Principles of Marketing

Kotler & Armstrong: Principles of Marketing, 9th edition

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1 Marketing in a Changing World

1.1 Marketing Model – Core concepts

Marketing	**Five core concepts**
	– Needs, wants, demands
	– Products and services
	– Value, satisfaction, quality
	– Exchanges, transactions, relationships
	– Markets
	Definition of marketing
	– **A social and managerial process whereby individuals and groups obtain what they need and want through creating and exchanging products and value with others**
	– Simple definition
	  – Deliver customer satisfaction at a profit
	  – By: (1) attracting new customers by promising superior value, and (2) keep current customers by delivering satisfaction
	Scope of marketing
	– Book has a broad scoping: R&D, communcation, distribution, pricing, service
	– Also buyers carry on marketing activities – e.g. by searching for goods
	Main elements of a modern marketing system – value added in steps
	– Suppliers
	– Company (marketer) + competitors
	– Marketing intermediaries
	– End user market

Needs, wants, demands	**Needs** – States of felt deprivation, part of human makeup – Physical and social needs **Wants** – The form needs take (e.g. food => hamburger) – Shaped by culture and personality **Demands** – When wants are backed by buying power
Products and services	**Products** – Anything that can be offered to satisfy a need or a want – Physical products, services, experiences, persons, places, organizations, information, ideas – Example: “smoking is bad” idea can be a product, a person can be a product in an election – Aka: satisfier, resource, marketing offer **Services** – Just one kind of a product

Value, satisfaction, quality	**(Customer) Value** – Difference between “value gained by owning and using a product” and “cost of obtaining the product” – Value gained not necessarily monetary – Similarly cost of obtaining not necessarily monetary – Customers act on **perceived value** [and **perceived cost**] **(Customer) Satisfaction** – Perceived performance relative to expectations **Quality** – Closely related to satisfaction – Narrow definition: no defects – Broad definition: ability to satisfy customer needs [circular definition!]
Exchange, transactions, relationships	**Exchange** – Obtaining a desired object from someone by offering something in return – Offerings could be money, product, service, ... **Transaction** – A trade of values between two parties; **marketing's unit of measurement**! – Monetary transactions and barter transactions **Relationship (Marketing)** – Going beyong short term transactions – Long-term relationships with valued customers, partners, etc – **Marketing network** – company and all its supporting stakeholders
Markets	**Market – Economist's definition** – Place (virtual or physical) where buyers and sellers meet **Market – Marketer's definition** – The set of **actual and potential buyers** of a product – The sellers of a product are labeled as the “industry” **Industry – Marketer's definition** – The sellers of a product

1.2 Marketing management

What is marketing management	Book definition – Analysis, planning, implementation, and control of programs designed to – ... create, build, and maintain beneficial exchanges with target buyers – ... for the purpose of achieving organizational objectives = Finding and increasing (sometimes decreasing) demand = **Demand management**
Demarketing	To shift or reduce demand, not destroy it

Profitable customer relationships	Two categories of demand – New customers – Repeat customers Traditional focus – attract new customer, transactions Modern focus – retain **profitable** customers, build lasting relationships Customer lifetime value of a Taco Bell customer > $12,000 !

Practice	Three stages
	– **Entrepreneurial marketing**
	    – Individuals who live by their wits, knock on doors etc
	– **Formulated marketing**
	    – Marketing department, adopt tools of marketing
	– **Intrepreneurial marketing**
	    – Maturing company
	    – Need internal entrepreneurship to avoid stagnation
	    – Get out of office, go into customer's lives, etc

1.3 Marketing concepts

Production concept	Customer – Favor products that are available and affordable Goal – Improve production and distribution efficiency Usefulness – Demand exceeds supply – Product cost is too high, pressure to decrease Risk - [What to do when situation changes?]
Product concept	Consumer – Favor products with best quality, performance, innovative features Goal – Improve product features in a continuous fashion Userfulness – [If market is stable, no competing technologies in sight] Risk – Competing technology (spray instead of mouse trap) enters market
Selling concept	Consumer – Will not buy enough products unless seller(s) undertake large-scale promotion and selling effort Goal – Promote product, coax people into buying Usefulness – Unsought goods – encyclopedias, insurance, ... Risk – Dissatisfied customers – will not buy again, will tell 10 people! “Inside out”
Marketing concept	Customer – Buys product that best satisfies needs and wants Goal – Determine needs and wants of target markets – Deliver the desired satisfaction more effectively and efficiently than competitors Risk – Short term focus w.r.t. larger social and ethical issues – Overlooks long term customer welfare (fast food) Customer driven marketing – When customers know what they want **Customer driving marketing** – When customers do not yet know they even need something – Meeting existing latent and future needs by understanding customers better than they understand themselves – GSM networks, CD players, ... “Outside in”

