affecting price decisions. Then, to convey a consistent image, the company should choose the most appropriate pricing strategy. A pricing strategy can be delivered using different pricing tactics. The basic steps in the pricing framework are shown in Figure 8.1 "The Pricing Framework".

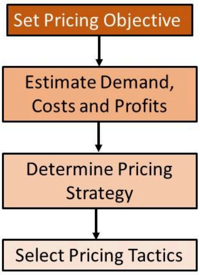

Figure 8.1 – The Pricing Framework ‡ Anthony Francescucci, Ryerson University CC BY-NC 4.0

Set Pricing Objectives

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

Profit-Oriented Objective

This objective focuses on profit as the key outcome.

- **Earning a Targeted Return on Investment (ROI)**: **ROI**, or return on investment, is the amount of profit a company hopes to make given the amount of assets, or money, it has tied up in a product. ROI is a common pricing objective for many companies. Companies typically set a certain percentage, such as 10 %, for ROI in a product's first year following its launch. So, for example, if a company has $100,000 invested in a product and is expecting a 10 % ROI, it would want the product's profit to be $10,000.
- **Maximizing Profits**: Many companies set their prices to increase their revenues as much as possible relative to their costs. However, large revenues do not necessarily translate into higher profits. To maximize its profits, a company must also focus on cutting costs.

There are several ways to manage costs. Companies can reduce costs overall or per unit. For example, The Gap cut overall costs by more efficiently controlling and managing its inventory. It could move product between stores based on customer demand, reduce the number of sizes it carries, or restrict the number of days that a customer can return a product. Another way to cut costs is to reduce the number of retail stores being operated. During the COVID-19 pandemic, Disney closed 60 of its low performing North American retail stores, including all of its 18 stores in Canada (Dion, 2021). Other companies such as Dell, Inc., cut jobs to reduce costs which increased their profits. Large companies such as Walmart are able to use their buying power to persuade its suppliers to sell their products to Walmart for less than they sell them to other companies. In this way, Walmart can reduce the cost of the products and keep its prices lower.

Rather than cutting overall cost, another way to increase profit is to decrease the cost per unit by increasing in the number of units sold. Economies of scale refer to cost savings achieved through an increased rate of production (O'Sullivan & Sheffrin, 2003). The reason why many suppliers want to sell their products to Walmart or Amazon is because they can achieve economies of scale. ‡

Sales-Oriented Objective

This objective focuses on sales, either their own or those of their competitors, as the key outcome.

- **Maximizing Sales:** Maximizing sales involves pricing products to generate as much revenue as possible, regardless of what it does to a company's profits. When companies are struggling financially, they sometimes try to generate cash quickly to pay their debts. They do so by selling off inventory or cutting prices temporarily. Such cash may be necessary to pay short-term bills, such as payroll. Maximizing sales is typically a short-term objective since profitability is not considered.
- **Maximizing Market Share:** Some companies try to set their prices in a way that allows them to capture a larger share of the sales in their industries. Capturing more market share doesn't necessarily mean a company will earn higher profits. The Canadian Cannabis Market is example where some of biggest cultivators had a flat or falling market share between 2020 and 2021 because smaller cultivators

took market share from them (Lamers, 2021). However, one of the market leaders, Aurora is focused on increasing its presence in high-margin customers segments, which means fewer but more profitable customers. ‡

Status Quo Objectives

- **Maintaining the Status Quo:** Sometimes a company's objective may be to maintain the status quo or simply meet, or equal, its competitors' prices or keep its current prices. Airline companies are one example. Typically when one airline raises or lowers its prices, the others all do the same. If consumers are resistant to one airline's increased prices and extra fees for food, carry-on luggage, on board entertainment, other airlines may decide not to implement the extra charge and the airline charging the fee may drop it. Companies, of course, monitor their competitors' prices closely when they adopt a status quo pricing objective.

8.2 Estimate Demand, Costs and Profit

LEARNING OBJECTIVES

- Estimate demand.
- Determine costs.
- Establish Profit Level.

Having a pricing objective isn't enough. A company also has to look at a myriad of other factors before setting its prices.

Estimate Demand

Buyers

How will buyers respond? Three important factors are: whether the buyers believe that the product offers value, how many buyers there are, and how sensitive they are to changes in price. In addition to gathering data on the size of markets, companies must try to determine how price sensitive customers are. Will customers buy the product, given its price? Or will they believe the value (benefit of the product is less than the cost and effort) and choose an alternative or decide they can do without the product or service? Equally important is how much buyers are willing to pay for the offering. Figuring out how consumers will respond to prices involves judgment as well as research.

Price elasticity, or people's sensitivity to price changes, affects the demand for products. Elasticity refers to the change in demand as a result of a change in price.‡ Imagine that the price of a twelve-pack of bottled water changing from $4.5 a pack to $1.50 a pack. Many people will become more likely to buy more bottled water at $1.50 than they are at $4.50. An example of price inelasticity is city bus fare. If you are not interested or willing to take the price, dropping the price will not influence your decision to take the bus over your bike or car.‡

When consumers are very sensitive to the price change of a product, that is, they buy more of it at low prices and less of it at high prices, the demand for it is **price elastic**. Durable goods such as computers, cars, and stoves are more price elastic than necessities. More people are likely to buy them when their prices drop and fewer consumers are likely to buy them when their prices rise. Demand for essential products such as many basic food and first-aid products is not as affected by price changes as many nonessential goods.

The number of competing products and available substitutes affects the elasticity of demand. Whether a person considers a product a necessity or a luxury, and the percentage of a person's budget allocated to different products and services also affect price elasticity. Some products, such as cigarettes, tend to be relatively price inelastic since most smokers keep purchasing them regardless of price increases and non-smokers will not buy regardless of the price. Service providers, such as utility companies in markets in which they have a monopoly (only one provider), face an inelastic demand since no substitutes are available.

However, in most markets, even monopolies need to be monitoring the landscape for new indirect competitors. Canada Post continues to be the only company who can charge the price it does for first class Lettermail (Canada Post, n.d.). However, beginning over 30 years ago with the introduction of the internet, email, and then mobile phones, the inelastic demand provides no protection to the negative impact to its Lettermail business.‡

Competitors

How competitors price and sell their products will have a tremendous effect on a company's pricing decisions. If you wanted to buy a certain pair of shoes, but the price was 30% less at one store than another, what would you do? Because companies want to establish and maintain loyal customers, they will often match their competitors' prices. Some retailers, such as Home Depot have a price-matching guarantee where they will give you a 10% discount if you find the same product for less somewhere else (Home Depot, n.d.).‡ Similarly if one company offers you free shipping, then other competitors will offer it as well. With so many products sold online, consumers can compare the prices of many merchants before making a purchase decision. Recall from the Five Forces Model that companies must look at substitutes and potential entrants as well as direct competitors.

The Economy and Government Laws and Regulations

The economy has an effect on pricing decisions. When the economy is weak and many people are unemployed, companies often lower their prices. In international markets, currency exchange rates also affect pricing decisions. Pricing decisions are affected by federal, provincial and municipal regulations. Regulations are designed to protect consumers, promote competition, and encourage ethical and fair behavior by businesses. For example, in Canada the Competition Act contains pricing provisions about a misleading ordinary selling price; bait and switch selling; or sale above advertised price (Competition Bureau Canada, 2018b).‡ The intent is to protect consumers and businesses and create a fair market.

Determine Costs

The costs of the product and its inputs including the amount spent on product development, testing, and packaging have to be taken into account when the company makes their pricing decision. So do the costs related to promotion and distribution. For example, when a new product is launched, its promotion costs can be very high because people need to be made aware that it exists and potentially be taught how to use it. These high costs that relate to the stage of the product's life cycle can affect its price. Furthermore, the country where the product is sold may have an impact. For example, while sales of iPhone remain fairly constant in North America, people in other countries have felt that the phone was too expensive compared to the average income of the country, did not function as well as the networks in their countries, or their functionality was restricted by the government. Thus, Apple offers a cheaper, less featured iPhone in some countries (Mickle, 2020).‡ Similarly, if a company opens brick-and-mortar storefronts to distribute and sell their offering, these costs must be built into the price of the product. Recently Microsoft closed its bricks and mortar stores because the cost of running them could not be make up in the price of the products sold (Microsoft, 2020).‡

Establish Profit Level

The point at which total costs equal total revenue is known as the **breakeven point (BEP**). For a company to be profitable, a company's revenue must be greater than its total costs. If total costs exceed total revenue, the company suffers a loss.

Total costs include both fixed costs and variable costs. **Fixed costs**, or overhead expenses, are costs that a company must pay regardless of its level of production or level of sales. A company's fixed costs include items such as rent, leasing fees for equipment, contracted advertising costs, and insurance. As a student, you may also incur fixed costs such as the rent you pay for an apartment. You must pay your rent whether you stay there for the weekend or not. **Variable costs** are costs that change with a company's level of production and sales. Raw materials, labor, and commissions on units sold are examples of variable costs. You, too, have variable costs, such as the cost of gasoline for your car or your utility bills, which vary depending on how much you use.

Consider a small company that publishes specialty print books and sells them through different brick and mortar stores and online retail stores. The publisher's selling price is $15, which is what the retailer pays for the books. The retailer then sells the books to consumers for an additional charge. The manufacturer has the following costs:

Fixed Costs

Copyright and distribution charges for the titles	$150,000
Package and label designs for the books	$10,000
Advertising and promotion costs	$40,000

Variable Costs

Reproduction of books	$5 per unit
Labels and packaging	$1 per unit
Royalties	$1 per unit

In order to determine the breakeven point, you must first calculate the fixed and variable costs. To make sure all costs are included, you may want to note the fixed costs and the variable costs. Then, using the formulas below, calculate how many units the manufacturer must sell to break even.

The formula for BEP is as follows:

> BEP = total fixed costs (FC) ÷ contribution margin per unit (CU)
>
> Contribution margin per unit = MSP – variable costs (VC)
>
> BEP = $200,000 ÷ ($15 – $7) = $200,000 ÷ $8 = 25,000 units to break even

To determine the breakeven point in dollars, you simply multiply the number of units to break even by the MSP. In this case, the BEP in dollars would be 25,000 units times $15, or $375,000.

8.3 Determine Pricing Strategy

LEARNING OBJECTIVES

- Determine pricing strategies.
- Pricing Adjustments over the life of a product

Pricing Strategies

Once a company has established its pricing objectives and analyzed the factors that affect how it should price a product, the company must determine the pricing strategy (or strategies) that will help it achieve those objectives. Companies may use different pricing strategies but it is most important that the strategy selected achieve the objective set (profit, sales or status orientation). Sometimes, a particular strategy is selected based on the stage of the product's life cycle, the stage of development of a new market, or the relaunch of an existing product.

Product pricing strategies in the introductory stage can vary depending on the type of product, competing products, the extra value the product provides consumers versus existing offerings, and the costs of developing and producing the product. Two strategies that are widely used in the introductory stage are penetration pricing, price skimming or giving the product or service away for free.

A penetration pricing strategy involves using a low price with the goal being to get as many consumers as possible to try the product. Penetration pricing is used on many new food products, health and beauty supplies, and paper products. The organization hopes to sell a high volume in order to generate substantial revenues. The low initial price of the product is often combined with advertising, coupons, samples, or other special incentives to increase awareness of the product and get consumers to try it.

A company uses **a price skimming strategy**, which involves setting a high initial price for a product, to more quickly recoup the investment related to its development and marketing. The skimming strategy attracts the top, or high end, of the market. Generally, this market consists of customers who are early adopters of products or who are very interested in the product and are therefore less sensitive to price. An example of price skimming would be driverless or autonomous cars.‡ A high price must be consistent with the nature of the product (e.g. revolutionary innovation versus evolutionary) as well as the other marketing strategies being used to promote it. For example, engaging in personal selling to customers, running ads targeting small and specific groups of customers, and placing the product in a limited number of distribution outlets are likely to be strategies that companies use in conjunction with a skimming approach.

Giving away a product or service for free is considered a pricing strategy and is often used by technology companies to encourage trial. The company may offer a basic app for free to new customers. Some companies allow the use of the 'basic' app for free over the long term. These typically have limited function but offer enough to induce customers to sign-up for them. Over time, companies will encourage customers to sign up for a one-time fee or subscription by providing information about additional features available, or by reducing the functionality of the free service. Of course, while a service may be monetarily free, the company may charge a different non-monetary price. Facebook is well known for selling its users' information to advertisers in exchange for access to its platform (BBC News, 2018). ‡

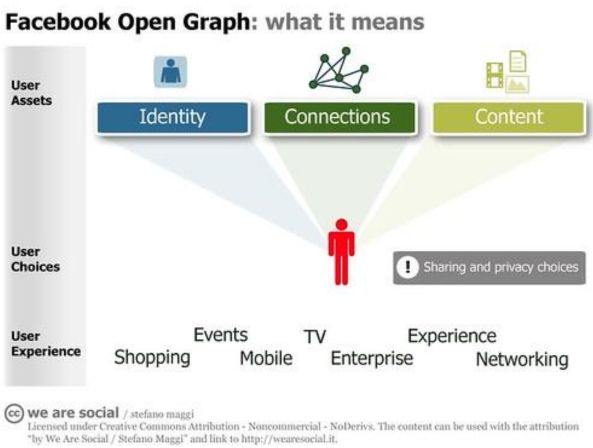

Figure 8.2 –"Facebook Open Graph" by Stefano Maggi is licensed under CC BY-ND 2.0

Companies can choose many ways to set their prices for existing products or services. Many stores use **cost-plus pricing**, in which they take the cost of the product and then add a profit to determine a price. Cost-plus pricing is very common. The strategy helps ensure that the product costs are covered and the company earns a certain amount of profit. When companies add a **markup**, or an amount added to the cost of a product, they are using a form of cost-plus pricing. When products go on sale, companies **mark down** the prices, but they usually still make a profit. Potential markdowns or price reductions should be considered when deciding on a starting price.

Many pricing approaches have a psychological appeal. **Odd-even pricing** occurs when a company prices a product a few cents or a few dollars below the next dollar amount. For example, instead of being priced $400.00, an Xbox 360 was priced at $399.99 to encourage more sales. That's because consumers perceive a product priced at $399 as being a better deal because the number is in the 300s whereas 400 is not. ‡

Figure 8.3 – "E3 2010 Sony Media Event – price for the new PS3 Move bundle" by The Pop Culture Geek Network is licensed under CC BY-NC 2.0

Prestige pricing occurs when a higher price is utilized to give an offering a high-quality image. Some stores have a quality image, and people perceive that perhaps the products from those stores are of higher quality. Many times, two different stores carry the same product, but one store prices it higher because of the store's perceived higher image.

Belts are often priced using a strategy known as **price lining**, or *price levels*. This is often used in categories where there is little to differentiate these products in terms of function or there are a few large manufacturers and retailers who want an efficient inventory management system. In other words, there may be only a few price levels ($25, $50, and $75) for belts, but a large assortment of them at each level. Movies and music often use price lining. You may see a lot of online movies for $2.99, $4.99, and perhaps $12.99 for a new release, but you won't see a lot of different price levels. ‡

Knowing that people have certain maximum levels that consumers are willing to pay, some companies use **demand backward pricing**. These strategies are often used for time limited products such as holiday products. They start with the price demanded by consumers (what they want to pay) and create offerings at that price. If you shop before the holidays, you might see a table of different products being sold for $5 (mugs, picture frames, ornaments) and another table of products being sold for $10 (mugs with chocolate, decorative trays, and so forth). Similarly, people have certain prices they are willing to pay for wedding gifts, $25, $50, $75, or $100, so stores set up displays of gifts sold at these different price levels. IKEA sets a price that the company believes consumers want to pay, and then, working backward from the price, designs the product.

Loss leader pricing involves pricing one or more items low to get people into a store. The products with low prices are often on the front page of store ads and "lead" the promotion. For example, prior to Thanksgiving, grocery stores advertise turkeys and cranberry sauce at very low prices. The goal is to get shoppers to buy many more items in addition to the low-priced items. Leader or low prices are legal; however, as you learned earlier, loss leaders, or items priced below cost in an effort to get people into stores, are illegal in many states.

Another approach some retailers use is **everyday low prices**. Walmart goes as far to offer its customers whether shopping in store or online, an 'Every Day Low Price' guarantee. ‡

Price bundling occurs when different offerings are sold together at a price that's typically lower than the total price a customer would pay by buying each offering separately. Combo meals and value meals sold at restaurants are an example. Companies such as McDonald's have promoted value meals for a long time in many different markets. Other products such as shampoo and conditioner are sometimes bundled together. Automobile companies bundle product options. For example, power locks and windows are often sold together, regardless of whether customers want only one or the other. The idea behind bundling is to increase a company's revenues.

Captive pricing is a strategy companies use when consumers must buy a given product because they are at a certain event or location or they need a particular product because no substitutes will work. Concessions at a sporting event or a movie provide examples of how captive pricing is used. Maybe you didn't pay much to attend the game, but the snacks and drinks were extremely expensive. Similarly, if a consumer buys a Gillette Wilkinson Sword Vintage Double Edge Safety Razor and purchase new razor blades for it, that is captive pricing. The blades are often more expensive than the razor because customers do not have the option of choosing blades from another manufacturer.‡

Pricing products consumers use together (such as blades and razors) with different profit margins is also part of **product mix pricing**. If you want to buy a printer, the base price might seem reasonable, even really low, but the cost of the ink cartridge often seems much higher relative to the cost of the printer. That's because the ink cartridge is necessary to operation of the printer, consumers must buy the printer cartridge that is goes with their printer and in this way the seller a much higher profit margin. While consumers can buy generic printer cartridges for less, many consumers will pay for the brand name printer cartridge manufactured by the printer company.‡

In Canada, there is lots of criticism of the major cell phone carriers for the amount they charge for data (Thurton, 2020).‡ Depending on your plan, it may involve **two-part pricing**. Two-part pricing means there are two different charges customers pay. In the case of a mobile phone, a customer might pay a charge for one service such as a thousand minutes, and then pay a separate charge for each minute over one thousand.

Have you ever seen an ad for a special item only to find out it is much more expensive than what you recalled seeing in the ad? A company might advertise a price such as $25*, but when you read the fine print, the price is really five payments of $25 for a total cost of $125. **Payment pricing**, or allowing customers to pay for products in installments, is a strategy that helps customers break up their payments into smaller amounts, which can make them more inclined to buy higher-priced products. Installment pricing has often been used for expensive items such as furniture but the Shopping Channel offers a program they call Easy Pay where the purchase price for almost any item can be paid over several payments without interest when using a credit card (TSC, n.d.). ‡

Promotional pricing is a short-term tactic designed to get people into a store or to purchase more of a product. Examples of promotional pricing include back-to-school sales, rebates, extended warranties, and going-out-of-business sales. Rebates are a great strategy for companies because consumers think they're getting a great deal but many consumers forget to request the rebate. Extended warranties have become popular for all types of products, including automobiles, appliances, electronics, and even athletic shoes. If you buy a vacuum for $100, and it has a one-year warranty from the manufacturer, does it really make sense to spend an additional $25 to get another year's warranty? However, when it comes to automobiles, repairs can be expensive, so an extended warranty often pays for itself following one repair. Buyers must look at the costs and benefits and determine if the extended warranty provides value.

Dynamic pricing is the (fully or partially) automated adjustment of prices. It is most easily done online. The price offered to the consumer can vary by their browser, their online search patterns and their past purchase behavior.‡ Amazon has been a leader in e-commerce dynamic pricing. It reprices millions of items as frequently as every few minutes. Unless a manufacturer sells through its own website, dynamic pricing benefits the retailer who can maximize the revenue of the products it is selling. With the growth in online price consolidators available to consumers, some consumers believe that the price is not fixed nor does it reflect the costs of the retailer. In a way, the price is disconnected from the value of the product. ‡ Another way to use dynamic pricing is on promotions, bundles, personalized offers, and shipping fees (Bondi et al., 2021).

Subscription based pricing has been applied to software (Microsoft Office 360, Apple iCloud), content (Netflix, Amazon Video Prime), and products from razors (Dollar Shaving Club) to beauty products (Vegan Cuts Beauty Box) and clothing (Frank and Oak Style Plan). For a weekly, monthly or annual fee, a product or service is automatically sent to the customer on a periodic basis. Some companies allow the customer to set the time-frame. Using the answers provided by the customer to a few questions, Dollar Shaving Club estimates when the customer will need their next shipment of shaving products and ships them accordingly (Dollar Shave Club, n.d.).‡

Price differentiation, or charging different customers different prices for the same product. In some situations, price discrimination is legal. As we explained, you have probably noticed that certain customer groups (students, children, and senior citizens, for example) are sometimes offered discounts at restaurants and events. However, the discounts must be offered to all senior citizens or all children within a certain age range, not just a few. Price discrimination is used to get more people to use a product or service. Similarly, a company might lower its prices in order to get more customers to buy an offering when business is slow.

Sealed bid pricing is the process of offering to buy or sell products at prices designated in sealed bids. Companies must submit their bids by a certain time. The bids are later reviewed all at once, and the most desirable one is chosen. Sealed bids can occur on either the supplier or the buyer side. Via sealed bids, oil companies bid on tracts of land for potential drilling purposes, and the highest bidder is awarded the right to drill on the land. Similarly, consumers sometimes bid on lots to build houses. The highest bidder gets the lot. On the supplier side, contractors often bid on different jobs and the lowest bidder is awarded the job. The government often makes purchases based on sealed bids. Projects funded by stimulus money were awarded based on sealed bids.

Bids are also being used online. Online auction sites such as eBay give customers the chance to bid and negotiate prices with sellers until an acceptable price is agreed upon. When a buyer lists what he or she wants to buy, sellers may submit bids. This process is known as a forward auction. If the buyer not only lists what he or she wants to buy but also states how much he or she is willing to pay, a reverse auction occurs. The reverse auction is finished when at least one company is willing to accept the buyer's price.

Going-rate pricing occurs when buyers pay the same price regardless of where they buy the product or from whom. Going-rate pricing is often used on commodity products or which operate in government regulated markets such as wheat, gold, or silver. People perceive the individual products in markets such as these to be largely the same. Consequently, there's a "going" price for the product that all sellers receive.

Price Adjustments

Companies must also decide what their policies are when it comes to making price adjustments, or changing the listed prices of their products. Some common price adjustments include **quantity discounts**, which involves giving customers discounts for larger purchases. Discounts for paying cash for large purchases and **seasonal discounts** to get rid of inventory and holiday items are other examples of price adjustments.

A company's price adjustment policies also need to outline the company's shipping charges. Many online merchants offer free shipping on certain products, orders over a certain amount, or purchases made in a given time frame. *FOB (free on board) origin* and *FOB delivered* are two common pricing adjustments businesses use to show when the title to a product changes, along with who pays the shipping charges. **FOB origin** means the title changes at the origin, that is, when the product is purchased, and the buyer pays the shipping charges. **FOB destination** means the title changes at the destination, that is, after the product is transported, and the seller pays the shipping charges.

Uniform-delivered pricing, also called postage-stamp pricing, means buyers pay the same shipping charges regardless of where they are located. If you mail a letter across town, the postage is the same as when you mail a letter to a different province.

Trade allowances are a way for retailers to improve their profitability.‡ A manufacturer pays the store an advertising allowance to advertise the manufacturer's products in its apps or printed flyers. Manufacturers pay for each shelf facing they get in a store. Some placements are more valuable than others. Examples include the middle shelf or the ones at the end of the aisle.‡ Similarly, a manufacturer might offer a store a discount to restock the manufacturer's products on store shelves rather than having its own representatives restock the items.

Reciprocal agreements are agreements in which merchants agree to promote each other to customers. For example, the Royal Ontario Museum in Toronto has reciprocal agreements so that Royal Ontario Museum members can get discounts on the price of admission or meals at other museums (Royal Ontario Museum, n.d.). ‡

A popular promotion tactic that serves to encourage customers to revisit a brick and mortar or an online store is called **a bounce back**. A bounce back is a promotion in which a seller gives customers discount cards or coupons after purchasing a product. Consumers can then use the cards and coupons on their next visit. The idea is to get the customers to return to the store or online outlets later, and purchase additional items. Some stores set minimum dollar amounts, products, or a specific time when it must be used.

Mark's is a Canadian retail chain that sells industrial and casual apparel, footwear, and accessories. The company is part of the Canadian Tire Family of Companies. When a customer makes a purchase, they receive a coupon for their next purchase. One such coupon reads: "Save $20 When You Spend $100 or More, Before Taxes. Code Valid April 8 – 14, 2021 In-Store or On Marks.Com" (Mark's, n.d.).‡

8.4 Discussion Questions and Activities

REVIEW QUESTIONS

1. What are the steps in the pricing framework?
2. In addition to profit-oriented objectives, what other types of pricing objectives do firms utilize?
3. What factors do organizations consider when making price decisions?
4. How do a company's competitors affect the pricing decisions the firm will make?
5. What is the difference between fixed costs and variable costs?
6. Explain the difference between a penetration and a skimming pricing strategy.
7. Describe how both buyers and sellers use sealed bid pricing.
8. Identify an example of each of the following: odd-even pricing, prestige pricing, price bundling, and captive pricing.

DISCUSSION QUESTIONS

1. What is the difference between leader pricing and a loss leader?
2. Which pricing approaches do you feel work best long term?
3. Which pricing strategies have you noticed when you shop?
4. What new products have you purchased in the last two years that were priced using either a penetration or a skimming approach?
5. What are the steps in the pricing framework?
6. In addition to profit-oriented objectives, what other types of pricing objectives do companies utilize?
7. What factors do companies consider when making price decisions?
8. How do a company's competitors affect the pricing decisions the company will make?
9. What is the difference between fixed costs and variable costs?
10. We discussed in this chapter that Facebook offers consumers a 'free' service in exchange for their information. Could it be that whoever pays money for a product/service is the actual customer, therefore in this case the advertiser is the customer and the users are the product. If you are a Facebook user how to you feel about considered 'the product'?

ACTIVITIES

1. In order to understand revenues and costs, get a two-liter bottle of diet soft drink, ten to twenty cups, and a bucket of ice. Fill each cup with ice and then fill it with the soft drink. Assume each cup of soft drink sells for at least $1 and you paid $1 for the soft drink and $1 for the cups. How much profit can you make?
2. Go to a fast-food restaurant for lunch. Figure out how much the price of a bundled meal is versus buying the items separately. Then decide if you think many consumers add a drink or fries because they feel like they're getting a deal.

CHAPTER 9 - PLACE (DISTRIBUTION) STRATEGY

9.1 Marketing Channels and Channel Partners

LEARNING OBJECTIVES

- Explain why marketing channel decisions can result in the success or failure of products.
- Understand how supply chains differ from marketing channels.
- Describe the different types of companys that work together as channel partners and what each does.

Today, marketing channel decisions are as important as the decisions companies make about the features and prices of their products (Littleson, 2007). Consumers have become more demanding and have more choices available to them, including buying from other people rather than companies. For example, the growth of peer-to-peer selling on platforms such as Poshmark and Kijiji appeal to a group of consumers who want to pay a lower price for a product, don't want a retail experience and don't require products that are newly manufactured. Some consumers even consider buying gently used products a way to live a more environmentally sustainable life.‡

This chapter focused on the process that creates the product from raw materials to finished product sold direct to the consumer by the company or indirectly through retail intermediaries. **Channel partners** are companies that other companies work with in order to promote or sell their product. In other words, the product travels through a marketing channel to reach the final user, and all channel partners are responsible (in part) from the product's success in the marketplace. Companies strive to choose not the most appropriate marketing channels, and the most successful channel partners. A manufacturer who partners with a strong channel partner such as Walmart can promote and sell millions of product units they might otherwise not sell, which helps them create more profit. In turn, Walmart wants to work with strong channel partners it can depend on. This way, Walmart can continuously provide its customers with great products a low price. For each party mentioned above, a weak channel partner can be a liability.

The simplest marketing channel consists of just two parties, a producer and a consumer. First Choice Haircutters is one example. When you get a haircut, it is done by the hairstylist only for you. No one else owns, handles, or remarkets the haircut to you before you get it. However, many other products and services pass through multiple companies before they get to you. These companies are called **intermediaries**.

Companies partner with intermediaries not because they necessarily want to (ideally, they could sell their products straight to users through paper or digital catalogues), but because the intermediaries can help them sell products more efficiently than they could working alone. In other words, they have some capabilities that the producer needs. These capabilities may be: contact with many customers (or the right customers), marketing expertise, shipping and handling capabilities, and the ability to lend the producer credit. There are four forms of utility, or value, that channels offer. These are time, form, place, and ownership.

Intermediaries also create efficiencies by streamlining the number of transactions an company must make, each of which takes time and costs money to conduct. As Figure 9.1 "Using Intermediaries to Streamline the Number of Transactions" shows, by selling the tractors it makes through local farm machinery dealers, the farm machinery manufacturer John Deere can streamline the number of transactions it makes from eight to just two.

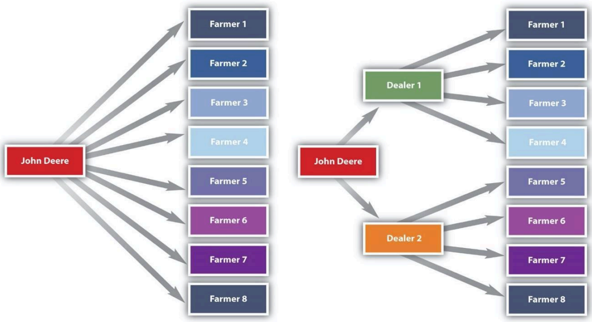

Figure 9.1 – Using Intermediaries to Streamline the Number of Transactions
This image is from Principles of Marketing by University of Minnesota and is licensed under a Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License.

The marketing environment is always changing, so what was an appropriate channel or channel partner yesterday might not make the right one for today. Changes in technology, production techniques, and your customer's needs mean you have to continually reevaluate your marketing channels and the channel partners you ally yourself with. Moreover, when you create a new product, you can't assume the channels that were used in the past are the best ones (Lancaster & Withey, 2007). A different channel or channel partner might be better.

In addition to making changes to its products and services or introducing new ones, creating and maintaining a sustainable competitive advantage, a company must therefore monitor changes in distribution methods. One of the most impactful changes to the distribution of information was the internet. From 1768 to 2000, consumers and libraries considered printed copies of Encyclopedia Britannica an essential research tool and it had few competitors. In 1993, Microsoft introduced a digital encyclopedia called Encarta. It was sold first on CD, and then via online subscription that allowed for continuous updating for a low subscription price. In 1994, along with producing the print version, Encyclopedia Britannica was released on CD and then in 1999, online (Britannica, n.d.). By 2009, Microsoft made the decision to stop selling Encarta. Why? The strong brand name recognition of Encyclopedia Britannica among librarians, free online search and Wikipedia, a free online encyclopedia. In 2012, Encyclopedia Britannica stopped producing printed copies and went 'digital only' to better manage its costs and has been profitable since 2003 (Frenkel, 2012). Wikipedia is a non-profit company. It operates as a free service, supported by donations from users and a few large corporations (Dewey, 2015).‡

Marketing Channels versus Supply Chains

In the past few decades, companies have begun taking a more holistic look at their marketing channels. Instead of looking at only the companies that sell and promote their products, they have begun looking at all companies that figure into any part of the process of producing, promoting, and delivering an offering to its user. All these companies are considered part of the **supply chain**.

For instance, the supply chain includes producers of the raw materials that go into a product. The supply chain of a food product extends back through the distributors all the way to the farmers who grew the ingredients and the companies from which the farmers purchased the seeds, fertilizer, or animals. A product's supply chain also includes transportation companies such as railroads or trucks that help move the product or companies that build websites. If a software maker hires a company in India to help it write code for their website, the Indian company is part of the partner's supply chain. These types of companies aren't considered *channel partners* because it's not their job to actively sell the products being produced. Nonetheless, they all contribute to a product's success or failure.

Companies are constantly monitoring and improving the efficiency of their supply chains in a process called **supply chain management**. Supply chain management is challenging, particularly if the company operates across a country's borders and/or if an unforeseeable global event occurs. One salient example is the COVID-19 pandemic, which demonstrated the risks of supply chain management (BDC, n.d.). During the pandemic, companies faced various supply chain management hurdles including delays in their own production facilities (e.g., factories being closed from outbreaks of the virus), reduction in the number of truck drivers that could deliver their products to retailers, and unanticipated spikes in demand from consumers. For example, toilet paper shortages at retail stores were a surprise to many. In contrast to the spike in increased demand from consumers, some companies were also surprised by the unexpected lower demand from businesses. For example, the pandemic led to many restaurants, stores, and public washrooms being closed, resulting in lower sales for toilet paper specifically produced for businesses (Wieczner, 2020). Within a few weeks, companies adapted to the new demand structure from the market and made changes in their supply chain to meet this demand structure. They started to slowly divert their production from business-use toilet paper to consumer-use ones, and began sending their trucks to make deliveries to grocery warehouses rather than retail and restaurant locations. ‡

Types of Channel Partners

Let's look at the basic types of channel partners. The two types you hear about most frequently are wholesalers and retailers. Note that in recent years, the lines between wholesalers, retailers, and producers have begun to blur. Samsung is a manufacturer of electronics but in 2012 opened its first retail store in Canada and in 2020 its seventh store in Quebec (Patterson 2020), although it had operated retail stores in the U.S. for eight years previously. Many large retailers produce and/or sell their own store brands and may even sell them to other retailers. Many producers have outsourced their manufacturing, and although they still call themselves manufacturers, they act more like wholesalers. By adding a new distribution channel, companies are hoping to improve the profitability of their whole operation.‡

Wholesalers

Wholesalers obtain large quantities of products from producers, store them, and break them down into cases and other smaller units that are more convenient for retailers to buy, a process called "breaking bulk." Wholesalers get their name from the fact that they resell goods "whole" to other companies without transforming the goods. If you manage a small electronics store, you probably don't want to purchase a full truckload of computer tablets. Instead, you probably want to buy a smaller assortment of brands. Via wholesalers, you can get an assortment of brands in smaller quantities that suits your available retail space. Some wholesalers carry a wide range of products while others carry a narrow range. Most wholesalers "take title" of goods, or own them, until these products are purchased by other sellers. As a result, many wholesalers often assume a great deal of risk on the part of companies further down the marketing channel. For example, if the shipment of tablets are stolen during their transport, are damaged, or become outdated because a new model has been released, the wholesaler suffers the loss, and not the producer or the retailer.

There are many types of wholesalers. The three basic types of wholesalers are merchant wholesalers, brokers, and manufacturers' agents, each of which we discuss next.

Merchant Wholesalers

Merchant wholesalers are wholesalers that take title to the goods and therefore have more financial risk than other wholesalers. They are also sometimes referred to as **distributors**, *dealers*, and *jobbers*. The category includes both full-service wholesalers and limited-service wholesalers. Full-service wholesalers perform a broad range of services for their customers, such as stocking inventories, operating warehouses, supplying credit to buyers, employing salespeople to assist customers, and delivering goods to customers. Maurice Sporting Goods is a large North American full-service wholesaler of hunting and fishing equipment. The company's services include helping customers figure out which products to stock, how to price them, and how to display them.

Limited-Service Wholesalers

Limited-service wholesalers offer fewer services to their customers, but at lower prices. They might not offer delivery services, extend their customers' credit, or have sales forces that actively call sellers. Cash-and-carry wholesalers are an example. Small retailers often buy from cash-and-carry wholesalers to keep their prices as low as big retailers that get large discounts because of the huge volumes of goods they buy.

Drop Shippers

Drop shippers are another type of limited-service wholesaler. Although drop shippers take title to the goods, they don't have legal possession. In this way they avoid, the financial risks of other wholesalers. They earn a commission by finding sellers and passing their orders along to producers, who then ship them directly to the sellers. Mail-order wholesalers sell their products using catalogs instead of sales forces, and then ship the products to buyers. Truck jobbers (or truck wholesalers) actually store products, which are often highly perishable (e.g., fresh fish), on their trucks. The trucks make the rounds to customers, who inspect and select the products they want straight off the trucks.

Rack Jobbers

Rack jobbers sell specialty products, such as books, hosiery, and magazines that they display on their own racks in stores. Rack jobbers retain the title to the goods while the merchandise is in the stores for sale. Periodically, they take count of what's been sold off their racks and then bill the stores for those items.

Brokers and Agents

Brokers or agents don't purchase or take title to the products they sell. Their role is limited to negotiating sales contracts for producers and are paid a commission for what they sell. Clothing, furniture, food and commodities (e.g. lumber and steel) are often sold by brokers. Brokers and agents are assigned to geographical territories by the producers with whom they work. Because they have excellent industry contacts, brokers and agents may be "go-to" resources for companies trying to buy and sell products.

Consumers may encounter agents or brokers when buying or selling a property. A real estate agent represents either the buyer or the seller and charges a commission on the sale. The homeowner contacts a listing agent. The buyer may encounter an agent during 'open houses' or contact an agent to show them the available inventory of properties that meets their specifications. If there is a house that the buyer wants to purchase, the agent calls the listing agent and a price is negotiated between the parties. Many agents work for brokers, who promote the company's services and handle the legal requirements. However, like many services today, consumers may prefer to sell or buy a house directly from the owner to avoid the agent's commission (Mercadante, 2021).

Manufacturers' Sales Offices

Manufacturers' Sales Offices or Branches are selling units that work directly for manufacturers. These are found in business-to-business settings. For example, Konica-Minolta Business Systems (KMBS) has a system of sales branches that sell KMBS printers and copiers directly to companies that need them.

Retailers

Retailers buy products from wholesalers, agents, or distributors and then sell them to consumers. Retailers vary by the types of products they sell, their sizes, the prices they charge, the level of service they provide consumers, and the convenience or speed they offer. You are familiar with many of these types of retailers because you have purchased products from them. We mentioned Nike and Apple as examples of companies that make and sell products directly to consumers as well as indirectly through retail stores. Nike and Apple contract manufacturing to other companies. They may design the products, but they actually buy the finished goods from others.

Grocery Stores

Grocery stores are self-service retailers that provide a full range of food products to consumers, as well as some household products. Grocery stores can be high, medium, or low range in terms of the prices they charge and the service and variety of products they offer. Whole Foods and Fortino's are grocers that offer a wide variety of products, generally at higher prices. Midrange grocery stores include stores such as Metro, Sobeys, Lobaws and Real Canadian Superstores. No Frills, Budget Foods and Shop 'n Save are examples of grocery stores with low prices and a limited selection of products and services. **Drugstores** such as Shoppers Drugmart and Rexall specialize in selling over-the-counter medications, prescriptions, and health and beauty products and some of the larger stores offer grocery products as well.

Convenience Stores

Convenience stores are miniature supermarkets. Many of them sell gasoline and are open twenty-four hours a day. Often they are located on corners, making it easy and fast for consumers to get in and out. Some of these stores contain fast-food franchises such as Tim Hortons. Consumers pay for the convenience in the form of higher markups on products. In Europe, you will find convenience stores that offer fresh meat and produce.

Specialty Stores

Specialty stores sell a certain type of product, but they usually carry a deep line of it. Peoples and Ben Moss, which sells jewelry, and Williams-Sonoma, which sells an array of kitchen and cooking-related products, are examples of specialty stores. The employees who work in specialty stores are usually knowledgeable and often provide customers with a high level of service. Specialty stores vary by size. Many are small. However, in recent years, giant specialty stores called **category killers** have emerged. A category killer sells a high volume of a particular type of product and, in doing so, dominates the competition, or the "category." PetSmart is a category killer in the retail pet-products market. Best Buy and Amazon are category killers in the electronics market.

Department Stores

Department stores, by contrast, carry a wide variety of household and personal types of merchandise such as clothing and jewelry. Many are chain stores. The prices department stores charge range widely, as does the level of service shoppers receive. For example, Saks Fifth Avenue, and Nordstrom sell expensive products and offer extensive personal service to customers. For the most part, The Bay charges midrange prices along with that level of customer service. Walmart is a discount department store that sells the cheapest goods and provides little customer service (note that when Walmart sells groceries along with other merchandise it is called a superstore). However, the retail landscape is constantly shifting and department stores have taken action to remain competitive. The retail brands Saks Off 5th and Nordstrom Rack were launched to sell discounted inventory from their main stores and to offer a low cost brand produced for the store. The Bay has gone a different way and has increased its offering of expensive designer brands along with producing and selling its own branded merchandise.

Superstores

Superstores are larger versions of regular priced or discount department stores that carry a broad array of general merchandise as well as groceries. Banks, hair and nail salons, and restaurants such as Starbucks are often located within these stores for the convenience of shoppers. You have probably shopped at Walmart or Real Canadian Superstore with offerings such as these. Superstores may also be referred to as *hypermarkets* and *supercenters*.

Warehouse Clubs

Warehouse clubs are supercenters that sell products at a discount. They require people who shop with them to become members by paying an annual fee. Costco is one example.

Off-Price Retailers

Off-price retailers are stores that sell a variety of discount merchandise that consists of seconds, overruns, and the previous season's stock other stores have liquidated. Winners, Marshalls, Home Sense, and dollar stores are off-price retailers (Patterson, 2018a).

Outlet Stores

Outlet stores are discount retailers that operate under the brand name of a single manufacturer, selling products that couldn't be sold through normal retail channels due to mistakes made in manufacturing or overstocks in inventory. Often located in rural areas but along major highways, these stores had lower overhead than similar stores in big cities due to lower rent and lower employee salaries.

Online Retailers

Online retailers can fit into any of the previous categories and most brick and mortar stores have an online store. There are few pure-play, or online only stores. One example is Wayfair. Companies such as Amazon which began as an online only retailer, have set up or acquired bricks and mortars stores in order to increase sales (Petro, 2021).

Used or Thrift Retailers

Used or thrift retailers are retailers that sell used products. With the advent of peer-to-peer online selling sites such as Kijiji and Craigslist, traditional used stores have a smaller share of the overall market. One large used retailer, Value Village has adapted its business model of selling used items to include supporting local nonprofit companies and creating recycling and reuse program to keep items out of landfill (Value Village, n.d.).‡

Pop-Up Stores

Pop-up stores are small temporary stores. They can be kiosks or temporarily occupy unused retail space. The goal is to create excitement and “buzz” for a new retailer to test a concept or an existing retailer to encourage new customers to visit their regular stores. They can be a way for malls to fill empty stores. Pop-up stores can also be used around holidays or seasonal products, such as a costume store before Halloween.

Not all retailing goes on in stores. In Canada, **non-store retailing** or direct marketing, retailing not conducted in stores, is growing although still relatively small in overall revenue (0.05% of total retail trade, est. 20% growth rate) compared to brick and mortar retailing (3.3% growth rate) (Innovation, Science and Economic Development Canada, 2021a). Non-store retailers use a variety of methods including broadcasting infomercials, broadcasting and publishing direct-response advertising, publishing traditional and electronic catalogues, door-to-door solicitation, in-home demonstration, temporary displaying of merchandise (temporary stands or stalls), distribution by vending machines, and selling 'exclusively online' to reach their customers and sell their merchandise (Innovation, Science and Economic Development Canada, 2021b). Companies that engage in direct marketing communicate directly with consumers and want them to contact the companies directly to buy products.

9.2 Typical Marketing Channels

LEARNING OBJECTIVES

- Describe the basic types of channels in business-to-consumer (B2C) and business-to-business (B2B) markets.
- Explain the advantages and challenges companies face when using multiple channels and alternate channels.
- Explain the pros and cons of disintermediation.
- List the channels companies can use to enter foreign markets.

Figure 9.2 "Typical Channels in Business-to-Consumer Markets" shows the typical channels in business-to-consumer markets. As we explained, the shortest marketing channel consists of just two parties, a producer and a consumer. A channel such as this is a **direct channel**. By contrast, a channel that includes one or more intermediaries is an **indirect channel**. In an indirect channel, the product passes through one or more intermediaries.

That does not stop the producer from promoting the product to consumers: to keep it top of mind, to introduce new products and to defend itself against the competition. Levi's jeans runs ads on TV and social media designed to appeal directly to consumers. Food product manufacturers may run social media and traditional advertising campaigns along with coupons in online and print flyers. However, the seller also has to focus its selling efforts on these intermediaries because the intermediary can help with the selling effort. It is important for Levis to be available to all its customers whether in a bricks and mortar store and online.