Social marketing concept	Goal – Balance (1) Consumer satisfaction in short and long term, (2) society, (3) company profits

1.4 Challenges in the new connected millennium

Connections	**Connecting technologies**
	– Computer, Information
	– Communication, Transportation
	... which connect
	– **Customers**
	  – More selective, more direct [salad bowl customer base]
	  – Connecting for life
	– **Marketing Partners**
	  – Other departments, supplies and distributors
	  – Strategic alliances
	– **World around us**
	  – Global, broadened connections
	  – Values and responsibilities

Supply chain management	= Connecting with partners Supply chain = raw materials to components to final products to final buyers SCM = strengthening and optimizing the chain – Streamline logistics – Reduce joint distribution costs – ...
Strategic alliences	1) Marketing alliance (joint marketing) 2) Product or service alliance (carry / license other product) 3) Promotional alliance (join in a promotion) 4) Pricing alliance (join forces for mutual discounts)

2 Strategic Planning and the Marketing Process

2.1 Strategic planning process

Strategic planning process	**Define the company's mission (mission statement)**
	– Mission statement = statement of purpose, what do we want to accomplish
	– Requirements
	  – Market oriented (in terms of satisfying customer needs)
	  – Realistic (not too narrow or broad)
	  – Specific
	  – Fit the market environment
	  – Base on distinctive competences
	  – Motivating

	Set company objectives and goals
	– Mission turned into detailed supporting objectives and goals for each level of company management
	– For instance
	  – Spend 15% of profits into R&D to achieve X
	  – Sell more or reduce costs to cover costs = **marketing goal**
	– Broad marketing strategies to cover (broad) marketing goals
	  – Through more salespeople or more advertisting, etc.
	  – “Increase market share by 20% by end of third year”

	Design the business portfolio
	– Process
	  – Analyze current portfolio (**SBU = strategic business unit**)
	  – Develop growth strategies to modify portfolio
	– Best portfolio
	  – Best fits the company's strengths and weaknesses ...
	  – ... to threats and opportunities in the environemnt
	– Methods
	  – BCG (relative market share vs. market growth)
	  – GE (business strength, industry attractiveness; indexes)
	    – Problems
	      – Difficult to define SBUs and measure market share/growth
	      – Focus on current business, not future
	      – Overemphasis on market share and growth, not capabilities
	  – Product-market expansion grid
	    – New vs. existing markets
	    – New vs. existing products
	    – => Four basic approaches
	      – market penetration
	      – market development
	      – product development
	      – diversification

	Planning, marketing, and other functional strategies
	– Use company strategy as input, developt functional plans
	  – Marketing, finance, accounting, purchasing, manufacting, IT, HR, ...
	– Role of marketing
	  – Guiding philosophy – **the marketing concept**
	  – Input to strategic planners, to see and exploit opportunities
	  – Carry out unit objectives profitably
	– Cross-Functional conflict
	  – Marketing and other functions should be in harmony
	  – Optimizing one function may have adverse effects on others
	  – Du Pont “adopt a customer” approach

Small businesses	Often overlooked, rationale e.g. – No time, “fires to extinguish” – We've done good so far – Market is changing so rapidly planning would be useless Still useful Do it off-site, more neutral

2.2 Marketing process

“Inside-out factors”	– Target consumers – Marketing mix – 4Ps (and 4Cs) – Product, Price, Place, Promotion – Marketing process – analysis, planning, implementation, control – Marketing environment – intermediaries, publics, competitors, suppliers