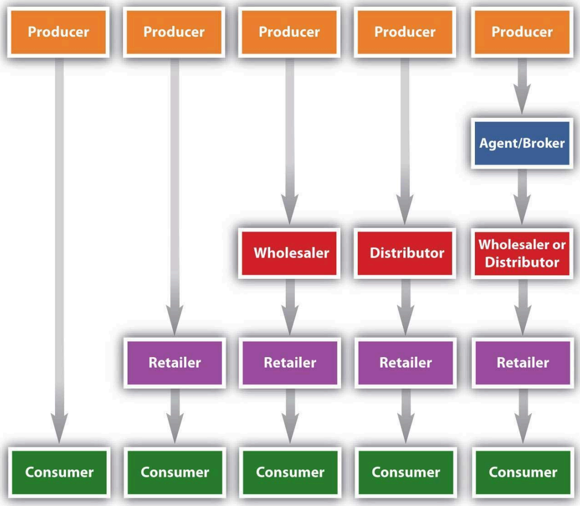

Figure 9.2 – Typical Channels in Business-to-Consumer Markets This image is from Principles of Marketing by University of Minnesota and is licensed under a Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License.

Figure 9.3 "Typical Channels in Business-to-Business Markets" shows the marketing channels common in business-to-business (B2B) markets. Notice how the channels resemble those in B2C markets, except that the products are sold to businesses and governments instead of consumers like you. The **industrial distributors** are companies that supply products that businesses or government departments and agencies use but don't resell. Grainger Industrial Supply, which sells tens of thousands of products, is one of the world's largest industrial distributors. Nearly two million businesses and institutions in 150 countries buy products from the company, ranging from padlocks to painkillers.

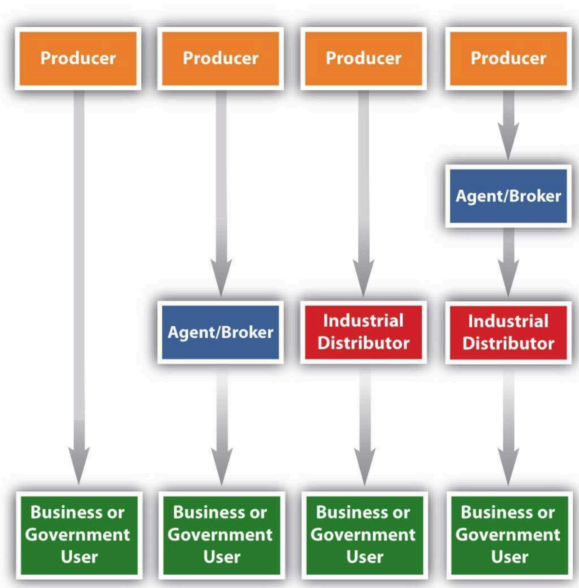

Figure 9.3 – Typical Channels in Business-to-Business Markets This image is from Principles of Marketing by University of Minnesota and is licensed under a Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License.

Disintermediation

You might be tempted to think intermediaries, don't add value to the process. If you can cut them out of the process (called

disintermediation) could products be sold at a lower price? Large retailers, such as Walmart or George Weston Limited, sometimes bypass intermediaries. Instead, they buy their products directly from manufacturers and then store and distribute these products to their own retail outlets. Walmart is increasingly doing so and even purchasing produce directly from farmers around the word (Birchall, 2010). Sometimes cutting out the intermediaries is desirable, but this is not always the case. A wholesaler with buying power and excellent warehousing capabilities might be able to purchase, store, and deliver a product to a seller at a lower price than its producer could. Walmart doesn't need a wholesaler's buying power, but your local convenience store does. Likewise, hiring a distributor will cost a producer money. If the distributor can help the producer sell more product, it can increase the producer's profits. Moreover, when you cut out the intermediaries you work with, you have to perform the functions they once did. Maybe it's storing the product or dealing with hundreds of retailers. Many producers who stopped working with intermediaries may rehire them later because of the extra work involved.

While a difficult process, recent technological advances have, to some degree, eased the transition to disintermediation. The Internet has facilitated a certain amount of disintermediation by making it easier for consumers and businesses to contact one another without going through intermediaries. The Internet has also made it easier for buyers to shop for the lowest prices and to find the information they need to make the purchase. Most people book trips online without going through travel agents. However, that doesn't mean that travel agents have gone out of business. To remain in business, resellers need to find new ways to add value to products or to target new markets. Flight Centre decided to target the small and medium business market (Sorrells, 2020). Due to the relatively small number of employees, this target group isn't able access the same discounts as a large business. ‡

However, for some products, disintermediation via the Internet doesn't work so well. Insurance is one example where online providers have had to add live chat and phone numbers in order to attract more customers beyond the initial launch to compete with insurance brokers. Many people prefer to buy through an agent they can talk to for advice. Insurance is also a service that has a more complicated purchase and usage cycle. Consumers make a purchase decision on the chance that they will need the service, that is, coverage in case of an accident. Regardless of how they purchased insurance coverage, when it comes to making a claim, 49% of insurance consumers trust a human advisor, 12% trust an automated phone/web/email service and 7% trust a chatbot (Saldanha & Staehle, 2021). ‡

It used to be said that it is impossible to cut out intermediaries in certain markets, such as food products. In 2021, Pepsi-Cola announced that in Canada it would do just that (Dallaire, 2021). Called Tasty Rewards Shop, consumers can access coupons, contests and recipes and order product directly from the site.‡

Multiple Channels and Alternate Channels

Marketing channels can get a lot more complex than the channels shown in Figures 9.2 and 9.3. Look at the channels in Figure 9.4 "Alternate Channel Arrangements". Notice how in some situations, a wholesaler will sell to brokers, who then sell to retailers and consumers. In other situations, a wholesaler will sell straight to retailers or straight to consumers.

Manufacturers also sell straight to consumers, and, as we explained, sell straight to large retailers like The Bay.

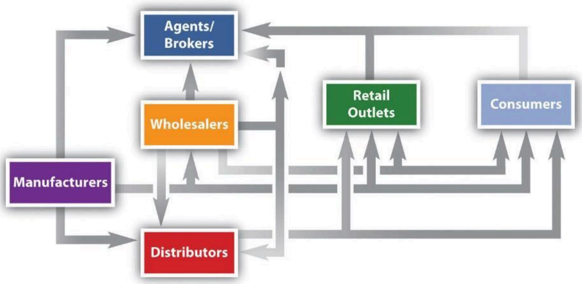

Figure 9.4 – Alternate Channel Arrangements This image is from Principles of Marketing by University of Minnesota and is licensed under a Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License.

Companies can and do utilize multiple channels. Take Levi's jeans, for example. You can buy a pair of Levi's from a retailer such as The Bay or you can buy a pair directly from Levi's at one of its outlet stores, or online through Levi's website. Choosing one or more channels is to understand the different target markets for your product and select the channel that best meets the needs of your customers. Is there a group of buyers who would purchase your product if they could shop online? Perhaps there is a another group of customers interested in your product but they do not want to pay full price. The ideal way to reach these people might be with an outlet store and low prices. Many people regularly interact with companies via multiple channels before making buying decisions.

Using multiple channels can be effective. Some studies has shown that the more marketing channels your customers utilize, the more loyal they are likely to be to your products (Fitzpatrick, 2005), but others have shown a variation by industry sector (Brun et al., 2017).‡ Companies must meet their consumers' preference for where they would like to shop. Integrating their selling channels is key to providing a consistent experience. For example, The Shopping Channel's TV channel, web and mobile interface, printed catalogue, text and email services, all have the same look and persuasive messaging to encourage customers' purchase behaviour.‡

Some companies find ways to increase their sales by forming **strategic channel alliances** with one another. Harley-Davidson has a strategic channel alliance with Best Western. As a Harley-Davidson vehicle owner, you can sign up to receive points and other discounts by staying at Best Western hotels and motels (The Harley Owners Group Blog, n.d.). Indigo Books has Starbucks locations inside its stores. This is a mutually beneficial arrangement. Starbucks wants shoppers at Indigo, a book, lifestyle and specialty kids retailer seeking a cup of coffee to stay in the store to buy one. Indigo wants customers dropping in for a Starbucks cup of coffee to be tempted to buy its books or other products. Having coffee available may also increase the time spent in the store and that could lead to increased sales.‡

International Marketing Channels

Consumer and business markets in North America are well developed but growing slowly. Companies must look to other areas of the globe to continue to grow and meet investors' expectations. Coca-Cola, for example, earns most of its income outside of North America. China alone is expected to have a largest share of the soft drink market by 2027 (ReportLinker, 2020). ‡

One of the easier ways of utilizing intermediaries to expand abroad is to create a **joint venture** with a company that already operates in the country to which you want to expand. A joint venture is an entity created when two parties agree to share their profits, losses, and control with one another in an economic activity they jointly undertake.

Another way to enter markets is to **export your products**. Companies can sell their products directly to other companies abroad, or they can hire intermediaries such as brokers and agents that specialize in international exporting to help them find potential buyers for their products.

Many companies have expanded their operations via **franchising**. Franchising grants an independent operator the right to use a company's business model, name, techniques, and trademarks for a fee. McDonald's is the classic example of a franchise. McDonald's had no trouble making headway in Japan. It has done so by making thousands of franchise agreements there. In fact, Japan is McDonald's second-largest market next to the United States. The company also has thousands of franchisees in Europe and other countries. There is even a McDonald's franchisee in the Louvre, a famous museum in Paris.

Licensing is similar to franchising. For a fee, a company can buy the right to use another company's manufacturing processes, trade secrets, patents, and trademarks for a certain period of time.

The act of directly purchasing or creating a company in a foreign country is referred to as making a **direct foreign investment**. This the most expensive way to enter a country however can lead to greater financial success. Some countries don't allow foreign companies to do business within their borders or buy local companies. The Chinese government blocked Coca-Cola from buying Huiyuan Juice, China's largest beverage maker. Other countries don't have these barriers. In 2014, Tim Hortons, a well-known "Canadian" coffee chain became a subsidiary of the Canadian holding company, Restaurant Brand International, whose majority shareholder is Brazilian conglomerate 3G capital.

International marketing is expensive and takes effort and time. However, it is a way to increase revenue and through economies of scale, profit. There are many channel issues to be solved. Some third-world countries lack good intermediary systems. In these countries, companies are on their own in terms of selling and distributing products to users. Other countries have more complex marketing channels than the company's home country. For example, Japan has an extensive, complicated system of intermediaries, each of which demands a cut of a company's profits. Walmart tried to develop a presence in Japan, even acquiring the Japanese supermarket operator Seiyu, however it too ultimately failed (Tanaka, 2020). Tim Hortons, however, through its merger with Burger King and purchase of Popeyes has successfully increased its international presence. ‡

9.3 Functions Performed by Channel Partners

LEARNING OBJECTIVES

- Describe the activities performed in channels.
- Explain which companies perform which functions.

Different companies in a marketing channel are responsible for different value-adding activities. The following are some of the most common functions channel members perform. However, keep in mind that "who does what" can vary, depending on what the channel members actually agree to in their contracts with one another.

Channel Functions and Activities

Disseminate Marketing Communications and Promote Brands

Wholesalers, distributors, retailers, and consumers need to be made aware that an offering exists and understand the reasons to buy this offering. Sometimes, a **'push strategy'** is used to help promotional channels accomplish this. A push strategy is one in which a manufacturer convinces wholesalers, distributors, or retailers to buy more of its products, therefore making them more available to consumers. Consumers may also informed by advertising and other promotions that the product is available for sale, however the main focus of the push strategy is to sell more inventory to the intermediaries (Figure 9.5).

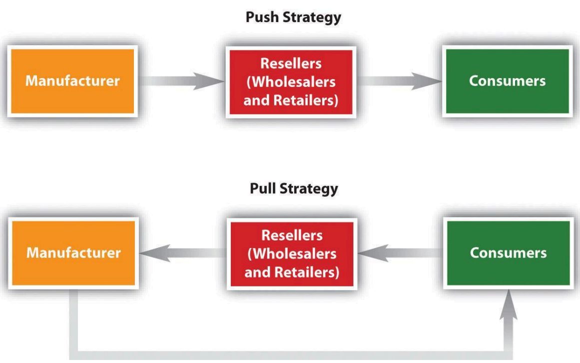

Figure 9.5 – Push versus Pull Strategy This image is from Principles of Marketing by University of Minnesota and is licensed under a Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License.

The problem with a push strategy is that it focuses on the reasons why intermediaries should put the product in their inventory. Textbook publishers traditionally concentrated their selling efforts on professors and bookstore managers. Now they are offering a variety of services directly to students such as textbook rental to tiered pricing for a range of access: online only, online and printed copy and/or access to specialized resources (Barrett, 2019). Interestingly these developments are the result of dialogue between professors and bookstore managers who helped publishers develop products that served the needs of students.

By contrast, a **'pull strategy'** focuses on creating demand for a product among consumers so that businesses agree to sell the product. A good example of an industry that utilizes both pull and push strategies is the pharmaceutical industry. Pharmaceutical companies promote their drugs to pharmacies and doctors, but they also run ads designed to persuade individual consumers to ask their physicians about drugs that might benefit them.

In many cases, two or more companies in a channel jointly promote a product to retailers, purchasing agents, and consumers; and work out which company is responsible for what type of communication to whom. For example, the print or e-flyers that you receive from Metro, Canadian Tire, Staples and other retailers are often a joint effort between manufacturers and retailers. Online or paper coupons are another joint form of promotion even when offered directly by the manufacturer, joint in the sense that the retailer still has to accept the coupon and process it.

Sorting and Regrouping Products

Many businesses don't have the space or demand for huge quantities of one brand or product. One of the functions of wholesalers and distributors is to break down large quantities of products into smaller units and provide an assortment of different brands and products to businesses.

Storing and Managing Inventory

If a channel member has run out of a product when a customer wants to buy it, the result is often a lost sale. That's why most channel members stock, or "carry," reserve inventory. However, storing products is not free. Warehouses cost money to build or rent, and heat and cool; employees have to be paid to stock shelves, pick products, ship them, and so forth. Some companies, including Walmart, put their suppliers in charge of their inventory. The suppliers have access to Walmart's inventory levels and ship products when and where the retailer’s stores need them.

Storing and managing inventory is not just a function provided for retailers, though. Storage also involves storing commodities like grain prior to processing. Gigantic grain elevators store corn, wheat, and other grains until processors need them. You can buy fresh bread in your grocer every day because the wheat was stored first at a grain elevator until it was needed.

Distributing Products

Physical goods that travel within a channel need to be moved from one member to another and sometimes back again. Some large wholesalers, distributors, and retailers own their own fleets of trucks for this purpose. In other cases, they hire third-party transportation providers, such as trucking companies, railroads, and so forth, to move their products.

Being able to track merchandise is extremely important to channel partners. They want to know where their products are at all times and what shape they are in. Losing inventory or having it damaged or spoiled can reduce a company’s profits. Not getting products on time or not getting them at all when your competitors can also impact profits.

Assume Ownership Risk and Extend Credit

If products *are* damaged during transit, one of the first questions asked is who owned the product at the time. In other words, who suffers the loss? Generally, no one channel member assumes all of the ownership risk in a channel.

Instead, it is distributed among channel members depending on the contracts they have with one another and their free on board provisions. A **free on board (FOB)** provision designates who is responsible for what shipping costs and who owns the title to the goods and when. However, the type of product, the demand for it, marketing conditions, and the clout of the various companies in its marketing channel can affect the contract terms channel members are willing to agree to. Some companies try to wait as long as possible to take ownership of products for an extended time-period. During the 2008 global economic recession, many channel members tried to hold as little inventory as possible for fear it would go unsold (Jorgensen, 2009).

Share Marketing and Other Information

Each of the channel members has information about the demand for products, trends, inventory levels and the activities of the competition. The information is valuable and can be doubly valuable if channel partners trust one another and share it. More information can help each company in the marketing channel perform its functions better and overcome competitive obstacles (Frazier et al., 2009).

At the same time, confidentiality is a huge issue among supply chain partners because they share so much information with one another, such as sales and inventory data. For example, a salesperson who sells Tide laundry detergent for Procter & Gamble will have a good idea of how many units of Tide Loblaws is selling. However, it would be unethical for the salesperson to share Loblaws' numbers with Sobeys or vice versa. Many business buyers require their channel partners to sign nondisclosure agreements or make these agreements a part of their purchasing contracts. A **nondisclosure agreement** is a contract that specifies what information is proprietary, or owned by the partner, and how, if at all, the partner can use that information.

9.4 Marketing Channel Strategies

LEARNING OBJECTIVES

- Describe the factors that affect a company's channel decisions.
- Explain how intensive, exclusive, and selective distribution differ from one another.
- Explain why some products are better suited to some distribution strategies than others.

Channel Selection Factors

Selecting the best marketing channel is critical because it can mean the success or failure of your product. One of the reasons the Internet has been so successful as a marketing channel is because customers get to make some of the channel decisions themselves. They can shop virtually for any product in the world when and where they want to, as long as they can connect to the Web. They can also choose how the product is shipped.

Type of Customer

Online stores aren't the best channel for every product and for all customers. Some customers shopping for fruits and vegetables want to examine them before they buy to make sure these products are ripe enough or not overripe. These customers won't trust someone else to make the selection for them. If the customer description presented here fits how you feel about your produce, then online grocery shopping might not be for you. Clearly, how customers want to buy your products will have an impact on the channel you select. In fact, it should be a prime consideration.

Consider whether you are selling to consumers or businesses? Generally, these two groups must be sold to differently. Most consumers are willing to go to a grocery or convenience store to purchase toilet paper. The manager of a hospital trying to replenish its supplies would not. The hospital manager would also be buying a lot more toilet paper than an individual consumer. They would expect to be called upon by a distributor, but perhaps only semiregularly. Thereafter, the manager might want the toilet paper delivered on a regular basis and billed to the hospital via automatic billing systems. Likewise, when businesses buy expensive products such as machinery and computers, or customized products, they generally expect to be sold to, via salespeople. Larger companies or those buying large quantities will expect special payment terms.

Type of Product

The type of product you are selling will also affect your marketing channel choices. Perishable products often have to be sold through shorter marketing channels than products with longer shelf lives. For example, a yellowfin tuna bound for the sushi market will likely be flown overnight to its destination and handled by few intermediaries. By contrast, canned tuna can be shipped by a slower transportation method and handled by more intermediaries, because it is less fragile and perishable due to its packaging. Valuable and fragile products tend to have shorter marketing channels. Automakers generally sell their cars straight to car dealers (retailers) rather than through wholesalers. The makers of corporate jets often sell them straight to the buyer because they built to that company's specifications.

Channel Partner Capabilities

Your ability versus the ability of other types of companies that operate in marketing channels can affect your channel choices. If you are a massage therapist, you are quite capable of delivering your product straight to your client. If you produce downloadable products like digital books or recordings, you can sell your products straight to customers on the Internet.

One company that has been very successful in expanding the number of channels it uses as its operations grew is Allbirds. Allbirds is a footwear company which began selling its products on Shopify as a small business funded by a Kickstarter campaign. It is now a global business worth over a billion dollars (Rood, 2021). Starting with one channel, Shopify, Allbirds products are sold online and in major retail stores such as Nordstrom and the Bay. In order to make the transition to retail, Allbirds engaged intermediaries, such as hiring an agent or a distributor who convinces the corporate buyers of retail stores to carry their product. In 2018, Allbirds opened its first stand-alone Canadian retail store to better offer new products to customers and to better control its brick and mortar retail presence (Patterson, 2018b). ‡

The Business Environment and Technology

The general environment, such as the economic factors, can also affect the channels chosen by companies. For example, think about what happens when the value of the dollar declines relative to the currencies of other countries. When the dollar falls, products imported from other countries cost more to buy relative to products produced and sold in the United States. Products made in countries with lower production costs can become less attractive because the production has now gotten more expensive. As a result, some companies can look closer to home for their products and channel partners when their national currency takes a downfall.

Another factor in the general environment that can affect marketing channels is technological changes. The Internet and social media have changed how products are bought and sold. Many companies like selling products on the Internet as much as consumers like buying them. An online sales channel gives companies more control over how their products are sold and at what prices. A company selling their products online has a digital footprint, or record, of what shoppers look at, or click on, at its website. When this information is added to that collected by Facebook or Google, the result is the ability for the company to recommend other products that the customer may be interested in, and target the customer with special offers and prices.‡

Competing Products' Marketing Channels

How your competitors sell their products can also affect your marketing channels. Dell moved away from primarily selling direct to consumers to also selling its computers to companies like Best Buy so the computers can be available when customers at the retail store are making their selection among different computer brands.

Companies don't always have to choose the channels their competitors rely on, though. Netflix is an example. Netflix turned the video rental business on its head by coming up with a new marketing channel that better meets the needs of many consumers. Beginning with direct mail, and then moving to Internet delivery, Netflix was an early entrant into the streaming video market. While sports and other live events are watched at the time of broadcast, television content is increasingly offered an "on-demand" model, where you will watch what you want whenever you want. However, upon seeing the success of this new channel structure, most major television networks are now offering streaming services as well, some for free while other services are offered for a monthly fee. Another example of companies within the same industry that operate through different channels is cosmetics. For example, whereas L'Oréal products are sold primarily in retail stores, Mary Kay and Avon use salespeople to personally sell their products to consumers and both have added online sales to assist their consultants in growing their business.

Factors That Affect a Product's Intensity of Distribution

Distribution intensity is the number of intermediaries used by a manufacturer within its trade areas. A company would like the brand available widely enough to satisfy, but not exceed, target customers' needs. The use of too few intermediaries can limit a brand's exposure to customers, however, too many can negatively impact the brand's image. By design, some brands are distributed intensively, whereas others in the same category are distributed selectively or exclusively (Frazier & Lassar, 1996). Note that with the advent of the internet, manufacturers and consumers are not limited to physical geographic trading areas. The choice to distribute intensively, selectively, or exclusively is a strategic decision based on many factors such as the nature of the brand, the types and number of competitors, and the availability of retail choices.

An **intensive distribution** strategy (offering their products in as many outlets as possible) typically sell products with many competitors or weak brand loyalty such that customers won't go to another store to buy the product. Soft drinks and chocolate bars are two examples. You see them sold in many locations from gas stations to grocery stores to book stores. Retailers also use an intensive distribution strategy. Best Buy, in addition to its online and brick and mortar retail presence, also sells electronic equipment from vending machines. The machines are located in airports and hotels where people are on the go and need to quickly replace certain types of products such as ear-buds or headphones.‡

By contrast, **selective distribution** involves selling products at select outlets in specific locations. For instance, Sony TVs can be purchased at a number of outlets such as Best Buy, or Walmart, but the same models are generally not sold at all the outlets. The lowest-priced Sony TVs are at Walmart, the better Sony models are more expensive and found in stores such as Bloor Street Video, a specialty electronics store. By selling different models with different features and price points at different outlets, a manufacturer can appeal to different target markets. You don't expect, for example, to find the highest-priced products in Walmart; when you shop there, you are looking for the lower-priced goods.

Exclusive distribution involves selling products through one or very few outlets. Most students often think exclusive means high priced, but that's not always the case. Exclusive simply means limiting distribution to only one outlet in any area, and can be a strategic decision based on applying the scarcity principle to creating demand. Certain items from the Ellen Degeneres furniture line are sold at Wayfair while other more expensive and exclusive pieces are sold at upscale retail furniture stores such as Ethan Allen. To purchase those items you need to go to one of those retailers.‡ In these instances, retailers are teaming up with these brands in order to create a sense of quality based on scarcity, a sense of quality that will not only apply to the brand but to the store.

Distributing a product selectively or exclusively can help protect a company's brand from deteriorating, or losing value. It may prevent products from being sold cheaply in gray markets. A **gray market** is a market in which a producer hasn't authorized its products to be sold (Burrows, 2009).

9.5 Channel Dynamics

LEARNING OBJECTIVES

- Explain channel power and the types of companies that wield it.
- Describe the types of conflicts that can occur in marketing channels.
- Describe the ways in which channel members achieve cooperation with one another.

Channel Power

Strong channel partners often wield what's called **channel power** and are referred to as **channel leaders**, or *channel captains*. In the past, big manufacturers like Procter & Gamble and Coca Cola were often channel captains. But that is changing. More often today, big retailers like Walmart and CostCo are commanding more channel power. They have millions of customers and are bombarded with products wholesalers and manufacturers want them to sell. As a result, these retailers have increasingly more power over manufacturers.

Category killers are in a similar position. Consumers also have more marketing channel power. Regardless of what one manufacturer produces, or what a local retailer has available, consumers use the Internet to find whatever product they want at the best price available and have it delivered, depending on whether the company delivers to their country or has border and customs restrictions.‡

Channel Conflict

A dispute among channel members is called a **channel conflict**. Channel conflicts are common. Part of the reason for this is that each channel member has its own goals, which are unlike those of any other channel member. The relationship among them is not unlike the relationship between you and your boss (assuming you have a job). Both of you want to serve your company's customers well. However, your goals are different. Your boss might want you to work in the weekend, but you might not want to because you need to study for a Monday test.

All channel members want to have low inventory levels but immediate access to more products. Who should bear the cost of holding the inventory? What if consumers don't purchase the products? Can they be returned to other channel members, or is the company in possession of the products responsible for disposing of them? Channel members try to spell out details such as these in their contracts.

No matter how well written contracts are, there will still be points of contention among channel members. Wholesalers and retailers may criticize manufacturers they work with who aren't doing more to promote their products, for example, distributing coupons for them, running TV ads or using more social media, so the products sell more quickly. Meanwhile, manufacturers may want to know why wholesalers aren't selling their products faster and why retailers are placing them at the bottom of shelves or not restocking the shelves. Apple opened its own retail stores around the country in part because it didn't like how its products were being displayed and sold in retailers' stores.

Channel conflicts can also occur when manufacturers sell their products online. When they do, wholesalers and retailers often feel like they are competing for the same customers. Likewise, manufacturers often feel slighted when retailers dedicate more shelf space to their own store brands. **Store brands** are products retailers produce themselves or pay manufacturers to produce for them. Dr. Thunder is Walmart's store-brand equivalent of Dr. Pepper, for example. Because a retailer doesn't have to promote its store brands to get them on its own shelves like a national manufacturer would, store brands are often priced at a lower price. Some retailers, such as Loblaws with its President's Choice Brand, sell their store brands to other retailers, creating more competition for manufacturers.

Vertical versus Horizontal Conflict

The conflicts we've described so far are examples of vertical conflict. A **vertical conflict** is a conflict that occurs between two different types of members in a channel, say, a manufacturer, an agent, a wholesaler, or a retailer. By contrast, a **horizontal conflict** is conflict that occurs between companies of the same type, say, two wholesalers that sell the products of the same manufacturer. Horizontal conflict can be healthy because it is competition driven. However, it can create problems, too.

Channel leaders such as Walmart have a great deal of say when it comes to how channel conflicts are handled because of the volume of goods they sell. But even the most powerful channel leaders strive for cooperation. A manufacturer with channel power still needs good retailers to sell its products to; a retailer with channel power still needs good suppliers from which to buy products. One member of a channel can't squeeze all the profits out of the other channel members and still hope to function well. Moreover, because each of the channel partners is responsible for promoting a product through its channel, to some extent they are all in the same boat. Each one of them has a vested interest in promoting the product, and the success or failure of any one of them can affect that of the others.

Flash back to Walmart and how it managed to solve the conflict among its telephone suppliers: because the different brands of landline telephones were so similar, Walmart decided it could consolidate and use fewer suppliers. It then divided its phone products into market segments of inexpensive phones with basic functions, mid-priced phones with more features, and high-priced phones with many features. The selected suppliers were asked to provide products for one of the three segments. This gave Walmart's customers the variety they sought. And because the selected suppliers were able to sell more phones and target different types of customers, they stopped undercutting each other's prices (Hitt et al., 2009).

One type of horizontal conflict that is much more difficult to manage is **dumping**, or the practice of selling a large quantity of goods in another country at a price too low to be economically justifiable. Typically, dumping can be made possible by government subsidies that allow the company to compete on the basis of price against other international competitors who have to operate without government support, but dumping can also occur due to other factors. One goal of dumping is to drive competitors out of a market, or in reaction to being shut out of a country or region. U.S. lobster companies dumping their products on other Asian markets at steep discounts was a response to newly-imposed tariffs in China which closed off the Chinese market to U.S. exporters (Lynch, 2018).‡ While there are global economic agreements that prohibit dumping and specify penalties when it occurs, the process can take so long to right the situation that producers have already left the business.

Achieving Channel Cooperation Ethically

What if you're not Walmart or a channel member with a great deal of power? How do you build relationships with channel partners and get them to cooperate with you? One way is by emphasizing the benefits of working with your company. For example, if you are a seller whose product and brand name are in demand, such as Rolex, you want to point out how being one of its "authorized sellers" can boost a retailer's store traffic and revenues.

Oftentimes companies produce informational materials and case studies showing their partners how they can help boost their partners' sales volumes and profits. Channel partners also want to feel assured that the products coming through the pipeline are genuine (and not knockoffs) and that there will be a steady supply of them. Your goal is to show your channel partners that you understand these issues and can help them generate business.

Sometimes, when a product is in high demand, retailers have to convince the makers of products to do business with them instead of the other way around. Or, if a retailer is just entering the marketplace and does not have a great deal of power. For example, though Amazon dominates the online market today in 2003 it had to work hard to convince manufacturers that it could sell more than just books and music (Amazon, 2003).

Producing marketing and promotional materials their channel partners can use for sales purposes can also facilitate cooperation among companies. In-store displays, brochures, banners, photos for web sites, and advertisements the partners can customize with their own logos and company information are examples.

Educating your channel members' sales representatives is an extremely important part of improving cooperation, especially when you are launching a new product. The reps should be provided with training and marketing materials in advance of the launch so their activities are coordinated with yours. A company that operates by this principle is the make-up company Sephora, who offers extensive training via its Sephora University (Sephora, n.d.).

In addition, companies run sales contests to encourage their channel partners' sales forces to sell what they have to offer. Offering your channel partners certain monetary incentives such as discounts for selling your product can help too.

Another issue channel partners sometimes encounter relates to resale price maintenance agreements. A **resale price maintenance agreement** is an agreement whereby a producer of a product restricts the price a retailer can charge for its products. Producers of upscale products often want retailers to sign resale price maintenance agreements because they don't want the retailers to deeply discount their products. Doing so would "cheapen" their brands, producers believe. Producers also contend that resale price maintenance agreements prevent price wars from breaking out among their retailers, which can lead to the deterioration of prices for all of a channel's members.

Both large companies and small retail outlets have found themselves in court as a result of price maintenance agreements. In Canada, price maintenance agreements fall under the Competition Act. There are several conditions that must be met to create a fair marketplace and to avoid even the appearance of impropriety (Competition Bureau Canada, 2018a). ‡

Channel Integration: Vertical and Horizontal Marketing Systems

Another way to foster cooperation in a channel is to establish a **vertical marketing system**. In a vertical marketing system, channel members formally agree to closely cooperate with one another but have no affiliation with one another. All the members operate independently. If the sale or the purchase of a product seems like a good deal at the time, a company pursues it. However, there is no expectation among the channel members that they have to work with one another in the future.

A vertical marketing system is also be created by one channel member taking over the functions of another member. This is a form of disintermediation known as **vertical integration**. Procter & Gamble (P&G) has traditionally been a manufacturer of household products, not a retailer. However, that changed in 2009, when it acquired The Art of Shaving, a seller of high priced men's shaving products located in upscale shopping malls. P&G also runs retail boutiques around the globe that sell its prestigious SK-II skin-care line (Neff, 2009). However, by January 2020 P&G made the decision to close most of the retail stores citing lack of customer demand for high-end shaving products sold in stand-alone retail stores (Brunsman, 2020). The company chose to focus on its customizable and online subscription service for razors and other shaving products (Gillette, n.d.). ‡

Vertical integration can be **forward**, or downstream, as in the case of P&G just described. **Backward integration** occurs when a company moves upstream in the supply chain, that is, toward the beginning. An example is when Walmart bought McLane, a grocery warehousing and distribution company. As much as physical facilities, Walmart also wanted McLane's operating knowledge in order to improve its own logistics.

Franchises are another type of vertical marketing system. They are used not only to lessen channel conflicts but also to penetrate markets. Recall that a franchise gives a person or group the right to market a company's goods or services within a certain territory or location (Daszkowski, 2009). McDonald's sells meat, bread, ice cream, and other products to its franchises, along with the right to own and operate the stores. Each of the owners of the stores signs a contract with McDonald's agreeing to do business in a certain way.

Subscription services are another type of vertical integration in which a company controls the product selection, distribution and timing of the purchase. Research has categorized subscription services into three categories: (1) predefined, (2) curated and (3) surprise. **Pre-defined subscription services** generally offer convenience to consumers who are able to select the delivery period of their product based on their usage rate. Examples in this category include the Great Canadian Shave Club or the Dollar Shave Club. **Curated subscription services** are typically specialty offerings. Examples include Meal Kits brands such as Chef's Plate or Meal Kit.

Surprise subscription services are a selection of products from a category that the consumer has selected. While the customer may choose the category from which they will receive a product, they do not choose the specific brand or type of product they will receive. Examples in this category include wine club brands such as Wine Collective and Wine

Align.‡ A similar offering in this category is complete surprise, wherein the consumer pays a specific price to receive a 'surprise box' which can contain small items from different categories (e.g., crafts and supplies). The consumer would have no prior knowledge of what items will be in their surprise box every month.

A **horizontal marketing system** is one in which two companies at the same channel level, say, two manufacturers, two wholesalers, or two retailers, agree to cooperate with another to sell their products or to make the most of their marketing opportunities, and is sometimes called **horizontal integration**. The Internet phone service Skype and the mobile-phone maker Nokia created a horizontal marketing system by teaming up to put Skype's service on Nokia's phones. Skype hoped to reach a new market (mobile phone users) this way. Nokia hoped to sell its phones to people who like to use Skype on their personal computers.

‡ signifies new material that Ryerson University authors have added to this adaptation of Principles of Marketing published by University of Minnesota Library Publishing, licensed under a Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License.

9.6 Discussion Questions and Activities

REVIEW QUESTIONS

1. Why are direct marketing channels possible for some products and not others?
2. Explain the value intermediaries can add to products.
3. Name some companies that have multiple marketing channels for their products. What are those channels?
4. What are some reasons for backward integration? For forward integration? Does such integration always benefit the consumer?
5. How do marketing channels differ around the world? Why is it sometimes hard for companies to penetrate foreign markets?
6. What's the ideal number of marketing channels a company should have?
7. Explain the value intermediaries can add to products
8. Which companies manage inventory in marketing channels?
9. Why are good channel decisions critical to a

product’s success?

10. Name the factors that affect channel-selection decisions.
11. Which kinds of products are more likely to be distributed using exclusive marketing strategies
12. How do companies add value to products via their marketing channels?

DISCUSSION QUESTIONS

1. Is selling power the only source of channel power? From what other sources could an company derive channel power?
2. The chapter listed a number of scenarios that can cause channel conflicts. What other factors can you think of that might cause channel conflicts?
3. Amazon.com has carved out a unique niche for itself as an intermediary. Amazon sells products on behalf of manufacturers such as Dell, Sony, and Calvin Klein, as well as retailers such as Macy’s and Toys R Us. How should Amazon be categorized? As a retailer, wholesaler, or broker?
4. What are some brands that you think use selective or exclusive channels? How does channel choice, in those instances, influence consumer perceptions of value? In what situations might

selective or exclusive channels add real value?

5. Of the channel functions described in the chapter, which is the most important and why? The least important? Why?
6. Which companies have the most power to resolve channel conflicts?
7. Why are marketing channel decisions as important as pricing and product feature decisions?
8. What are the benefits of looking at all of the companies that contribute to the production of a product versus just the companies that sell them?
9. Why do channel partners rely on each other to sell their products and services?
10. Why are direct marketing channels possible for some products and not others?
11. Name some companies that have multiple marketing channels for their products. What are those channels?
12. How do marketing channels differ around the world? Why is it sometimes hard for companies to penetrate foreign markets?

ACTIVITIES

1. Think of some products or services you currently use. Are there any you would like to buy via

different marketing channels? Do you think the products could be made available this way?

2. Describe a time in which you did business with a company and received conflicting information from its different channels (for example, a store's web or mobile site versus a visit to the store). How did it affect your buying experience? Have you done business with the company since?
3. Break into groups and make a list of two or three products or services. Decide which channels could be used to distribute each product. Present your findings to your class and see if they agree with you. Make a list of two or three products you believe failed because of poor marketing channel choices.

CHAPTER 10 - INTEGRATED MARKETING COMMUNICATIONS

10.1 Integrated Marketing Communications

LEARNING OBJECTIVES

- Understand what integrated marketing communications are.
- Understand why companies may change their promotional strategies to reach different audiences.

Once companies have developed products and services, they must communicate the value and benefits of the offerings to current and potential customers in both business-to-business and business-to-consumer markets. Integrated marketing communications provide an approach designed to deliver one consistent message to consumers through a company's promotions that may span media from TV (cable, broadcast, satellite and internet) radio, magazines, websites, mobile phones, professional selling, and social media. Delivering consistent information about a brand or a company establishes it in the minds of consumers and potential customers across target markets. ‡

Watch the following two YouTube videos. Although the messages are very similar, Campbell's uses the same tag line and strategy delivered through different creative designed to target different consumers.‡

Snowbody

We all want a house with a crowded table

In 2021, not only do companies provide messages to consumers but consumers are easily able to interact with companies and other consumers through social media. With access to many sources of information, consumers may be exposed to information that contradicts the information that the company wants them to know. Reddit is one example of an informal online community that exchanges information, comments, available deals and criticisms about companies. If we look up Bell and Rogers, Canadian telecommunication companies, we can find criticism and comments about them. Here is examples from Reddit about Bell and Rogers.‡

Thus, marketers must not only organize and assemble available information to build a consistent brand message and make it relevant, but also monitor and respond to what customers are saying. Using integrated marketing communications, companies can coordinate their messages to build the brand and develop strong customer relationships while also helping customers satisfy their needs.

Integrated Marketing Communication (IMC) is the most visible way that that company communicates its strategies. IMC is defined as 'an audience-driven business process of strategically managing stakeholders, content, channels, and results of brand communication programs (Kliatchko, 2008, p.140).‡

IMC evolved from a tactical approach to harmonizing the various promotional tools such as advertising, sales promotion, and public relations to its current position as a strategic management tool. The main purposes of IMC are building customer relationships, managing brand equity and communicating social responsibility initiatives (Faroudi et al., 2017).‡

To illustrate how companies strive to maintain a consistent image across different platforms, consider the example of Ritz Crackers. The company uses the tagline 'a taste of welcome' on its websites, social media and traditional advertising. It is important to the company to represent diverse groups in its advertising and 'a taste of welcome' works well for communicating the company's core values. Their "Where There's Love, There's Family," which is an LGBTQ-inclusive commercial that aired during the December holiday season, was part of a partnership with The It Gets Better Project, Hispanic Star, and Invisible People (Ritz Crackers, n.d.).‡

Continuing to expand the company's knowledge around how to use the various media types effectively for their particular target audience is a critical part of a marketer's job. Digital includes advertising that appears on desktop and laptop computers as well as mobile phones, tablets, and other internet-connected devices in all formats. Traditional advertising spend includes advertisements that appear in paper directories, magazines, newspapers, out-of-home (e.g. billboards), as well as broadcast and cable radio and television. With consumers engaging with digital and traditional media, companies have been shifted their focus to digital channels. In 2020, companies operating in Canada spent almost 63% or 9.1 billion dollars of their total ad spend on digital advertising (Briggs, 2021). This is forecast to grow to 69% of total spend or 13.14 billion dollars by 2024. ‡

In the past, companies had many advertising vehicles to choose from and no one company dominated the advertising space. In 2019, the Canadian Media Concentration Research Project reported that Google and Facebook accounted for 81% of the internet advertising market. Why is this significant? It is significant because these two companies have the ability to control the content, apps and messages that gain prominence based on the price that a company is willing to pay. It means that they have the power to violate the privacy and data protection wishes of people, companies and governments (Winseck, 2020). It is important to consider the impact of this on Canadian society.‡

Companies like the immediacy and interactivity of digital media and because they are able to know much more about the attitudes and behaviors of their customers. However, consumers tend to feel more comfortable with the trustworthiness and accuracy of traditional advertising. Between 65% and 74% of Canadian adults, 18 plus report feeling comfortable with advertisements displayed on traditional media outlets. These numbers starkly contrast with consumers' trust in advertisements on digital media outlets (between 10% and 36%). One potential reason for the low trust level observed on digital outlets is that consumers do not want companies to have so much information about them. To consumers, it can feel like an invasion of their privacy (Ad Standards, 2018).‡

Many companies and researchers have found that media used in combination (i.e., digital and traditional together) is more effective. A study conducted by Ostler (2021) concluded that no single media mix is best for all brand outcomes. However, there are some clear lessons on which channel mixes work best for specific brand objectives. For example, while spending heavily in television and newspapers are generally most effective in increasing awareness, the combination of television, Facebook and outdoor drives motivation and association. Consideration is most effectively created with television and YouTube. ‡

Think about what Air Canada is trying to accomplish with this campaign.

Figure 10.1 – "Air Canada: more than just a flight" by Can Pac Swire is licensed under CC BY-NC 2.0

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10.2 The Promotion Mix

LEARNING OBJECTIVES

- Understand the different components of the promotion (communication) mix.
- Understand the difference between types of communication that target many people at one time versus types of communication that target individuals.

The definition of integrated marketing communication (IMC) continues to evolve. In the textbook, we consider IMC to be the strategic business process of conveying the company's brand message to all of its audiences (customers, employees, vendors, suppliers, investors and other strategic partners) across all of its communication platforms to present a cohesive image of the brand. The **promotional mix** refers to specific promotion vehicles that inform and remind customers about the product or service, and motivate a purchase (Ots & Nyilasy, 2017).

Although the money companies spend promoting their offerings may go to different media channels, they still want to send their customers and potential consumers a consistent message. The different types of marketing communications a company uses compose its promotion mix, (advertising, consumer sales promotions, public relations and publicity, sponsorships, direct promotion and professional selling).

Advertising involves paying to disseminate a message that identifies a brand being promoted to many people at one time. Typical enabling media and devices that companies utilize for advertising include video (satellite, cable, streaming); print or digital magazines and newspapers; radio; and social media (e.g. Linkedin, Facebook, Instagram, TikTok, blogs, and Twitter).

Sales promotions directed toward consumers consist of short-term incentives such as coupons, contests, games, rebates, and mail-in offers that supplement the advertising and sales efforts. Sales promotions include promotions that are developed to get existing customers to take action quickly, make larger purchases, and/or make repeat purchases of existing products. Sales promotions support a market penetration strategy.

Sales promotions directed toward other businesses are called **trade promotions** because they are targeted to channel members who conduct business or trade with consumers such as grocery stores, pharmacies or discount department stores. Trade promotions include trade shows and special incentives given to retailers to market particular products and services, such as extra money, in-store displays, and prizes.

Public relations and publicity involves communication designed to help improve and promote a company's image and products. The information is tailored to sound as if it has been created independently of the advertising company. Public relations materials include press releases, publicity, and news conferences. Many companies have internal public relations departments or hire companies to find and create public relations opportunities for them. As such, public relations is part of a company's promotion budget and their integrated marketing communications.

Sponsorships typically refer to financial support for events, venues, or experiences and provide the opportunity to target specific groups. Sponsorships enhance a company's image and usually generate public relations. With an increasing amount of money being spent on sponsorships, they have become an important component of the promotion mix.

Direct promotion involves the delivery of personalized and often interactive promotional materials to individual consumers via companies or devices such as postal mail, flyers and catalogues, telephone (landline and mobile), television and computers and tablets. It relies on direct communication to individual consumers or their devices.