Selecting target consumers	– Market segmentation
	  – Divide market into distinct group which have **uniform** response to marketing efforts
	  – [Segments should be as large as possible without sacrificing the uniformity of the response]
	– Market targeting
	  – Evaluate each market segment, select one or more segments to enter
	  – Target segments in which company can profitably generate greatest customer value [why not segment with best profits?]
	– Market positioning
	  – The place the product occupies relative to competitors in the **consumers' minds**
	  – Distinguish product from competing products
	  – Requires actual product differentation, so positioning can be backed up

4Ps / 4Cs	Marketing strategies
	– Market leader
	– Market challenger
	– Market follower
	– Market nicher
	Marketing Mix
	– Set of controllable, tactical marketing tools which are used in various blends or mixes to produce the response the company wants in the target market
	– Collected into 4 Ps
	  – Product (including variety, packaging, services, ...)
	  – Price (list price, discounts, payment period, credit terms, ...)
	  – Place (channels, coverage, assortments, transportation, logistics, ...)
	  – Promotion (advertising, personal selling, sales promotion, PR, ...)
	– .. Or into 4 Cs
	  – Customer solution
	  – Customer cost
	  – Customer convenience
	  – Customer communication

Managing the marketing effort	**Marketing analysis** – Analyze markets and marketing environments – SWOT

Marketing planning

- Strategic planning => SBU objectives
- Marketing planning = how to achieve SBU goals and thus strategic goals
- **Detailed marketing plan for each business, product, or brand**
  - Executive summary
  - Current marketing situation, threats and opportunities [SWOT]
  - Objectives and issues
  - Marketing strategy
  - Action programs
  - Budgets
  - Controls
- Marketing strategy (above)
  - = Marketing logic whereby the company hopes to achieve its marketing objectives
  - Specific strategies for target markets, positioning, marketing mix, marketing expenditure
  - (This is done for each business, product, or brand)

Marketing implementation

- **Who, where, when, and how**
- Doing things right
- Depends on
  - Blending people, culture, structure, decision and reward systems
  - Cohesive action programs that support strategies
  - Skills
- Marketing strategy must fit with company culture [and other aspects of its human resources]
- **Marketing department organization** – alternatives
  - **Functional organization**
    - Sales manager, advertising manager, customer service manager, ...
  - **Geographic organization**
    - Country / region managers, etc
  - **Product management organization** (1929 Procter & Gamble)
  - **Market management organization**
    - Responsible people for each relevant market (segment) != region
  - In practice, **a combination**

Marketing control

- Feedback loop
  - Goals
  - Measure
  - Evaluate
  - Take corrective action in (a) operational level, (b) strategy level
- Marketing audit – a major tool for control
  - Outside party
  - Comprehensive, systematic, independent, periodic

Marketing environment	– Complex environment
	  – Uncontrollable forces => must **adapt**
	  – Threats and opportunities => avoid threats, exploit opportunities
	– Extended PEST (demographic, economic, political, legal, technological, ecological, social, cultural)

3 The Marketing Environment

3.1 Overview

Marketing environment	Actors and forces outside marketing ... that affect marketing management's ability to develop and maintain successful transactions with its target customers. **= All external forces affecting the result of a company's marketing efforts** Includes opportunities and threats
Microenvironment	Forces close to the company – Affects its ability to serve its customers – The company itself – Suppliers – Marking channel firms – Customer markets – Competitors – Publics
Macroenvironment	Larger societal forces affecting the microenvironment – Demographic – Economic – Natural – Technological – Political – Cultural

3.2 Microenvironment

The company itself	Other company groups than marketing – Top management – Finance – R&D – ... Under the marketing concept, all departments must “think consumer”.
Suppliers	Must watch supply availability Must monitor prices of key inputs

Marketing intermediaries	**Resellers** – Helps the company find customers or makes sales for the company – Wholesale and retail – Nowadays large market power – can shut off from a target segment **Physical distribution firms** – Helps stock and move goods to their destinations – Balancing cost, delivery, speed, and safety **Marketing services agencies** – Marketing research firms – Advertising agencies – Media firms – Marketing consulting firms **Financial intermediaries** – Banks, credit companies, insurance companies – Other companies that help finance transactions or insure against risks involved in buying and selling goods
Customers	Customer market types – Consumer markets – individuals and households, personal consumption – Business markets – for use in production process – Government markets – agencies that buy goods and services to provide public services, or transfer the goods or services to those who need them – Reseller markets – buy goods and services to resell with profit – International markets – of the same types
Competitors	Company must provide greater customer value than competitors Strategic advantage – by positioning offerings strongly against competitors' offerings in the minds of the consumer No single best competitive marketing strategy exists
Publics	Any group that has an actual or potential interest in or impact on an organization's ability to achieve its objectives – Financial publics – Media publics – Government publics – Citizen action publics – Local publics – General public – Internal publics