Postal mail, flyers and catalogues continue to be effective due to their length of time they are kept in the home and the way in which they activate multiple senses (McNeish, 2019; McNeish & Humphreys, 2002). In 2008, Canadian Tire cancelled its printed catalogue although they continued to distribute weekly printed flyers (Canadian Press, 2008). They commented that research showed that "readership and retention of annual catalogues was declining." What they did not expect was the loss of sales attributed to the catalogue that were not made up through online sales. In 2016, they reinstated the print catalogue and reported that following the catalogue launch their weekly online sales doubled (Strauss, 2016). Similarly, World Vision, a non-profit association that supports vulnerable children and families uses both a print and online catalogue to encourage donations by offering specific items such as fruit trees or livestock that people can choose. They found that the print catalogue drove traffic to the online catalogue and represented the preferred shopping channel for some of their long time donors (Li, 2017). ‡

Digital/Online Marketing includes company websites, email, search ads, display ads, company blogs, third-party chatrooms, forums, blogs, and social media delivered to computers. Online marketing (Adams, 2017) enables companies to connect and interact with their existing and potential customers, influence consumer's attitudes, receive feedback from customers to help the company improve their products and services. Companies make use of different techniques such as Search Engine

Optimization and Search Engine Marketing to improve the position of their content in the search engines. Social Media Marketing refers to company-owned properties such as a company YouTube channel or Instagram pages (Constantindeides, 2014). In this way, companies are able to control the presentation of their brands in what were previously consumer-controlled social media properties.‡

Five Guys is a restaurant chain that sells burgers, fries, and hot dogs. Here is a link to their YouTube channel. ‡

Mobile Marketing is part of online marketing and refers to messages delivered to customers' smart devices (phones and tablets). Mobile marketing is identified separately from online marketing due to the way in which advertising can be targeted to the specific IP address of the user's device. ‡

Think of all the networks to which you might connect during a day or week. You may share your home broadband connection with several roommates. The IP address would be that of the broadband router. Then you may have used a public network on public transit or in a retail store. When you got to work, or school, you might have logged on to those networks as well. The various IP addresses are returned to ad tech companies that interpret the information received in order to provide you with relevant advertising based on the activity of the IP addresses you used. ‡

With mobile marketing, customers may have given you permission to interact with them by providing their mobile phone number, signing up for your social media accounts or downloading your mobile apps. In this way, customers are signaling their interest in your products or services. ‡

While printed direct mail or flyers made use of household geographic information (e.g. addresses or postal codes), **geotargeting** is a new way for advertisers to specify the content of the ads based on the location of a customer's device. Advertisers can choose different content for their ads based on geographic locations. Consumers receive promotions on their smartphones as they walk by the store, prices that vary by province from an online store, or even within a gaming device (Riserbato, 2020).‡

Professional selling is an interactive, paid approach to marketing that involves a buyer and a seller. The interaction between the two parties can occur in person, by telephone, or via another technology. Whatever medium is used, developing a relationship with the buyer is usually something the seller desires. When you interview for part-time or full-time employment and try to convince potential employers to hire you, you are engaging in professional selling. The interview is very similar to a buyer-seller situation. Both the buyer and seller have objectives they hope to achieve. Business-to-business marketers generally utilize professional selling more often than business-to-consumer marketers.

10.3 Factors Influencing the Promotion Mix and Communication Process

LEARNING OBJECTIVES

- To understand the factors that influence the promotion mix
- To explore the communication process

Promotion is the plan of action that helps provide information to customers with the objective of motivating a purchase. Figure 10.2 identifies the factors that affect the choice of promotion mix elements.

Budget Available
Stage in the Product Life Cycle
Type of Product and Type of Purchase Decision
Target market
Characteristics and Consumers' Readiness to Purchase
Consumers' Preferences for Various Media
Regulations, Competitors, and Environmental Factors
Availability of Media
Push vs Pull Strategy

Figure 10.2 – Factors That Affect the Choice of Promotion Mix Elements Joanne McNeish, Ryerson University CC BY-NC 4.0

Budget Available

For many companies, the budget available to promote a product determines what elements of the promotion mix are utilized. The budget affects a promotion's **reach** (number of people exposed to the message) and **frequency** (how often people are exposed). For example, many smaller companies may lack the money to create and run video commercials regularly or during high profile events such as the Super Bowl or the Olympics. As a result, they may not get the exposure they need to build to continue to grow their business. However, other forms of online marketing such as e-flyers gives them an opportunity to engage customers for less money.‡

Stage in the Product Life Cycle

The stage in the product life cycle also affects the type and amount of promotion used. Products in the introductory stages typically need a lot more promotional dollars to create awareness in the marketplace. Consumers and businesses cannot buy a product if they do not know about it. More communication is needed in the beginning of the product life cycle to build awareness and trial, however, it is critical to continue to speak to customers throughout the product lifecycle to maintain loyalty, to communicate changes, and to make it easier to introduce line extensions.

Type of Product and Type of Purchase Decision

Different products also require different types of promotion. Very technical products and very expensive products (high involvement) often need professional selling so customers understand how the product operates, its different features and benefits. By contrast, advertising is often relied upon to sell convenience goods and products purchased routinely (low involvement) since customers are familiar with the products and they spend relatively little time making purchase decisions.

Target Market Characteristics and Consumers' Readiness to Purchase

In order to select the best methods to reach different target markets, companies need to know what types of media different targets use, how often they make purchases, where they make purchases, and what their readiness to purchase is, as well as characteristics such as age, gender, and lifestyle. Some people are early adopters and want to try new things as soon as they are available, and other groups wait until products have been on the market for a while so that the early technical problems have been solved.‡ Some consumers might not have the money to purchase different products, although they will need the product later. For example, are most people in their twenties interested and able to afford to buy a property versus renting?‡

Consumers’ Preferences for Various Media

The media preferences of the target audience is an important consideration in the selection of the promotion marketing mix. Media preferences are also linked to the type of product and service. Kantar produced a report that discusses the divide between which media consumers prefer and which companies prefer. Download a copy of the report here. In general, cinema, events, and print advertising are preferred by consumers, whereas marketers prefer TV and digital formats (Kantar, 2020). ‡

Regulations, Competitors, and Environmental Factors

Regulations can affect the type of promotion used. Canada has one of the most comprehensive self-regulated systems of codes and standards for responsible advertising called the Canadian Code of Advertising Standards and Broadcast Code for Advertising to Children (Ad Standards, 2019). The Code applies to advertising of products and services in any media. The criteria for acceptable advertising is that it is truthful, fair and accurate. ‡

Companies rarely operate in markets without competition. Marketers must think about whether they want to follow the lead of their competitors or to stand out by using different media. ‡

Environmental factors can have an impact. During COVID-19 pandemic, consumers were unwilling or unable to spend as they did before the pandemic. By March 2021, Canadian consumers had accumulated $184 billion in excess savings since the start of the pandemic a year earlier (Oxford Economics, 2021). This does not mean, however, that consumer spending was reduced across all industries. As consumers spent more time in their homes, home related expenses have seen a sharp rise. For example, major urban centers saw housing prices rise sharply, with people investing $62 billion dollars in housing and financial assets during the same time-frame. Those investments will have a ripple effect in the economy as people purchase products and services related to owning a home. ‡

Availability of Media

Companies must also plan their promotions based on availability of media. Top-rated television shows (based on the number of more viewers) and Super Bowl ad spots, for example, often sell out quickly and are much more expensive due to the limited number of spots available. Magazines tend to have a longer lead-time so companies must plan far in advance for some magazines. By contrast, because of the number of radio stations and the nature of the medium, companies can often place radio commercials on the same day they want them to be aired. ‡

Social media and online media may be immediate but because of the Facebook-Cambridge Analytical scandal in 2018, users are concerned about the way in which their meta data and posted content is being used. Uncontrollable events can affect a company's promotions, too. If there is a snow or ice storm and your company is in the middle of a printed flyer promotion, delivery is likely to be interrupted. During a major crisis such as occurred during the COVID-19 pandemic, companies had to pivot to produce communication that acknowledged that consumers' situations had changed. ‡

An example of advertising that Kruger Products (paper products such as toilet paper, paper towels) produced during the second of 2020 called "Unapologetically Human" can be found on YouTube. ‡

The Communication Process

The communication process describes how a person selects, and interprets information. For example, by selecting a specific book, blog, or even an elective class in school to read, a consumer is choosing the information to which they will be exposed. However, just because a consumer is exposed to some information does not mean they will pay attention to it, remember or correctly interpret what they saw or heard. ‡

The communication process (Figure 10.3) illustrates how messages are sent and received. The sender **encodes**, or translates, a message so that it is appropriate for the message channel. The receiver (customer or consumer) then **decodes**, or interprets, the message. For effective communication to occur, the receiver must interpret the message as the sender intended.

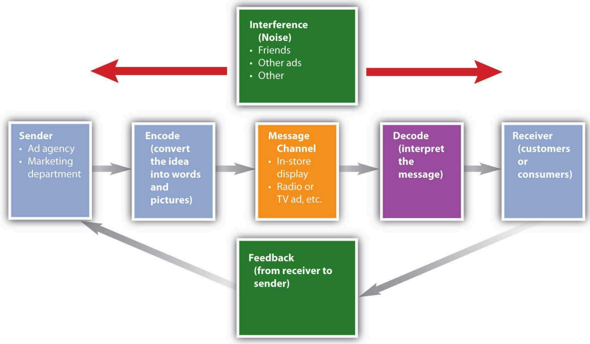

Figure 10.3 – The Communication Process This image is from Principles of Marketing by University of Minnesota and is licensed under a Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License.

There can be interference between the sender and the receiver. **Interference** includes any distractions between receivers and senders during the transmission of a message. For example, think about when you are streaming a video and at the same time texting a friend. If an advertisement interrupts the video, will you pay any attention to the advertisement, continue texting, or even start doing something else? With all this interference, how likely is it that you will remember what brand was being advertised.‡

It can be difficult for an advertiser to get you to pay attention, much less remember the message. To increase retention, advertisers repeat the same message multiple times in different places. Not only must advertisers try to present consistent messages, they must also try to ensure that consumers interpret the message as they intended.

One of the reasons that advertisers adopted social media so quickly was that it provided the opportunity to deliver multiple meaningful messages For example, Facebook's technology observes the posts users look at, like or comment on, which means Facebook can provide advertisers with the information to provide consumers with promotional messages that they will find meaningful. Facebook is able to deliver advertising messages that reflect the consumers' interests, use the interests of people or groups as another way to understand consumers, as well as the places from which the signals from the users' devices are sent. ‡

10.4 Advertising and Direct Promotion

LEARNING OBJECTIVES

- Understand the difference between media and vehicles.
- Explain the similarities and differences between advertising and direct promotion.
- Understand the benefits of direct promotion

A **media** is the method by which advertising or direct promotion is delivered to a target audience It should be selected based on the goals of the campaign.

Advertising is paid promotion, by companies, governments, industry associations and non-profit organizations that reaches many people at once. One of the biggest issues a company must address is the media that are the most efficient in terms of money spent and effectiveness in delivering the message about the product to the appropriate target market.

Each media type has advantages and disadvantages. For example, magazines and newspapers engage people longer and the reader's attention is directed by the way they are laid out. Radio is often used when consumers are doing another activity (e.g., driving) and relies solely on audio. Television adds dynamic visual demonstrations to the audio. Out-of-door advertising reaches people when they are outside their homes.

Figure 10.5 – "Toronto (Ontario – Canada) [City Clock]" by City Clock Magazine is licensed under CC BY-NC-SA 2.0

People may keep printed magazines longer than they are exposed to digital magazines. However, advertisers must be extra careful in their planning and implementation of print material as they can't make changes or correct errors after it is printed. Many magazines and newspapers have gone digital either abandoning print altogether or providing both a print and digital version. Due to the dominance of search engines, fewer consumers value the editorial function of magazines and newspapers so that their readership and advertising dollars have declined. Print media is also integrating technology within the printed papers. Readers can scan a QR code on the printed page to launch a digital option to buy branded ingredients from an online or bricks and mortar store (Printweek, 2021). Social media can be effective because it delivers advertising messages that are relevant to the consumer based on their posts, contacts and device location. ‡

Vehicle

Within each media type, a company might select a different vehicle. A **vehicle** is the specific means within a medium to reach a selected target market. For example, if a company wants to develop television commercials to reach those who identify as female aged 16 to 24, it might select the *Keeping Up With the Kardashians*, a television program to advertise as the best vehicle. To reach video gamers, companies might insert a branded avatar within a game consistent with their brand image or advertise on a website such IGN, a review site for games.‡

Direct Promotion (Print, Online and Mobile)

Direct marketing allows companies to target a specific set of customers, measure the return on investment (ROI), and test different strategies before implementing to all targeted consumers. It can be personalized as a call for consumers to take the desired response. However, many consumers consider direct promotion to be intrusive because it uses their own devices (e.g. text messaging on a mobile phone).

Telemarketing involves direct marketing by phone. Although expensive and increasingly subject to call screening by consumers, telemarketing can still be effective for charitable companies, political parties and some service companies. It works best when there is an existing relationship between the company and the customer.

Direct response advertising includes an offer and a call to action. You may be watching television when an interesting product is shown. The announcer says, "Call now and receive a bonus package." They want consumers to call to purchase the product or to get more information. In Canada, The Shopping Channel (TSC) provides a complete shopping experience using on-air hosts to promote various categories such as health and beauty, jewelry, home/lifestyle, fashion/accessories, and electronics. They offer price deals called “Show Stoppers” to encourage viewers to call and purchase immediately.‡

10.5 Message Strategies

LEARNING OBJECTIVES

- Understand what a unique selling proposition is and how it is used.
- Understand different types of promotion objectives.
- Identify different message strategies.

Utilizing a Product's Unique Selling Proposition (USP)

When companies want to communicate value, they must determine which message strategies work best for them. Smart companies determine a product's **unique selling proposition (USP)**, or the specific benefit consumers should remember. Domino's "Pizza delivered in 30 minutes or it's free" is a good example of a unique selling proposition. Likewise, Nike's global slogan "Just Do It" conveys that Nike products help athletes realize their potential, and influences consumers to imagine what they could accomplish when they use Nike products.

Nike and Coca-Cola have been extremely successful in adapting their promotions to different international markets. Both companies have very popular global brands. Sometimes the same promotions work in different cultures (or countries), but others must be adapted for different international audiences, similar to the way products may be adapted for international markets. Companies must be careful of how words translate, how actions are interpreted, how actors (or models) look, and what different colors in ads may mean.

When deciding on a message strategy, companies must consider the audience, the objectives of the promotion, the media, and the budget, as well as the USP and the product. The more advertisers know about the consumers (or businesses) exposed to the message, the better. Promotional messages for golf products shown during golf tournaments focus specifically on golfers.

Promotion Objectives

Companies must determine their promotion objectives. What are they trying to accomplish with their promotions? Are they trying to build awareness for a new product, are they striving to get people to take action immediately, or are they interested in having people remember their brand in the future? Building **primary demand**, or demand for its cold drink category might be one objective, but a company also wants to build **selective demand**, or demand for its specific brand, such as Tropicana orange juice.

Other common objectives follow the **Attention, Interest, Desire, and Action (AIDA) model**. First, companies focus on attention and awareness of a product or service. This is especially important for new offerings. If a consumer or business is not aware of a product or service, they will not buy it. Once consumers or businesses are aware of products or services, companies try to get consumers interested and persuade them that their brands are best. Ultimately, companies want consumers to take action or purchase their products or services.

Message Characteristics

Companies must determine what type of appeal to use and how to best structure their message. An appeal is an approach used to attract the attention of consumers and to influence their emotions toward the brand (Zhang et al., 2014). Some of the common emotional advertising appeals are humorous or frightening. Rational appeals use detailed information or logic to persuade. If you were asked to name your favorite commercial, would it be one with a humorous appeal? Many people like commercials that use humor because they can be entertaining and memorable. However, in a diverse world, and with societal norms changing, companies must be careful not to cross the line from humorous to insensitivity. In other words, it is important that the intended humor does not offend, and that the brand name, not the joke, is remembered.

Companies must also decide whether to use tactics such as an open-ended or closed-ended message; whether to use a one-sided or two-sided message; and whether to use slogans, characters, or jingles. An **open-ended message** allows the consumer to draw his or her own conclusion, such as a commercial for perfume or cologne (Figure 10.5).

*Figure 10.5 – **"Lan Ghost Enchanted Bloom Perfume AD"** by Spice Boy is licensed under CC BY-NC 2.0*

A **closed-ended message** draws a logical conclusion. Most messages are one sided, stressing only the positive aspects, similar to what you might include on your resume. However, two-sided messages, which include both positive and negative aspects of a product, can be effective and build trust in the customer. Pharmaceutical companies often show both the positive and negative aspects of using a drug. One example is the Buckley's cough medication tagline "It Tastes Awful. And It Works."

The order of presentation also affects how well consumers remember a brand. The beginning and the end of the message should be strong and include the brand name. This is informed by findings which reveal that people often recall the first and last few seconds of an advertisement more so than the middle. Thus, by putting the brand name at the beginning and end of an ad, marketers can ensure that consumers remember the brand.

Some companies use characters or mascots and/or jingles or slogans to increase the memorability of their ad campaigns. Check out some of the ones used by Green Giant to sell canned vegetables or the Energizer Bunny to sell batteries. While companies can build brand equity with these characters and use them for a long time, they must be careful to modernize them to reflect contemporary norms or values or be prepared to discontinue them. For example, in 2020, Quaker Oats announced plans to change the name of its pancake and syrup name and image from Aunt Jemima in order to stop the strong criticism that it was "perpetuating a racist stereotype." (Kesslen, 2020). ‡

‡ signifies new material that Ryerson University authors have added to this adaptation of Principles of Marketing published by University of Minnesota Library Publishing, licensed under a Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License.

10.6 The Promotion Budget

LEARNING OBJECTIVES

- Understand different ways in which promotion budgets can be set.
- Understand how the budget can be allocated among different media.

The promotion budget is a critical factor when it comes to deciding which message strategies to pursue. Several methods can be used to determine the promotion budget. One of the simplest methods for determining the promotion budget is to devote a **percentage of last year's sales** or the projected sales for the next year. This method does not take into account any changes in the market or unexpected circumstances. However, many companies use this method because it is simple and straightforward

The **affordable method**, or what you think you can afford, is a method used often by small businesses. Unfortunately, things often cost more than anticipated, and you may not have enough money. Many small businesses think they are going to have money for promotion, but they run out of money faster than anticipated, and cannot spend as much on promotion as they had hoped. A similar financial situation may have happened to you when you planned a weekend trip based on what you thought you could afford, and you found out during the trip that you did not have enough money to do all activities you planned on. As a result, you had to modify your plans and not do everything you planned.

Other companies may decide to use **competitive parity,** that is, they try to keep their promotional spending comparable to the competitors' spend level. This is one way to keep a brand's awareness at the same level as the competition. During a recession, some companies feel as if they must spend as much as, if not more than, their competitors to get customers to buy from them. Other companies are forced to cut back on their spending or pursue more targeted promotions. When Kmart faced bankruptcy, they cut back on expenditures, yet they kept their advertising flyers in Sunday newspapers to remain competitive with other businesses that had also used flyers.

A more rational and ideal approach is the **objective and task method**, whereby marketing managers first determine what they want to accomplish (objectives) with their communication. Then they determine what activities, commercials, sales promotions, and so on, are necessary to accomplish the objectives and the associated costs.

Measuring the **Return on Marketing Investment (ROMI)** ensures that the company continues to learn where to spend their dollars effectively. ROMI is calculated by dividing the incremental financial contribution generated by marketing investment divided by the marketing dollars spent (Haigh, 2020). Some companies calculate the ROMI of a specific campaign, channel or offer, while others calculate it on the total of all marketing costs. Whatever method the company uses, it is important to identify key benchmarks that reflect the marketing objectives and track them over time.‡

10.7 Sales Promotions

LEARNING OBJECTIVES

- Learn about different types of sales promotions companies use to get customers to buy their products.
- Understand the different types of sales promotions companies use with their business customers.
- Understand why sales promotions have become such an integral part of an organization's promotion mix.
- Differentiate between push and pull strategies.

Sales promotions are activities that supplement a company's advertising, public relations, and professional selling efforts. They create incentives for customers to buy products more quickly and make larger purchases. Sales promotions are often temporary, but when the economy is weak, sales promotions are used more frequently by companies as they can deliver revenue quickly. Table 10.1 recaps the different types of sales promotions designed for both consumers and businesses.

Table 10.1 – Examples of Sales Promotions

Business-to-Consumer Sales Promotions	Business-to-Business Sales Promotions
Coupons	Trade shows and conventions
Sweepstakes or contests	Sales contests
Premiums	Trade and advertising allowances
Rebates	Product demonstrations
Samples	Training
Loyalty programs	Free merchandise
Point-of-purchase displays	Push money

Consumer Sales Promotions

Samples, coupons, premiums, contests, and rebates are examples of consumer sales promotions. Companies use sales promotion to temporarily increase sales. Some types are used to encourage trial and build awareness.

A free **sample** allows consumers to try a small amount of a product with no risk to them so that they are more likely to purchase it. The tactic encourages trial and builds awareness. Although sampling is expensive, it is very effective for food products. People taste the product, and the person providing the sample tells them about the product and mentions any special prices for it. Apps use a sampling by offering a basic version of the app for consumers to download and try.

In many retail grocery stores, coupons are given to consumers with the samples. **Coupons** provide an immediate price reduction off an item. The coupon's cost is reimbursed to the retailer, by the manufacturer. The retailer gets a handling fee for accepting coupons.

Consumers also use coupons from the paper or e-flyers. Many stores offer online flyers, coupons and price reductions if consumers sign up for their app or use their loyalty cards.

In 2020, 73% of shoppers used digital coupons, comparable to the percentage using paper coupons (71%). However, looking at demographic factors such as age can give marketers a better understanding of which customers tend to use digital versus paper coupons. For example, age seems to play a critical part in digital coupon use: 88% of Millennials used digital coupons and discounts versus 64% of Baby Boomers. While 93% of Millennials use their mobile device to compare prices while shopping for an item in a brick-and-mortar store, Baby Boomers are less likely to do so (CouponFollow Team, 2021).

Other sales promotions may be conducted online and include incentives such as free items, free shipping, coupons, and sweepstakes. Amazon Prime is a well-known loyalty program where users get free shipping as well as many other benefits. Some companies have found that the response they get to their online sales promotions is better than the response they get to traditional sales promotions, although that depends on the specific product or service being offered and the retailer's brand image.

Another very popular sales promotion for consumers is a premium. A **premium** is a product or discount that consumers can obtain for free from buying the product (e.g. for a toy such as in Figure 10.6) or by submitting proof of purchase (sales receipt or part of package) to the company (e.g. for coupons such as in Figure 10.7). The purpose of a premium is to motivate you to buy a product many times.

Figure 10.6 – "Monster – Premium – Cereal – Post Sugar Crisp – Glow Heads – Finger Puppets – A" by monstersforsale is marked with CC PDM 1.0

Figure 10.7 – "Winter Olympics Sochi 2014 Kellogg's Frosted Flakes Box" by JeepersMedia is licensed under CC BY 2.0

Contests or sweepstakes also attract people. **Contests** are sales promotions people enter or participate in order to have a chance to win a prize. As with other sales promotion tools, the idea is to get you to buy a product and more specifically to make repeat purchases. One of the most iconic promotions was offered by Tim Hortons. Since its creation in 1986, the original annual Roll-Up-The-Rim promotion was adored by millions of Canadians (Powell, 2011). It was launched as a way to reward millions of Canadians for their loyalty to the brand and to boost sales. With the purchase of any sized drink, the customer had a chance to win prizes that range from free drinks to cars. The unusual placement of contest information in the rim of the paper cup was done to create awareness of the contest at point of sale and minimized costs (Figure 10.8).

Figure 10.8 – "Coffee Cup" by limecools is licensed under CC BY-NC-SA 2.0

In March 2019, Tim Hortons unveiled its first point-based loyalty program, Tims Rewards. The first iteration of the program offered customers a points card for a free coffee, tea or donut earned after the customers' seventh purchase (Abedi, 2019). This was followed by a Tims Rewards app that customers could use to scan and track their purchases. Tim Hortons did not abandon the Roll-Up-the-Win contest altogether. In 2020, participation in the Roll to Win contest moved from the rim of the cup to the Tims Rewards card and app.

Loyalty programs are sales promotions designed to get repeat business. Loyalty programs include things such as frequent flier programs, hotel programs, and shopping cards for grocery stores, drugstores, and restaurants. Sometimes point systems are used in conjunction with loyalty programs. After you accumulate so many miles or points, an airline company might provide you with a special incentive such as a free flight, free hotel room, or free sandwich. Many loyalty programs, such as Aeroplan or Airmiles have partners to give consumers more ways to accumulate and use miles and points.

Rebates are popular with both consumers and the manufacturers that provide them. To get a cash rebate, you complete a form and submit it with proof of purchase to the manufacturer by postal mail, email or on a website. Although different types of sales promotions work best for different organizations, rebates are very profitable for companies because many consumers forget or wait too long to send them in. Rebates are a great way to create a way for consumers to perceive a lower price and for them to achieve it, if they remember to return the form.

Trade Promotions

In business-to-business marketing, sales promotions are called trade promotions because they are targeted at channel members who conduct business or "trade" with consumers. **Trade promotions** include trade shows, conventions, event marketing, trade allowances, training, and special incentives given to retailers to market particular products and services, such as extra money, in-store displays, and prizes.

When the manufacturers provide coupons directly to consumers that is called a consumer sales promotion, A *shelf talker* is provided to the retail and is an example of a trade promotion. **Shelf talkers** are tags or digital displays that present special prices or coupon deals (Figure 10.9).

Figure 10.9 – "Grocery Coupons – Tearpad shelf display of coupons for Kraft Macaroni & Cheese" by Hotcoupon world.com is licensed under CC BY-SA 2.0

Trade shows are one of the most common types of sales promotions in B2B markets. A trade show is an event in which companies in a particular industry display and demonstrate their offerings to other organizations they hope will buy them. There are typically many different trade shows in which a company can participate. Using displays, brochures, and other materials, representatives at trade shows can identify potential customers (prospects), inform customers about new and existing products, and show them products and materials. Representatives can also get feedback from prospects about their company's products and materials and perhaps about competitors.

Companies also gather competitive information at trade shows because they can see the products other firms are exhibiting and how they are selling them. While approximately 75% of company representatives attending trade shows actually buy the products they see, 93% of attendees are influenced by what they see at tradeshows. Trade shows can be very successful, although the companies that participate in them need to follow-up on the leads generated at the shows. One study found that only 20% of companies follow up on leads obtained at trade shows and 17% of buyers are contacted after they express interest (Tanner & Pitta, 2009). **Conventions**, or meetings, with groups of professionals also provide a way for sellers to show potential customers different products. For example, a medical convention might be a good opportunity to display a new type of medical device. With changing technology, webinars and online trade trades are being used to reach businesses that may not be able to attend in-person.

Sales contests offered by manufacturers to retail store salespeople provide incentives to increase their sales. The sales representative with the most sales of a specific product or brand may win a prize such as a free vacation, company recognition, or cash.

Trade allowances give channel partners, for example, a manufacturer's wholesalers, distributors, retailers, and so forth, different incentives to push a product. One type of trade allowance is an **advertising allowance** (money) to advertise a seller's products in local printed or digital flyers. An advertising allowance benefits both the manufacturer and the retailer. Typically, the retailer can get a lower rate than manufacturers on advertising in local outlets, saving the manufacturer money. The retailer benefits by getting an allowance from the manufacturer.

Another sales promotion that manufacturers, such as those in the tool or high-tech industries, offer businesses is **training** to help their salespeople understand how the manufacturers' products work and how consumers can be enticed to buy them. Many manufacturers also provide in-store **product demonstrations** to show a channel partner's customers how products work and answer any questions they might have.

10.8 Discussion Questions and Activities

REVIEW QUESTIONS

1. Explain the difference between integrated marketing communications and promotion mix.
2. Define each component of the promotion (communication) mix.
3. Explain the communication process and factors that can interfere with interpretation of messages.
4. What is the perceptual process and how does it relate to promotion?
5. What is the difference between encoding and decoding a message?
6. Why do you think so many companies rely on advertising to communicate with customers and potential customers?
7. Identify the different promotion objectives companies may use.
8. What are some of the message strategies companies use?
9. What are the objectives of sales promotions?
10. What is a trade promotion?
11. Identify and provide an example of three sales

promotion tools targeted at consumers.

12. Identify and provide an example of three sales promotion tools targeted at businesses.
13. Explain the difference between a push strategy and a pull strategy.

DISCUSSION QUESTIONS

1. Provide an example of how your university uses different media to present a consistent message using integrated marketing communications (IMC). Who is their target, what is their message, and what media should they use?
2. In your opinion, what are the advantages and disadvantages of advertising on the radio, in magazines, on television, through direct marketing, and on the Internet?
3. Give an example of a company's promotional strategy and how it achieves its objective of having consumers select it, pay attention to it, and retain the information.
4. Give an example of the unique selling proposition for one of your favorite brands. What is your unique selling proposition?
5. Explain why companies might use different budgeting methods to set their promotional budgets.

6. Think about and provide examples of two different message strategies you have seen in video commercials in the last year. Why do you think they were or were not effective?
7. As the manufacturer of small electronic appliances, explain how you might plan to use both a push strategy and pull strategy.

ACTIVITIES

1. Identify your three favorite and least favorite video commercials and explain why you like or don't like each one. Notice whether there are similarities in your preferences. In other words, are your favorite commercials humorous? Are your least favorite commercials annoying?
2. Outline three message strategies that you feel would get consumers' attention in out of home advertisements and in mobile advertising.
3. Create a sales promotion you think will attract university students to your favorite restaurant.
4. You are applying for a job in an advertising agency. Write an ad about yourself, explaining your unique selling proposition, and why they should hire you.
5. Watch the same video series program on YouTube on different browsers (e.g. Google, Bing

and Safari) and internet networks (e.g. at your own home, at a friend's house, at work or at school). What types of commercials were shown on each? Did you notice a difference in quality, products/services advertised, or creativity? Why do you think there was a variance?

6. What media do you think would be most (and least) effective for university students? Why? Find a credible source and do not just assume that students would prefer mobile.

CHAPTER 11 - PUBLIC RELATIONS, SPONSORSHIPS, AND DIRECT PROMOTION

11.1 Public Relations Activities and Tools

LEARNING OBJECTIVES

- Understand the concept of public relations and why organizations allocate part of their promotional budgets to it.
- Understand what the different types of public relations tools are.
- Explain how companies use different public relations tools to their advantage.

Public relations (PR) are the activities in which companies engage to create a positive image for a company, product, service, or a person or to address criticism. Press releases, a commonly used PR tool, are designed to generate publicity, but there is no guarantee that the edited media will use them in the stories they write. Edited media includes vehicles such as newspapers, magazines, television and radio. Bloggers and influencers are also groups that must be convinced to use a company's press release. The ability to distribute information directly is one of the reasons that the internet has been such a powerful communication tool for companies. Using their website and branded social media accounts, companies can communicate with their stakeholders directly.‡

Good public relations efforts can help a company create rapport with its customers, promote what it has to offer, and supplement its sales efforts. PR puts a positive spin on news stories and is often perceived as more neutral and objective than other forms of promotion. When placed with edited media, the information is often perceived as if it has been created independently of the brand when published. Public relations materials include print or digital press releases, publicity, and news conferences. Companies also use PR to promote products and to supplement their sales efforts.

Many companies that engage in public relations have in-house PR departments, media relations groups, or investor relations groups. Other companies sometimes hire external PR companies or advertising agencies to find and create public relations opportunities for them. PR specialists must build relationships with people at different media outlets to help get their stories placed. Universities, hospitals, government companies, and charitable companies often hire PR people to help disseminate positive information about their services and to increase interest in what they do. As such, PR is part of a company's promotion budget and their integrated marketing communications. PR specialists are also part of political campaigns to generate positive information and to manage negative information. PR specialists can handle crisis communication and put a positive view on situations when something bad happens to a company. In foreign markets, PR agencies may help ensure product concepts are understood correctly.

Other than press releases, companies use a variety of tools for their public relations purposes, including annual reports, brochures and magazines for both employees and the public, websites, YouTube channels and LinkedIn to show good things they are doing, speeches, blogs, and podcasts. Sponsorships, product placements, and social media also generate a lot of positive PR.‡

Press Releases

Part of a company's public relations efforts includes putting a positive spin on news stories. A **press release** is a news story written by a company to promote a product, company, or person. Consider how much better a story or a product recommendation is likely to be perceived when the receiver thinks the content is from an objective third party rather than a company writing about itself. Public relations personnel frequently prepare press releases in hopes that the news media will pick them up and disseminate the information to the public.

Getting PR stories placed in the edited media such as television and newspapers is not guaranteed. The internet was a welcome 'work around' for companies. They can place the information on their own website, their branded social media such as YouTube channels, Facebook groups, or LinkedIn without having to go through intermediaries such as television and newspapers. Even Facebook has its own YouTube Channel. After the Cambridge Analytica scandal, Facebook posted a number of videos highlighting the way they use algorithms and software in a socially responsible way to manage posted content in order to prevent hate speech and fake news. More recently they have posted a series of videos debunking erroneous information about COVID and vaccination, with the intent to deflect criticism. ‡

Read the following two examples of press releases. The first story sounds like it was written by a news company, but it was created by Apple and their PR team to highlight the introduction of the new iPhone 3G.

Apple Introduces the New iPhone 3G – Twice as Fast at Half the Price

SAN FRANCISCO—June 9, 2008—Apple® today introduced the new iPhone™ 3G, combining all the revolutionary features of iPhone with 3G networking that is twice as fast as the first generation iPhone, built-in GPS for expanded location-based mobile services, and iPhone 2.0 software which includes support for Microsoft Exchange ActiveSync and runs the hundreds of third party applications already built with the recently released iPhone SDK. In the US the new iPhone 3G is priced at a stunning $199 for the 8GB model, and just $299 for the 16GB model.** iPhone 3G will be available in more than 70 countries later this year, beginning with customer availability in 22 countries, Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Italy, Japan, Mexico, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, UK and the US—on July 11.*

**Based on 3G and EDGE testing. Actual speeds vary by site conditions.*

***Based on iPhone 3G (8GB) and first generation iPhone (8GB) purchases. Requires new two year AT&T rate plan, sold separately1.*

Apple, Inc., "Apple Introduces the New iPhone 3G," http://www.apple.com/pr/library/2008/06/09iphone.html

The second press release provide an example of how a company such as Stubb's Bar-B-Q team up with Mobile Loaves & Fishes, a charity that helps feed the hungry, homeless and poor people and restock food banks around the country. These stories may be used as written or rewritten to become part of longer stories.

Stubb's Teams Up with Mobile Loaves & Fishes to Launch "Feed the World Tour"

Tuesday, May 26, 5 p.m. @ Wooldridge Park

AUSTIN—Stubb's Legendary Kitchen will kick off its 12-city "Feed the World Tour" this Tuesday, May 26 at 5 p.m. in Wooldridge Square Park, 9th and Guadalupe Streets, by serving chopped beef sandwiches with *famous Stubb's barbecue sauce to homeless and working poor people from one of Mobile Loaves & Fishes' special catering trucks, which serve people in six cities every day.*

Kurt Koegler, president of Stubb's Legendary Kitchen, will join Alan Graham, Mobile Loaves' founder/president, and volunteers from the company and MLF volunteers to serve the sandwiches and distribute Stubb's T-shirts. The Austin- based company chose Mobile Loaves as its partner to kick off the "Feed the World Tour," which is named for the stated mission of Texas Bar-B-Q legend, C.B. "Stubb" Stubblefield, who said: "I was born hungry I want to feed the world."

After leaving Austin, the tour will swing through the Southeast, up the East Coast and into Washington, D.C. where the Stubb's team will compete at the annual BBQ Battle on Pennsylvania Avenue. In each city, Stubb's Legendary Kitchen and company president Koegler will barbecue for the homeless and help restock depleted food banks.

"Stubb was a cook but more than that, a lover of people. The values that guided his life still guide the company that bears his name. Stubb's life truly is in every bottle of sauce and marinade we make. All of us at Stubb's are thrilled to be working with Mobile Loaves and bringing all of Stubb's Love and Happiness to those who all too often need it

most" said Koegler. The economy has placed greater demand on companies like Mobile Loaves and local food banks, so we couldn't think of a better time to show our support," Koegler said. "Stubb's greatest joy was feeding the people who came from all around for a taste of his famous barbecue, and it is an honor for us to fulfill his mission with our Feed the World Tour . We're honored to be selected as Stubb's charity partner for the kick-off of this awesome tour," Graham said. "As someone who once was poor and hungry, C.B. 'Stubb' Stubblefield is smiling in heaven to know that his creation is helping feed brothers and sisters on the street here in Austin and around the country. We look forward to connecting Stubb's with people on the streets here and in the other cities we serve."

http://mobileloavesandfishes.typepad.com/weblog/2009/05/stubbs-teams-up-with-mlf-to-launch-feed-the-world-tour-homeless.html

PR activities can also be used for damage control purposes. Crisis communication is the process of countering the extreme negative effects a company gets when it receives bad publicity. In 2013, Lululemon had a problem with its yoga pants stretching to the point of being see-through when in use. Chip Wilson, founder and President at the time, disagreed with the criticism and went on the offensive to defend his company.

Watch the video the company released featuring Lululemon Founder, Chip Wilson here.‡

Wilson made the situation worse with the result that women boycotted the brand and its stock price fell (Phillips, 2013). Wilson was asked to step down as Chairman in 2013 and then from the Lululemon board in 2015. Due to the fact the company had no crisis management plan, it took until 2016 and major effort at all levels of the company to repair the damage caused by Wilson. ‡

PR efforts have wide ranging applications, a critical one being when companies expand into foreign markets. Companies that move into foreign markets may be perceived negatively by locals because little is known about the company. In India, the reputation of companies is very important to workers and their families. As a result, U.S. employers recruiting in the tech industry in India often have to work hard to make their brands and products known so people will want to work for them. The companies do so via various PR efforts.

Another area wherein PR efforts may be necessary is when companies want to create awareness of the positive internal decisions they make. A company might hold a press conference to announce that it has hired new, highly sought-after executives, that it is breaking ground on a new building, or to talk about its community service projects. It may also be a way to signal that they are working on a new product or service. They may be seeking alliances, motivating the development of complementary products or encouraging their competitors to react with their own announcement before they are ready (Robertson et al., 1995). ‡

The functions of PR are not necessarily restricted to for-profit organizations. Any establishment that wants to create positive awareness or get in front of a crisis may use PR. For example, the Canadian government uses press conferences to communicate the work they are doing for citizens. In this way, they are letting citizens know what good things they are doing in the hopes that they will vote for the sitting government. Press releases can thus be used to signal to businesses and to other governments, future legislative intentions and funding available that will be used to accomplish the government's key objectives. ‡

11.2 Sponsorships

LEARNING OBJECTIVES

- Understanding sponsorships

A **sponsorship** involves paying a fee to have the company's corporate or brand name associated with different events, causes and places. Sponsorships are designed to increase brand awareness, improve corporate image among existing target markets. Below are a few examples of sponsorship opportunities:

- Places/Venues
- Imprinted on Sports Apparel
- Event
- Cause/Non-Profit
- Conference/Tradeshow

The CES trade show is the largest consumer electronics trade show. It is the place where electronics manufacturers display their latest and anticipated future technology (Figure 11.1). In addition to paying for a trade show booth and advertising through the venue, companies sponsor everything from coffee stations, food, bags, mugs, earbuds and all manner of products to create brand and corporate awareness during the show. ‡

Figure 11.1 – "Waterproof Phones and Tablets" by Kevin Krejci is licensed under CC BY 2.0

Even though sponsorships are expensive, they can be an effective way to signal a successful corporate image. In Canada, companies spent $3 billion on sponsorships in 2018. Over 50% of Canadian sponsorships was for professional sports, followed by amateur sports (18.7%), arts (11%), festivals (8.3%), and causes/non-profit (5.6%) (O'Reilly, 2019). ‡

Scotiabank Arena is an example of a sponsorship of a venue (Figure 11.2). It is the home of the Toronto Raptors of the National Basketball Association and the Toronto Maple Leafs of the National Hockey League. It was previously known as the Air Canada Centre but due to the COVID pandemic, Air Canada made the decision to stop many of their promotional efforts until travel begins to return to normal. ‡

Figure 11.2 – "File:Scotiabank Arena – 2018 (cropped).jpg" by Paperfire is licensed under CC BY-SA 4.0

Product Placement

Product placement involves placing products within a video, and are designed to generate exposure, brand awareness, and interest. Typically, a company pays a fee to have one of its products placed in the video that is produced independently from them. Given the number of exposures a company receives with product placement, the cost of a product placement can be less expensive than commercials might cost. Another benefit of product placement is that consumers are often skeptical of advertisements, whereas they tend to find independent videos more believable and trustworthy.

A well known example of a long-lasting product placement agreement is with the Audi Car Company and Marvel movies, which began in 2008 with the first Iron Man movie and continued with The Avengers, Spider-Man: Homecoming, and Captain America: Civil War (Sylt, 2019).

Although most product placements appear in television shows and movies, companies are pursuing other options. For example, they are now placing products in streamed videos, computer games, and even books. ‡

When considering a sponsorship or product placement, companies will want to consider whether the target audience of the video or vehicle is similar to the target audience that they are trying to reach and that the values of the cause, place or event are similar to the company's brand and corporate values (Bishop, 2021). ‡

11.3 Direct Promotion (Print, Online and Mobile)

LEARNING OBJECTIVES

- Understand the different types of direct promotion.
- Understand how social media can be used for advertising and information.

Direct promotion involves the delivery of personalized and often interactive promotional materials to individual consumers via companies or devices such as postal mail, flyers and catalogs, telephone (landline and mobile), television and computers and tablets. It relies on direct communication to individual consumers or their devices. ‡

Printed words have been used around the world for thousands of years to communicate with customers. Promoting products by phone has been used for about 70 years. By contrast, the first banner ad was placed in 1994 and the first ad on Facebook in 2006 (IAS Team, 2017). That means that understanding how to use print and telephone direct promotion and its relative effectiveness is more robust than the understanding around internet based advertising. That being said, some of the lessons learned from the pre-existing form of direct promotion are useful in understanding how consumers will react to the new types. In addition, there has been an explosion in research done around the use of the internet and social media. ‡

Figure 11.3 presents the various types of direct promotion, followed by a description of each type in alphabetical order. There are advantages and disadvantages to any form of direct promotion.

Figure 11.3 – Direct Promotional Types ‡ (created by J. McNeish) Joanne McNeish, Ryerson University CC BY-NC 4.0

Display advertising

Display ads are placed on other company's websites or social media platforms. These ads are typically used to attract customers to click on it and visit the advertising company's website. Along with email, it was one of the earliest types of internet advertising. It works to expose consumers to a new company or product. Banner ads can be static or animated, use text or images or both. Banner ads have been shown to be effective, however they operate in an environment where they must compete with editorial content as well as other banner ads. Companies must be sure to place display ads on websites that attract the target audience that the advertising company is seeking and presents relevant information to them (Lee & Ahn, 2012).‡

Catalogues

Catalogues have developed from a collection of products to the presentation of a multi-sensory experience in order to arouse emotions and to support the communication of a company's brand image and its values (Zhang, 2020). Catalogues continue to be effective due to the length of time they are kept in the home, the time consumers spend browsing them, and the way in which they activate multiple senses (McNeish, 2019; McNeish & Humphreys, 2002). Catalogue mailings have been steadily increasing since 2015 and response rates have increased by 170% from 2004 to 2018. What is particularly interesting is that this increase in response rate comes from Millennials. Those companies who have traditionally used catalogues continue to do so but even internet retailers such as Wayfair and Amazon are using print catalogues (Forte, 2016; Masters, 2018). ‡

*Figure 11.4 – **"Furniture Catalog From Mixture: Page Spread"** by JoeInSouthernCA is licensed under CC BY-ND 2.0*

Online catalogues attracted companies' attention due to the many advantages they offer to the company. They can increase the number of products that may be presented to customers, feature certain products more easily, update prices more frequently than print catalogues, and use dynamic pricing. However, the best response rates for online catalogues come when they are complemented with a print catalog (Zhang, 2020). ‡

Direct Mail

Direct Mail is both a promotional strategy and a major distribution channel for other print materials. Direct mail relies on a customer database that includes contact information, demographic, psychographic (e.g., activities, values, interests) and behavioural information (e.g., buying preferences and practices, and response to previous campaigns) (Lewis & Ling, 2016). Unlike email and mobile phone numbers, a person's name and address is available from a variety of sources. In 2019, Canada Post reported that they delivered 886 million pieces of direct mail (Canada Post, 2019). ‡

Direct Response TV

Direct Response TV refers to commercial messages asking for an immediate response via a toll-free number or a call to visit the website for more information. These may be as short as 60-seconds or as long as 30 minutes (Entrepreneur.com, n.d.). With the increase in the tools associated with online videos, Direct Response TV is not as widely used as in the past (Garduno, 2019). ‡

Email

Email is used to send promotional business information or offers to prospective or existing customers. Email has been shown to be more effective than display ads, however consumer annoyance due to the intrusion into their email account by what they perceive to be irrelevant content or too frequent mailings can reduce its effectiveness. Email is best used when the customer agrees to accept emails from the advertising company and, if possible, indicates their content preferences (Aufreiter et al., 2014; Rejón-Guardia & Martínez-López, 2014).