3.3 Macroenvironment

Demographic	**Demography** – the study of human population in terms of size, density, location, age, gender, race, occupation, and other statistics
	U.S. Age structure – hourglass figure
	– **Baby boomer generation** 78M, born 1946-1964
	    – Various segments, upper segments like Yuppies, DINKs, etc interesting to marketers
	– **Generation X** 45M, 1965-1976
	    – Lived in age of AIDS, divorces, corporate downsizing
	    – Skeptical, appreciate honesty in marketing
	    – Price conscious
	– **Echo boomer generation** 72M, 1977-1994
	    – Comfortable with Internet, other digital technology
	    – Considerable buying power and influence on parent spending
	Generational marketing
	– Not directly feasible, age not distinctive enough
	Changing American family
	– Non-traditional families are growing
	– SSWD (single, separated, widowed, divorced)
	Geographic shifts in population
	– 12M US households move each year
	– Telecommuting and trends in urban living
	White-collar, better educated
	– 1950 -> 1985, white collar workers 41% -> 54%, blue collar 47% -> 33%
	Increasing diversity
	– Not melting pot – salad bowl
	– US 72% white, 13% black, 11% hispanic, 3% asian, 1% misc
	– Hispanic and asian proportions growing

Economic	**Factors that affect (1) purchasing power and (2) spending patterns**
	– Subsistence economy – nation consumes most of its own output
	– Industrial economy – rich markets for different kinds of goods
	Changes in income
	– 1980s shopping frenzy (roaring eighties)
	– 1990s “squeezed consumer” - value marketing
	– 2000s – still spending carefully, looking for value
	– Distribution changed
	    – Upper-class – not affected by economic events, income growing
	    – Middle class – can afford good life sometimes, shrinking
	    – Working class – stick to basics, try to save, growing poorer
	    – Underclass – must count pennies even for basics
	Changing spending patterns
	– **Engel's laws** – what happens to **spending as income rises**
	    – % spent on food declines
	    – % spent on housing remains constant (except for electricity etc)
	    – % spent on other stuff + savings increase

Natural	1990s “Earth decade” Trends in the natural environment 1) Growing shortages of raw materials 2) Increased pollution 3) Increased government intervention – US => EPA (Environmental Protection Agency) established 1970 Reactions to government regulations vary – Minimum effort – “Enlightened” companies – go beyond, creating **environmentally sustainable** strategies
Technological	Perhaps the most dramatic force now shaping our destiny New technology creates new markets and opportunities – Challenge is to refine technology into **practical** and **affordable**
Political	= Laws, government agencies, pressure groups that influence and limit how a company may operate Legislation regulates business and is increasing – To protect companies from e.g. unfair competition – To protect consumers from unfair business practices – To protect the interests of the society Increased emphasis on ethids and socially responsible actions – Socially responsible firms try to “do the right thing” and gain advantage – Privacy in Internet marketing

Cultural	= Institutions and other forces that affect society's basic values, perceptions, preferences, and behaviors Persistence of cultural values – Core beliefs and values are highly persistent Secondary beliefs and values are subject to change – Marriage a core belief, but getting married early in life is a secondary belief Major cultural values – People's views of themselves – People's views of others – People's views of organizations – People's views of society – People's views of nature – People's views of the universe

3.4 Responding to marketing environment

Basic responses	"make things happen", "watch things happen", "wonder what's happened"
Environmental management perspective	= Aggressive actions to affect the publics and forces in their marketing environment – Lobbying – Advertorials = ads expressing editorial points of view Not always possible to affect forces, but proactive stance still preferable

4 Marketing Research and Information Systems

4.1 General

Motivation	Information about optimizing market success is extremely valuable; wrong information is costly (cf. New Coke)
"Data smog"	Torrent of information, but all relevant information still not available
Marketing Information System (MIS)	= People, equipment, and procedures to gather, sort, analyze, evaluate, and distribute needed, timely, and accurate information to marketing decision makers. [Note: MIS also stands for Management Information System...]

4.2 Marketing information system (MIS)

Model	**Marketing managers**
	– Analysis, planning, implementation, organization, control
	Marketing information system
	– **Assessing information needs**
	– **Developing needed information**
	    – Internal databases
	    – Information analysis
	    – Marketing intelligence
	    – Marketing research
	– **Distributing information**
	Marketing environment
	– Target markets, marketing channels, competitors, publics, macro-environment forces

Assessing information needs	Balance (a) information managers would *like* to have and (b) what is feasible to offer The MIS must watch the marketing environment and provide relevant information to decision makers It may not be possible to provide all data, e.g. how a competitor will respond to a price change

Developing information	**Internal databases**
	– Many companies have computerized collections of data gathered from sources within the company (e.g. data warehouse
	– Can be accessed more quickly and cheaply than other sources
	– Problems
	    – May be incomplete or in the wrong form
	    – May be out of date, keeping it up to date needs much effort
	– Data warehouses increasingly used to make information retrieval easier
	– Data mining also used to uncover hidden patterns in data

	Marketing intelligence
	– Systematic collection and analysis of publicly available information about competitors and developments in the marketing environment
	– Goal – improve strategic decision making, track competitors, provide early warning of opportunities and threats (cf. Kodak's plan to service Xerox copiers)
	– Sources
	  – Company employees
	  – Suppliers, resellers, and key customers
	  – Physical evidence, such as competitors' products, monitoring competitor sales, checking for new patents, measure rust on rails to determine rail activity, ...
	  – Rifle through garbage (lawful in many places) (cf. Avon and Mary Kay)
	  – Government agencies (e.g. aerial photos of plants, may be otherwise forbidden)
	  – Annual reports, business publications, trade show exhibits, press releases, advertisements, web pages
	  – Trade association web sitres

	Marketing research – Systematic design, collection, analysis, and reporting of data relevant to a specific marketing situation = Formal studies of specific situations – E.g. market potential, market share studies, customer satisfaction and purchasing behavior, study of pricing, product, distribution, and promotion activities
	Information analysis – Refining raw data through e.g. statistical methods – Analytical models that allow asking “What if” and “Which is best” type of questions
Distributing information	Must be distributed to the right marketing managers at the right time Centralized marketing information systems are typical – Regular performance reports, intelligence updates, reports on the results of studies **Routine reports** and **non-routine information** for special situations Typically managers have direct access to marketing information from anywhere, anytime

4.3 Marketing research process

Process model	1) Define problem and research objectives 2) Develop the research plan for collecting information 3) Implement the research plan, collect and analyze data 4) Interpret and report findings

Defining the problem and research objectives	**Defining the problem** – Often the hardest step in the process – Manager understands decision to be made best, researcher understands marketing research process and how information is obtained – Wrong problem => wrong solution, cf. New Coke decision based on taste alone **Set research objectives** – Three basic types – – **Exploratory research** – – – Gather preliminary information which helps define the problem better and suggests hypotheses – – **Descriptive research** – – – Describe how things are, e.g. market potential, attitudes of consumers who buy the product etc (“passive”) – – **Causal research** – – – Test hypotheses about cause-and-effect relationships – – – E.g. price reduction of 10% => will overall profit increase or decrease? Both problem and objectives should be formally documented, as they are critical in guiding the rest of the process
Developing the research plan	**Determining specific information needs** – Objectives must be translated to concrete information needs
	Gathering secondary information needs – Secondary information = information that has already been collected but usually for some other purpose – Advantages and disadvantages – – Cheaper and easier to get (than primary information) – – Can provide data that a company cannot collect on its own (i.e. information not directly available or too expensive to collect) – – Required information may not exist in secondary information sources – – Does not necessarily apply completely to the problem at hand – Researcher **must evaluate** secondary data to ensure that it is – – **Relevant** (fits research needs) – – **Accurate** (reliably collected and reported) – – **Current** (up to date for research purposes) – – **Impartial** (objectively collected and reported) – Sources – – Commercial data sources – – – Nielsen Marketing Research, Information Resources, The Monitor... – – Online databases and Internet data sources – – – CompuServe, Dialog, LEXIS-NEXIS, ...