Flyers

Printed **flyers** are used by retailers to increase store traffic and sales (Gijsbrechhts et al., 2003; Ziliani & Ieva, 2015). They continue to be effective especially in highly competitive industries sectors such as grocery, pharmacy, and home improvement. Digital flyers are not a substitute for paper flyers in that consumers perceive them to be cumbersome and time consuming to use due to the limitations in screen size (Paige, 2012). One advantage of printed flyers is they don't require any information on the consumer or their address information. They are delivered based on publicly available neighborhood data. In this way, consumers consider them less irritating than online promotions. In 2019, Canada Post reported that they delivered 3.5 billion flyers (Canada Post, 2019).‡

Interstitials

Interstitials are full-page ad units served between screens during mobile app navigation. They present a full-screen advertisement at natural transition points such as the beginning or launch of a video or game or during natural breaks in the video or game level. While they can be effective because they get the consumer's attention, they also interrupt the consumer's intended activity which may be considered annoying by the target audience (Rejón-Guardia & Martínez-López, 2014). ‡

Search Ads

Search ads are advertisements, promotional content or company websites that appear on browsers such as Google, Bing, Firefox, or Safari when users search on keywords related to a company's products or services. The priority given to their ad or website depends on what the advertising company is willing to pay to the search engine company. The higher the position in the search, the better the click-through and conversion rates (Berman & Katona, 2013). Companies make use of different techniques such as Search Engine Optimization and Search Engine Marketing to improve the position of their content in the search engines. ‡

Social Media

Social media can be used in two ways:

- **Ad-based social media** was discussed under **Display** ads but here the focus is on advertising posted on social media platforms such as Facebook, Instagram, Twitter, LinkedIn, Instagram, TikTok to promote products or services. Ad-based social media is best for existing customers. Targeting can be done using very specific information supplied by these platforms with the result that brand messages can be developed for very small groups improving the chances of influencing them. This practice is referred to as micro-targeting. However, this practice is not without risk. Facebook and Google, in particular, have been criticized for the extensive use of content posted by users (e.g. age, gender, location their contact list, location, interests), the posts and pages they like, the device they are on when they access their account and along with the day and time of use (Goldman, 2018).‡

- **Branded social media** is when companies create and use their own social media accounts to connect the brand directly to existing customers, receive feedback from them, present content that supports their brands, and in this way create a brand community (Constantindeides, 2014). By establishing brand communities, a stronger relationship may be created between the brand and its customers. A company must do more than just place product or service focused content on branded social media. The best branded social media is focused on building customers' knowledge, inspiring them and being responsive when they want to interact with the company. ‡

An overview of the strengths and weaknesses of each of the major social media platforms can be found here.‡

One way to better understand how a company can effectively use social media accounts is to check out one of your favourite brands on several platforms such as LinkedIn, Twitter and Instagram and evaluate how well they use the strengths of each of these platforms while maintaining a consistency across the platforms (Mottola, 2020). ‡

Voice Calls and Text Messages

Voice calls are made to people's landline or mobile phones. Unfortunately, consumers tend to hold a negative attitude toward voice calls and feel even more negative toward **text** messages sent to their mobile phones. In the same way as interstitial advertising, this type of promotion interferes with consumers' activities at the convenience of the company. Consumers resent that depending on their mobile phone plan they have to pay for the call or text message and may feel that privacy has been violated (Kim, 2020). When using phone-based communication, companies should take an 'opt in' approach, that is, get the permission of the customer to text or phone them before doing so and make sure the promotional content is highly relevant to the consumer. Voice calls are most effective with existing customers. ‡

Apps

In addition to text and phone calls, mobile phones motivated the creation of software applications (apps). **Apps** are a type of software that allows consumers to perform specific tasks (GCF Global, n.d.). In 2021, there are millions of these apps available for download for most internet connected devices including computers and tablets. Those who have downloaded a retailer's app are more likely to use the app rather than a search engine. The result is they are more likely to purchase by impulse than by product features or comparison-shop. ‡

Companies make use of these apps to create a stronger relationship with their customers and a clear and unmediated view of the customers' buying patterns. For example, grocery stores such as Metro, Sobeys, Safeway, Real

Canadian Superstore, IGA, all have apps that offer location-based coupons and flyers as well as regularly purchased items, shopping lists, and recipes. When customers have given permission for the company to interact with them by downloading their app, they are signaling their interest in the company's products and services. ‡

Websites

Websites are the oldest form of internet communication by companies and are used to published content on topics of interest to consumers, influencers and other stakeholders (Hauser et al., 2009). The most effective websites will provide basic information such as contact information, imagery that supports the brand, loads quickly and is easily navigated, has a great search tool and looks and functions well on every device (Mann, 2020). ‡

Interactions between Traditional and Newer Media

Advertising effects vary by medium. Consumers process video advertising differently from text and image-based advertising, offline and online advertising. Consumers' processing interacts with the data about them available to companies. With the number of media types available to companies, they are challenged to continuously capture and integrate customer data (e.g behavioral, transactional, and preference) in order to have an accurate and complete view of the customer all the while ensuring compliance with laws, regulations and best industry practices. Moreover, access to the device or IP address doesn't guarantee the identity of the customer in the same way as the postal address or landline phone number of the past (Sullivan, 2021). When there were only a few media types, a company could use one or two media to build and maintain customer relationships. Today, companies must use and manage older and newer media types and constantly examine how the media types interact with each other, and with their brands. ‡

Social media has been found to be most effective in maintaining existing customer relationships (Lee & Bell 2013; Naylor et al., 2012). The interaction with brands on social media is stronger for non-profit groups and fashion, and least with frequently purchased or low involvement consumer goods (Schulze et al., 2014). Note that while companies are interested in a two-way dialogue with customers, many customers are much less interested (Batra & Keller, 2016) as many customers often see the value in products and services in terms of their functionality rather than other factors. Mass media are more suitable for attracting new users and driving brand penetration because they depend less on specific and detailed information about individuals in the target audience.‡

Privacy, Consumer Attitudes and Direct Promotion

Companies are concerned about adding new customers, keeping their existing customers informed, achieving revenue targets, and staying ahead of the competition. The more information companies have about customers, the better these companies believe that they can serve their customers. However, it is also important to take the privacy concerns of customers seriously. ‡

Recent research suggests that consumers are more aware of privacy issues than ever before. The Canadian Internet Registration Authority in 2020 released an overview of Canadians' views on key digital and internet policy issues. Data showed a significant drop in Canadians' willingness to disclose personal information for online content and services. In 2019, 72% of Canadians said they were willing to disclose some or little personal information in exchange for content or service. In 2020, this percentage dropped to below 40% (CIRA, 2020). In a 2020 EY Global Consumer Privacy Survey, 54% of consumers indicated that they were more conscious of the personal data shared through digital communication than they were before the COVID-19 pandemic (CS Security, 2021). Three factors are important before choosing to share personal data with a company: secure collection and storage (63%), control over what data is being shared (57%) and trust in the company collecting their data (51%).‡

In November, the Canadian government proposed new legislation, Bill C-11, the Digital Charter Implementation Act. It would enact a new privacy law for the private sector, the Consumer for Privacy Protection Act. In particular, citizens would have more control and transparency over their personal information. As of August 2021, the legislation is still being debated. ‡

11.4 Discussion Questions and Activities

REVIEW QUESTIONS

1. Why are public relations efforts funded by firms?
2. Who does the public relations for a firm?
3. Why are sponsorships becoming more popular?
4. How would you define social media?
5. What are the strengths and weaknesses of various social media platforms?

DISCUSSION QUESTIONS

1. Explain three different types of public relations tools that a company can use to generate interest in its products.
2. What types of sponsorships are becoming more

popular and why?

3. What are the risks of posting information on social media?
4. Why has the Canadian government decided to strengthen privacy laws?

ACTIVITIES

1. Create a product review or a blog for your favorite fast-food restaurant that you would like other people to see on social media. Where would you post it?

2. Write a press release about special activities your college or university is doing to help the environment or community.

3. Think about your favorite movie and explain what product placements you think would be successful. Would you change your recommended product placements if you were making recommendations for shows that appealed more to your grandparents?

4. You have been asked to put together an integrated direct marketing campaign. Make sure you included offline and online vehicles.

CHAPTER 12 - PROFESSIONAL SELLING

12.1 The Role Professional Salespeople Play

LEARNING OBJECTIVES

- Recognize the role professional selling plays in society and in marketing strategies.
- Identify the different types of sales positions.

"Nothing happens until someone sells something," is an old saying in business. But in reality, a lot must happen before a sale can be made. Companies count on their sales teams not only to sell products but to the lay the groundwork to make it happen. However, salespeople are expensive. Often, they are the most expensive element in a company's overall marketing investments. As a result, they have to generate business in order to justify a company's investment in them.

What Salespeople Do

Salespeople act on behalf of their companies for doing the following:

- Creating value for their company's customers
- Managing relationships
- Relaying customer and market information back to their company

In addition to acting on behalf of their company, sales representatives also act on behalf of their customers. Whenever a salesperson goes back to their company with a customer's request, be it for quicker delivery, a change in a product feature, or a negotiated price, they are voicing the customer's needs. Their goal is to help the buyer purchase what serves the buyer's needs the best.

Salespeople also face conflicts within their companies. When a salesperson tells a customer that a product will be delivered in three days, they have made a promise that will either be kept or broken by their company's shipping department. When the salesperson accepts a contract with certain terms, they have made a promise to the customer that will either be kept or broken by their company's credit department. What if the credit department and shipping department can't agree on the shipping terms the customer should receive? Which group should the salesperson side with? What if sales managers want the salesperson to sell enterprise software that still has unresolved problems? Should the salesperson still work hard to sell it? Situations such as these create **role conflicts**. A role conflict occurs when the responsibility that a salesperson has toward their company and customers, deviate. In general, salespeople handle conflicting expectations well.

Creating Value

Consider the following situations:

- A cardiac surgeon with a high-risk patient is wondering

what to do. The physician calls the salesperson to get his input on how to handle the situation. The salesperson recommends the appropriate pacemaker and offers to come to the hospital in order to be able to answer any questions that might arise during the surgery.
- A food wholesaler is working overtime to prepare invoices. Unfortunately, one out of five has a mistake. The result is that customers don't get their invoices in a timely fashion, so they don't pay quickly and don't pay the correct amounts. Consequently, the company has to borrow money to fulfill its payroll obligations. A salesperson recommends the wholesaler purchase an electronic invoicing system. The wholesaler does. Subsequently, it takes the wholesaler just days to get invoices ready, instead of weeks. In addition, instead of the invoices being only 80% accurate, they are close to being 100% accurate. The wholesaler no longer has trouble meeting its payroll because customers are paying more quickly.
- Sanderson Farms, a chicken processor, wants to build a new plant near Tyler, Texas. The chambers of commerce for several towns in the area compete for the project for the project by offering various incentives. The chamber representative from Tyler works hard to create a package of incentives that is attractive to Sanderson Farms. They locate an enterprise zone that reduces the company's taxes and work with a local banker to get the company better financing. In addition, the rep gets a local technical college involved so that Sanderson will have enough trained employees. These factors create a unique package that sells the company on setting up shop in Tyler.

Salespeople can adapt the offering or they can adapt how they present the offering so that it is easier for the client to understand and make the right decision. Adapting a message or a product on the fly isn't something that can be easily accomplished except in-person or on the phone. The ability to engage in dialogue helps salespeople better understand their customers and their needs, and then create valuable solutions for them.

Managing Relationships

Because their time is limited, sales representatives have to decide which accounts they have the best shot at winning and which are the most lucrative. Once a salesperson has decided to pursue an account, a strategy is devised and implemented, and if a sale happens, the salesperson is also responsible for ensuring that the offering is implemented properly and to the customer's satisfaction.

Salespeople recognize that business is not about making friends, but about making and retaining customers. Although buyers tend to purchase products from salespeople they like, being liked is not enough. Salespeople have to ensure that they close the deal with the customer. They also have to recognize that the goal is not to just close one deal, but as many deals from that company as possible.

Gathering Information

Salespeople are **boundary spanners** in that they operate outside the boundaries of the company and in the field. As such, they are the first to learn about what competitors are doing. An important function for them, then, is to report back to headquarters about their competitors' new offerings and strategies. Similarly, salespeople interact directly with large business customers and in so doing gather useful information about their needs. The salespeople can pass the information back to their companies, in order to create new offerings and adjust their current offerings. Many companies use customer relationship management (CRM) software such as Salesforce.com to provide a mechanism for salespeople to enter customer data. The data can be retrieved by others, whose role is to synthesize the information and create actionable plans from the feedback provided by the salespeople.

Types of Sales Positions

There are different ways to categorize salespeople. They can be categorized by the customers they work with, such as whether they are individual consumers, other businesses, or government institutions. Another way to categorize salespeople is by the size of their customers or by their major sales activity which is to make sales by calling on customers.

A **missionary salesperson** calls on people who make decisions about products (but don't actually buy them). While they call on individuals, the relationship is business-to-business. For example, a pharmaceutical representative might call on a physician to provide the doctor with clinical information about a medication's effectiveness. The salesperson hopes the doctor will prescribe the drug. Patients, not doctors, actually purchase the medication. There are salespeople who also work with "market influencers." In the example of pharmaceutical reps calling on doctors, they may want to publish articles in medical journals or have experts speak at conferences about the efficacy of the drug.

A **trade salesperson** is someone who calls on retailers and helps them display, advertise, and sell products to consumers. A trade salesperson may call on a major supermarket chain such as Walmart for a company that makes barbecue sauces, rubs, marinades, and other barbecuing products. The salesperson makes suggestions about how their products could be priced, placed in stores so they will sell faster and may even develop ads and fliers featuring the company's products.

A **prospector** is a salesperson whose primary function is to find prospects, or potential customers. The potential customers have a need, but for any number of reasons, they are not actively looking for products to meet those needs, perhaps because they lack information about where to look for them or simply haven't had the time to do so. Prospectors often knock on a lot of doors and make a lot of phone calls, which is called *cold calling* because they do not know the potential accounts and are therefore talking to them "cold." Their primary job is to sell, but the activity that drives their success is prospecting. In some business-to-business situations, the prospector finds a prospect and then turns it over to another salesperson to close the deal. Alternatively, the prospector may take the prospect all the way through the sales process and close the sale.

Account managers are responsible for managing the ongoing business with customers as a way to identify new opportunities within the company. Account managers have to identify lead users (people likely to use new, cutting-edge products) and build relationships with them. Lead users are in a good position to help improve a company's offerings or develop new ones.

There are other types of salespeople who do not actively solicit business: order takers and sales support. Order takers close sales while sales support do not.

Order takers include retail sales clerks and salespeople for distributors of products, like plumbing supplies or electrical products, who sell to plumbers and electricians. Other order takers may work in a call center, taking customer sales calls over the phone or online when customers initiate contact. Such salespeople carry sales quotas and are expected to achieve those sales numbers.

Sales support works with salespeople to help make a sale and to take care of the customer after the sale. For example, sales support may help salespeople price projects and prepare bids and proposals.

12.2 Customer Relationships and Selling Strategies

LEARNING OBJECTIVES

- Understand the types of selling relationships that companies seek.
- Be able to select the selling strategy needed to achieve the desired customer relationship.

Customer Relationships

Some buyers and sellers are more interested than others in building strong relationships with each other. Generally speaking, however, all marketers are interested in developing strong relationships with large customers. Why? Because serving one large customer can often be more profitable than serving several smaller customers even when the large customer receives quantity discounts. Serving many small customers, calling on them, processing their orders, and dealing with any complaints is time consuming and costs money. Big box retailers such as Home Depot and Best Buy are examples of large customers to whom companies want to sell because they expect to make more profit from bigger sales orders.

Marketers also want strong relationships with customers who are innovative, such as lead users. Similarly, marketers seek out customers with status or customers who are recognized by others for having expertise. For example, Holt Caterpillar is a Caterpillar construction equipment dealer and is recognized among Caterpillar dealers for its innovativeness. Customers such as Holt influence others. When Holt buys or tries something new and it works, other Cat dealers are quick to follow. Some companies are reaching out to opinion leaders in an attempt to create stronger relationships. For example, JCPenney uses e-mail and Web sites to form relationships with opinion leaders who will promote its products.

Salespeople are also tasked with maintaining relationships with market influencers who are not their customers. Professors who teach data warehousing influence future decision makers, whereas consultants and market analysts influence today's decision makers.

Types of Sales Relationships

Think about the relationships you have with your friends and family. Most relationships operate along a continuum of intimacy or trust. The more you trust a certain friend or family member, the more you share intimate information with the person, and the stronger your relationship is. The relationships between salespeople and customers are similar to those you have, which range from acquaintance to best friend (see Figure 12.1).

Figure 12.1 – The Relationship Continuum This image is from Principles of Marketing by University of Minnesota and is licensed under a Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License.

Business relationships range from transactional, or one-time purchases, to strategic partnerships that are often likened to a marriage. From the seller's perspective, the motivation to relate is a function of an account's size, innovation, status, and total lifetime value.

At one end of the spectrum are *transactional relationships*; each sale is a separate exchange, and the two parties have little or no interest in maintaining an ongoing relationship.

Functional relationships are limited, ongoing relationships that develop when a buyer continues to purchase a product from a seller out of habit, as long as their needs are met. MRO (maintenance, repair, and operations) items, such as bolts used to repair manufacturing equipment, are often sold on the basis of functional relationships. There are small price, quality, and service differences associated with the products. By sticking with the product that works, the buyer reduces his costs.

Affiliative selling relationships are more likely to occur when the buyer needs a significant amount of expertise from the seller and trust is an issue.

A *strategic partnership* is one in which both the buyer and seller commit time and money to expand the market for both parties. For example, Pratt & Whitney manufactures the engines that Boeing uses in the commercial planes it makes. Both companies work together to advance the state of engine technology because it gives them both an edge. Every time Boeing sells an airplane, Pratt & Whitney sells one or more engines. A more fuel-efficient or faster engine can mean more sales for both companies. As a result, the engineers and other personnel from both companies work very closely in an ongoing relationship.

Going back to the value equation, in a transactional relationship, the buyer calculates the value gained after every transaction. As the relationship strengthens, value calculations become less transaction oriented and are made less frequently. There will be times when either the buyer or the seller engages in actions that are not related directly to the sale but that make the relationship stronger. For example, a Pratt & Whitney engineer may spend time with Boeing engineers to educate them about a new technology. No specific sale may be influenced, but the relationship is made stronger by delivering more value.

Note that these types of relationships are not a process—not every relationship starts at the transactional level and moves through functional, affiliative, and finally strategic. Nor is it the goal to make every relationship a strategic partnership.

Selling Strategies

A salesperson's selling strategies will differ, depending on the type of relationship the buyer and seller either have or want to move toward. There are essentially four selling strategies: script-based selling, needs-satisfaction selling, consultative selling, and strategic partnering.

Script-Based Selling

Salespeople memorize and deliver sales pitches verbatim when they utilize a **script-based selling** strategy. Script- based selling is also called *canned selling*. The term "canned" comes from the fact that the sales pitch is standardized, or "straight out of a can."

Script-based selling works well when the needs of customers don't vary much. Even if they do, a script can provide a salesperson with a polished and professional description of how an offering meets each of their needs. The salesperson will ask the customer a few questions to uncover their need, and then provides the details that meet it as spelled out in the script. Scripts also ensure that the salesperson includes all the important details about a product.

Needs-Satisfaction Selling

The process of asking questions to identify a buyer's problems and needs and then tailoring a sales pitch to satisfy those needs is called **needs-satisfaction selling**. This form of selling works best if the needs of customers vary, but the products being offered are fairly standard. The salesperson asks questions to understand the needs, and follows this by presenting a solution. The method was popularized by Neil Rackham, who developed the SPIN selling approach. SPIN stands for situation questions, problem questions, implications, and needs-payoff, four types of questions that are designed to fully understand how a problem is creating a need. For example, you might wander onto a car lot with a set of needs for a new vehicle. Someone else might purchase the same vehicle, but for an entirely different set of reasons. Perhaps this person is more interested in the miles per gallon, or how big a trailer the vehicle can tow, whereas you are more interested in the vehicle's style and the amount of legroom and headroom it has. The effective salesperson would ask you a few questions, determine what your needs are, and then offer you the right vehicle, emphasizing those aspects that meet your needs best. The vehicle's miles per gallon and towing capacity wouldn't be mentioned in a conversation with you because your needs are about style and room.

Consultative Selling

Needs-satisfaction selling and consultative selling may seem the same, however the key difference between the two is the degree to which a customized solution can be created. With **consultative selling**, the seller uses special expertise to solve a complex problem in order to create a somewhat customized solution. For example, Schneider-TAC is a company that creates customized solutions to make office and industrial buildings more energy efficient. Schneider-TAC salespeople work with their customers over the course of a year or longer, as well as with engineers and other technical experts, to produce a solution.

Strategic-Partner Selling

When the quality of the relationship between the buyer and seller moves toward a strategic partnership, the selling strategy gets more involved than even consultative selling. In **strategic-partner selling**, both parties invest resources and share their expertise with each other to create solutions that jointly grow one another's business.

Choosing the Right Sales Strategy for the Relationship Type and Selling Stage

The sales-strategy types and relationship types we discussed don't always perfectly match up as we have described them. Different strategies might be more appropriate at different times. For example, although script-based selling is generally used in transactional sales relationships, it can be used in other types of sales relationships as well, such as affiliative-selling relationships. An affiliative-sales position may still need to demonstrate new products, a task for which a script is useful. Likewise, the same questioning techniques used in needs-satisfaction selling might be used in relationships characterized by consultative selling and strategic-partner selling.

The typical sales process involves several stages, beginning with the pre-approach and ending with customer service. In between are other stages, such as the needs-identification stage (where you would ask SPIN questions), presentation stage, and closing stage (Figure 12.2).

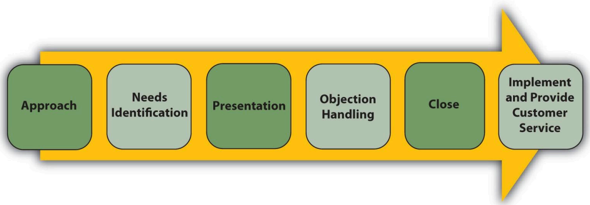

Figure 12.2 – The Typical Sales Process This image is from Principles of Marketing by University of Minnesota and is licensed under a Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License.

The pre-approach is the planning stage. During this stage, a salesperson may use LinkedIn to find the right person to call and to learn about that person. In addition, a Google search may be performed to find the latest news on the company, while a search of financial databases, such as Standard & Poor's, can provide additional news and information. A salesperson may also search internal data in order to determine if the potential buyer has any history with the company. Note that such extensive pre-call planning doesn't always happen; sometimes a salesperson is literally just driving by, sees a potential customer, and decides to stop in. Most pre-call planning can be accomplished through digital resources.

In this approach, the salesperson attempts to capture enough of the prospective customer's attention and interest in order to continue the sales call. If it is a first-time call, introductions are needed. A benefit that could apply to just about any customer may also be offered to show that their time will be worthwhile. In this stage, the salesperson is attempting to convince the buyer to spend time exploring the possibility of a purchase.

A typical sales process starts with the pre-approach and moves through several stages to the close. Good salespeople follows up after closing the sale by making sure the customer gets the product, uses it right, and is happy with it.

After approaching the potential buyer, the salesperson then moves into a needs identification section if the potential buyer permits it. In complex situations, many questions are asked, perhaps over several sales calls. These questions will follow the SPIN outline or a similar technique. Highly complex situations require that questions be asked to many people in the buying company. In simpler situations, needs may not vary across customers so a prepared presentation may be more likely. When prepared presentation is implemented, it means that instead of identifying needs, the salesperson simply lists potential needs and describes their solutions.

A presentation is then made that shows how the offering satisfies the needs identified earlier. One approach to presenting solutions uses statements that correspond to *FEBA*. The FEBA acronym stands for Feature, Evidence, Benefit (Objection), and Agreement. The salesperson says something like, "This camera has an automatic zoom [Feature]. If you look at the viewfinder as I move the camera, you can see how the camera zooms in and out on the objects it sees [Evidence]. This zoom will help you capture those key moments in the teams' games that you were telling me you wanted to record and post on your social media account and send to alumni donors [Benefit]. Won't that add a lot to your donor campaigns [Agreement]?"

Note that the *benefit* was tied to something the customer said was important. A benefit only exists when something is satisfying a need. The automatic zoom would provide no benefit if the customer didn't want it. *Objections* are concerns or reasons not to continue that are raised by the buyer, and can occur at any time. A prospect may object in the approach, saying there isn't enough time available for a sales call or nothing is needed right now. Salespeople should probe to find out if the objection represents a misunderstanding or a hidden need. Further explanation may resolve the buyer's concern or there may need to be a trade-off.

When all the objections are resolved to the buyer's satisfaction, the salesperson should ask for the sale. Asking for the sale is called the *close*, or a request for a decision or commitment from the buyer. In complex selling situations that require many sales calls, the close may be a request for the next meeting or some other action. When the close involves an actual sale, the next step is to deliver the goods and make sure the customer is happy.

There are different types of closes. The first on the list is clearly a clear and direct ask for the sale whereas the second two assume that the customers will say yes. Psychologically it can be more difficult to respond by not agreeing to the sale than when the direct request is used.

- Direct request: "Would you like to order now?"
- Minor point: "Would you prefer red or blue?" or "Would you like to view a demonstration on Monday or Tuesday?"
- Summary: "You said you liked the color and the style. Is there anything else you'd like to consider before we complete the paperwork?"

When done properly, closing is a natural part of the process and a natural part of the conversation.

12.3 Sales Metrics (Measures)

LEARNING OBJECTIVES

- Describe the sales funnel.
- Understand the selling metrics that salespeople use.
- Understand the selling metrics that sales managers and executives use.

The Sales Funnel

A key component in the effectiveness of salespeople is the sales Funnel cycle. The **sales funnel** can be measured in steps, in days, or in months. It is shown as a sales funnel because there are more potential customers at the beginning of the process (leads), than at the end (customers).

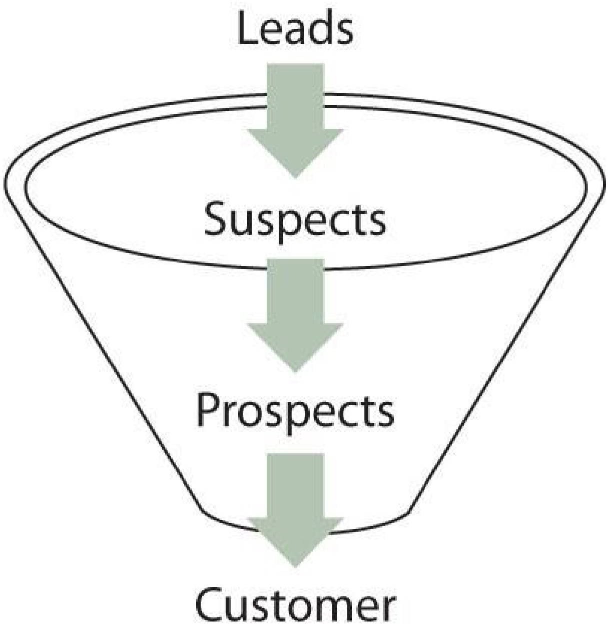

Figure 12.3 – The Sales Funnel This image is from Principles of Marketing by University of Minnesota and is licensed under a Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License.

The cycle starts with a **lead**, which is often nothing more than contact information of someone who might be interested in the salesperson's product. To follow up on the lead, the salesperson might phone or drop by to see the person identified in the lead. This stage of the sales process is called the **approach**. During the approach, the salesperson introduces themselves and their company to the buyer. If the buyer shows interest, the salesperson then moves to the next step in the sales process.

A **suspect** is a person or company that seems to have an interest in an offering, but it is too early to tell what or if they are going to buy. They've agreed to meet with the salesperson and will possibly listen to the sales script or participate in a needs-identification process. During the needs-identification stage, the salesperson is trying to qualify the account as a **prospect**. **Qualifying** a prospect is a process of asking questions to determine whether the buyer is likely to become a customer. A prospect is someone with the **B**udget, Authority, **N**eed, and **T**ime **(BANT)** to make a purchase. In other words, the person has the money to make the purchase and the authority to do so; the person also needs the type of product the salesperson is selling and is going to buy such a product soon.

Once the purchase has been made, the sales cycle is complete. If the relationship between the company and the buyer is one that will be on-going, the buyer is considered one of the salesperson's "accounts." Note that the buyer made a decision each step of the way in the cycle, thereby moving further down the funnel. She decided to consider what the salesperson was selling and became a suspect. She then decided to buy something and became a prospect. Lastly, she decided to buy the salesperson's product and became a customer.

Metrics Used by Salespeople

Salespeople are evaluated on the *revenue* they generate. Sometimes the average revenue generated per customer and the average revenue generated per sales call may be measured to determine if a salesperson is pursuing customers that are the most lucrative. How many prospects and suspects a salesperson has in the pipeline are two other measures. The more potential buyers there are in the pipeline, the more revenue a salesperson is likely to generate.

Conversion ratio is important metric. **Conversion ratio** measures how good a salesperson performs at moving customers from one stage in the selling cycle to the next. For example, a 10:1 ratio could mean it took ten leads for a salesperson to get one suspect agreeing to move to the next step. This is measured at each stage of the funnel. Their conversion ratios also tell them how many sales calls they have to make each day or week to generate a sale and how many calls must be made on leads, suspects, and prospects to convert them.

The number of sales calls of each type a salesperson has to make in a certain period of time is called **activity goals**. Activities and conversions drive sales (Figure 12.4). More calls translate into more conversions, and more conversions translate into more sales.

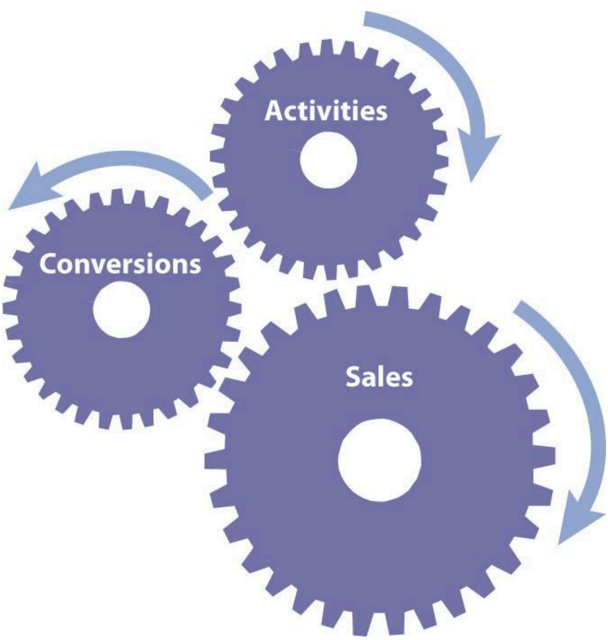

Figure 12.4 – How Activities and Conversions Drive Sales This image is from Principles of Marketing by University of Minnesota and is licensed under a Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License.

A **win-loss analysis** is an after the sales opportunity review of how well a salesperson performed. Each sales opportunity after the customer has bought something or not is examined to determine what went right or wrong. When several professionals are involved in the selling process, a win-loss analysis can be particularly effective because it helps the sales team work together more effectively in the future. When the results are fed to managers, the analysis can help a company develop better products. A marketing manager who listens carefully to what salespeople say during a win-loss analysis can develop better advertising and marketing campaigns. Communicating the same message to the entire market can help shorten the sales cycle for all a company's salespeople.

Another important metric used by many salespeople is how much money they will make. Most salespeople are paid some form of incentive pay, such as a bonus or commission, which is determined by how much they sell. A **bonus** is paid at the end of a period of time based on the total amount sold, while a **commission** is typically a percentage of, or dollar amount paid on each sale. A bonus plan can be based on how well the company, the individual salesperson, or the salesperson's team does. Some salespeople are paid only on the basis of commission, but most are paid a salary plus a commission or a bonus.

Commissions are more common when the sales cycle is short and selling strategies are more transactional than relationship oriented. Perhaps one exception is financial services. Many financial services salespeople are paid a commission but expected to also build a long-lasting relationship with clients. Some salespeople are paid only a salary. These salespeople sell very expensive products that have a very long sales cycle. If they were only paid on commission, they would starve before the sale was made. They may get a bonus to provide some incentive, or if they receive a commission, it may be a small part of their overall compensation.

Metrics Used by Sales Managers

The sales manager is interested in all the same metrics as the salesperson, plus others. Sales managers may use sales cycle metrics to make broader decisions. Perhaps everyone needs training in a particular stage of the sales process, or perhaps the leads generated by marketing are not effective, and new marketing ideas are warranted. Sales cycle metrics at the aggregate level can be very useful for making effective managerial decisions.

Sales managers also look at other measures such as how much of the market is buying from the company versus its competitors; sales by product or by customer type; and sales per salesperson. Sales by product or by product line, especially viewed over time, can provide the sales executive with insights into whether a product should be divested or needs more investment.

The time of year and sales data comparing one period to the next. If the company's sales are declining, is it because of the season (e.g. more winter boots are sold to stores for consumers to buy in the Fall and Winter) or does it have a serious, ongoing problem (e.g. sales are down compared to the previous year)?

Sales managers are also continuously reviewing how the company's sales are doing relative to what was forecast, or estimated to occur. Forecasts turn into **sales quotas** (i.e. minimum levels of sales performance). In addition, forecasts turn into orders for raw materials and component parts, inventory levels, and other expenditures of money. Poor forecasts can be problematic for the company whether they are higher or lower than forecasted. In the case of higher than forecasted sales, the company will lose money because they will run out of products before they can restock them. In the case of lower than forecasted sales, the company will increase costs built up inventories and are storing products are not selling quickly enough or at all.

Sales managers don't just focus on sales, though. They also focus on *costs*. Why? Costs are associated with profit. If the company spends too little, sales and profits may fall. If the trade show budget is cut for example, the quantity and quality of leads salespeople get could fall and so could their sales. However, if the company spends too much on trade shows, the cost per lead generated increases, with potentially no real improvement in sales.

Customer satisfaction is another important metric. Salespeople and their bosses want satisfied customers. Dissatisfied customers not only stop buying a company's products, they often tell their friends and family members about their bad purchasing experiences. Consumers may post bad product reviews on websites such as Google Reviews. In the case of large business customers, word of mouth is common and a customer being unwilling to provide a referral to another company, is a way to measure customer dissatisfaction.

12.4 Ethics in Sales and Sales Management

LEARNING OBJECTIVES

- Compare and contrast common ethical challenges facing salespeople and sales managers.
- Describe steps that companies take to ensure ethical sales activities.

Common Ethical Issues for Salespeople

What are the most common ethical issues facing salespeople? Here are some common situations salespeople face:

- A customer asking for information about one of their competitors. The competitor happens to be one of their current customers
- Deciding how much to spend on holiday season gifts for customers
- A buyer asking for something special, which they could provide but are not supposed to give away

In the first issue, a customer owns the information about their business. The salesperson may hold that information, such as how many cases of the product they purchase or who their customers are, but they do not have the right to share that information with the customer's competitor. More often than not, a buyer may ask the seller to sign a nondisclosure agreement because, in order to serve the buyer, the seller will gain access to important private information about that buyer.

In the second, the concern is whether the gift is so extravagant that it is considered a bribe. In some companies buyers are not allowed to accept anything (even a free coffee) from a seller. These companies do not want buyers to receive any gifts because they want every vendor to have free access to sales opportunities and earn the business on their merits, not their freebies.

The third presents an interesting dilemma for salespeople. Customers may not know that while their request may seem reasonable to them, it is against company policy. In that instance, the salesperson should not follow through on the request or alternatively work to get the policy changed.

Company Safeguards

As in many other areas of the company, sales policies should be based on the company's mission and values and state clearly what is acceptable and what is not. Not all ethical dilemmas can be listed in a policy, so by detailing the principles and values that make up the reasoning behind the policies, salespeople and sales managers will be more prepared to respond appropriately.

Companies should have solid policies, easily available documentation on policies and procedures, and training for all employees on those policies to protect themselves. One reason for such training is to secure greater support and application of the policy, but another reason is that, should a salesperson engage in an unethical or illegal activity, the company is legally protected.

The company must also enforce the policy and have procedures in place. Companies should have a mechanism for reporting unethical activity in a way that protects the person making the report. A common practice is to have an ethics office, charged with investigating any complaints. Companies should also have internal auditing procedures to detect misconduct.

Challenges Facing Sales Managers

Sales managers face the same challenges that all managers face. These include ensuring that hiring, compensation, and other management practices are not discriminatory; and that employees are treated with dignity and respect.

12.5 Integrating Sales and Marketing

LEARNING OBJECTIVES

- Identify the ways in which the marketing function supports the sales function.
- Describe how the sales group of a company can support its marketing efforts.

Often sales and marketing departments approach the company's customers with different perspectives. The key is to work together to achieve the best results for the company. A company's sales and marketing groups should work together.

Marketing Shortens the Sales Cycle

A company's marketing activities include developing products and services that meet the customers needs, price it appropriately and ensure that it is consistently available to the business customers, along with creating advertising and promotional campaigns, participating in trade shows, and preparing collateral.

Collateral is specific printed or digital material created for salespeople to use to support their sales calls. It can consist of print or online brochures, position papers, case studies, clinical studies, market studies, and other documents. Although a pharmaceutical rep selling a drug might claim it works faster than competing medications, a clinical study would carry more weight. If such a study existed, the pharmaceutical company's marketing department would prepare a brochure or white paper to give to doctors that highlight those findings.

Brand awareness opens doors for salespeople. When a salesperson does come by from a well-known company, the businessperson is far more likely to be courteous and listen, however briefly, to see if there is some value in continuing the conversation.

Marketing professionals also support salespeople by providing them with lead management. **Lead management** is the process of identifying and qualifying leads in order to grow new business. **Closed-loop lead management systems** are information systems that are able to track leads all the way from the point at which the marketer identifies them to when they are closed. Figure 12.5 illustrates the process and shows how marketing groups use the information to evaluate which of their activities are earning their companies the biggest bang for their buck.

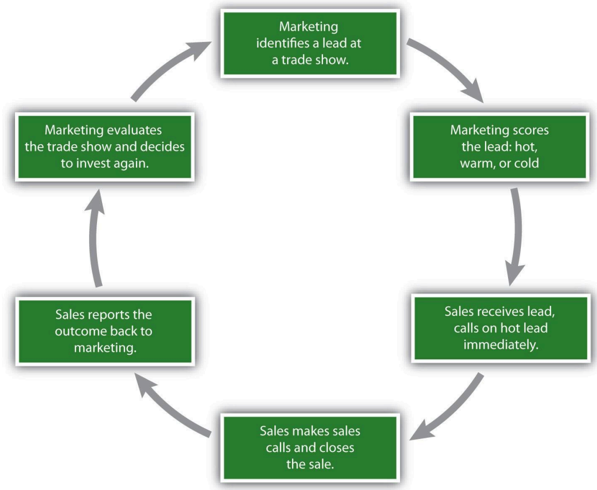

Figure 12.5 – How a Closed-Loop Management System Works This image is from Principles of Marketing by University of Minnesota and is licensed under a Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License.

A closed-loop lead management system can result in better investment decisions for marketing managers because they can learn what marketing actions shorten sales cycles and create more sales.

Unfortunately, many companies lack such a system. Closing the loop (meaning closing the feedback loop to marketing) gives the marketing department insight into what works and what doesn't.

Marketing Improves Conversion Ratios by Scoring Leads

Marketing departments also help their company's salespeople improve their conversion ratios by scoring the leads they send them. **Lead scoring** is a process by which marketing personnel rate the leads to indicate whether a lead is hot (ready to buy now), warm (going to buy soon), or cold (interested but with no immediate plans to buy). As you can imagine, someone who has had a conversation at a trade show with a company representative, seen a demonstration, and answered questions about her budget, authority, need, and time, is close to being a prospect already. The more hot leads you put into the sales cycle, the more conversions to prospects and customers you can expect.

Lead scoring is not just a function of asking questions, however. A potential customer who visits a company's website, downloads a case study about how a product solved certain problems, and then signs up to get a link to watch an online demo of the offering has shown a significant amount of interest in the product. The buyer's behavior, though, indicates a strong interest, a much stronger interest than someone who just visited the website.

When should marketing pass a lead on to sales? If the lead was generated at a trade show, then the salesperson should get the lead immediately. The people and companies designated in leads generated through other means, could be targeted to receive additional promotional messges before being passed along to a salesperson. Closed-loop lead management systems provide marketing managers with the information they need to know when to pass the lead along.

What Sales Does for Marketing

Without the help of their company's salespeople, marketers would be at a serious disadvantage in their understanding of business customers.

Salespeople Communicate Market Feedback from Individual Customers

Salespeople are responsible for voicing their customers' ideas and concerns to the company. Large management consulting companies engage in projects with clients that cost hundreds of thousands of dollars, if not millions. After each sale is concluded, the account management team reviews the process in excruciating detail, win or lose. Questions such as "Did we have the right information to give to the client at the right time?" or "Were our offerings aligned with their needs?" are answered. After the review, executives decide whether the company needs to create new offerings, produce additional marketing material to support it, or follow up on any other ideas generated by the review.

While Customer Relationship Management software is important to track and maintain information about customers, spending time with real customers adds another dimension to the information. Marketers who create promotional communication for tradeshows could speak to salespeople to determine which messages are effective.

Changing the offering can be another outcome of what occurs when salespeople convey information provided by their customers to their company. Perhaps customers are asking for additional product features, faster delivery, or better packaging to reduce the number of damaged products shipped or to meet their environmental sustainability commitments. Many companies are reducing their use of plastic however, the product still need packaging. Coca Cola announced the testing of a paper bottle as packaging instead of plastic developed in conjunction with packaging companies.

Salespeople Monitor the Competition for Large Customers

Salespeople also track the actions of their competitors, what customers buy, and enter the information into their companies' CRM systems. When marketing managers examine the marketing and sales efforts of their competitors, they are looking for the competitors' weak spots and strengths. The weak spots can be capitalized on, whereas the strengths need to be minimized.

More specifically, marketing managers need to know which companies are the strongest competitors based on the percentage of deals they win. Knowing this information can help a company analyze its own competitive strengths and weaknesses and develop better marketing messages, sales strategies, offerings, or a combination of the three. Marketing managers also want to know against which competitors the sales force most frequently finds itself competing. If prospects consider the same competitor's product relative to your product, then the competitor's marketing and sales efforts may be very similar to yours. In this case, you might need to develop some countertactics your salespeople can use to eliminate the competitor's product from the prospect's consideration set. Those tactics could include focusing on certain features only your product has or helping your buyers feel secure in the purchase by pointing out how long you have been in business.

12.6 Discussion Questions and Activities

REVIEW QUESTIONS

1. Salespeople play three primary roles. What are they?
2. Salespeople create value in what two ways?
3. How does each type of salesperson create value?
4. How does each sales strategy vary?
5. Which step of the sales process is most important and why? How would the steps of the sales process vary for each type of sales position?
6. How might the sales cycle vary across the types of sales positions? How do salespeople use the sales cycle to manage their performance?
7. What is the relationship between conversion ratios and activity goals? How do salespeople use this information? How do sales managers use the information?
8. What marketing activities support salespeople, and how does that support help them? Be specific.
9. What do salespeople do to support marketing

managers? Be specific.

10. What is a closed-loop lead management and what are its benefits to salespeople?

DISCUSSION QUESTIONS

1. As a customer, would it be important for you to know how your salesperson was paid? Why or why not?
2. Should salespeople be responsible for handling customers' complaints or should customers be asked to contact someone else? Explain your answer.
3. What impact would a service-dominant logic approach have on how you develop a sales strategy?
4. Assume you sell plumbing supplies via a distributor that sells to retailers.
    1. What can you, as the manufacturer's sales representative, do to shorten the distributor's sales cycle? To improve its conversions?
    2. Assume you are the distributor and you have five salespeople working for you. Two call on plumbing companies and large construction companies at job sites, whereas

the other three work as salespeople in your warehouse to handle walk-in customers. What can you do with marketing to shorten the sales cycle of each group? How might your efforts affect the performance each group differently?

5. Assume you invented a new plastic-recycling technology that allows plastic products to be manufactured much more cheaply. When you talk to manufacturers, though, they are skeptical because the new method is so radically different from any technology they have ever used before.

    1. What do you think the sales cycle for the technology would look like? What would the most important step of the sales cycle be? Why?
    2. What type of sales force would you utilize and why?
    3. What marketing activities (product, price, place and promotion) could help you shorten the sales cycle and how?

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