Planning primary data collection

- Research approaches
  - **Observation** – observe relevant people, actions, situations
  - **Survey** – asking individuals directly, best suited for descriptive research
    - Most widely used, but probels are unwillingness to respond, answering when don't know answer, giving pleasing answers, ...
  - **Experiment** – best suited for gathering causal information, e.g. McDonalds might test effect in a few test cities
- **Contact methods** (mail, telephone, personal, online)
  - **Mail questionnaire** – large amounts of information, low cost per respondent
  - **Telephone interviewing** – quick, greater flexibility, cost per respondent higher than questionnaire, interviewer bias
  - **Personal interviewing** – individual or group interviewing (6-10 people), focus group interviewing popular (involves moderator)
  - **Online marketing research** – Internet surveys and focus groups
- **Sampling plan** (sampling unit, sample size, sampling procedure)
  - Sample = a segment of the population selected for marketing research to represent the population as a whole
  - **Sampling unit** – who is to be surveyed
    - Not always obvious, e.g. car purchase => interview husband, wife, other family members, dealer, or all?
  - **Sample size** – how many (people)
    - Trade-off between cost and reliability
    - Well selected sample of less than 1% may be sufficient
  - **Sampling procedure** – how to choose samples from population
    - Probability sample
      - Each population member has a known probability for being selected => can be used for statistical inference
      - Simple random sample – same prob. for each
      - Stratified random sample – mutually exclusive groups, samples from each group
      - Cluster (area) sample – mutually exclusive groups, some groups are selected as sample (e.g. city blocks)
    - Non-probability sample
      - Not useful for statistical inference
      - Convenience sample – select easiest members
      - Judgment sample – prescribed number of people in certain categories
- **Research instruments** (questionnaire, mechanical instruments)
  - **Questionnaire**
    - Question forms – closed-end (yes/no, 1...5, etc), open-end (unstructured, word completion, fill in, story/picture completion, thematic apperception test (TAT))
    - Wording and ordering – difficult questions last
  - **Mechanical instruments** – people meters, supermarket scanners, ...

Presenting the research plan

- Written research plan or proposal ensures completeness of research scope, and also ensures stakeholders agree on what and how to research

Implementing the research plan	Data collection by own people or by outsourcing – Outsourcing has risk of negligence in the data collection process (e.g. interviewer shortcuts), but is quicker and costs less Data collection is expensive and **most subject to error** Data needs to be entered into a database for further analysis
Interpreting and reporting the findings	Find meaningful results and report to management, avoid fancy statistical techniques Interpretation should not be done by researcher alone – Manager should check research was carried out properly – Manager may have additional questions after seeing initial results – Manager ultimately decides on how to act on data – Raw data shoule be made available to manager and other stakeholders, so further analysis can be easily done

4.4 Other marketing research considerations

Small businesses and nonprofit organizations	Techniques may be used, but usually less formal and at little expense Observing, phoning people on spare time, sending managers to competitor restaurant, experiments ...
International market research	Mostly same, some specific problems – Variations in culture, customs, buying patterns etc – Difficult to find good secondary data => must typically collect own primary data – Cultural differences, especially language may be a problem (translations lose information); Latin American countries => questionnaires may be thought of as too personal Still, rapid increase of international market research
Public policy and market research	Consumer privacy – Research surveys that are actually attempts to sell – Partial reason for consumer resentment to questionnaires Misuse of research findings – “Stretching” data, e.g. bad sample selection – So-called independent studies may be funded by companies with an interest in the results Standards of conduct and research ethics by e.g. American Marketing Association

5 Consumer Markets and Consumer Buyer Behavior

5.1 Model of consumer behavior

Model	1) Marketing and other stimuli [what seller can affect = control variables] 2) Buyer as a **black box** [uncontrollable, somewhat unknown process] 3) Buyer responses [what happens = determines economic result]
Marketing and other stimuli	– Marketing stimuli – Product, price, place, promotion – Other stimuli – Economic, technological, political, cultural
Buyer's black box	– Buyer characteristics – how s/he perceives and responds to stimuli – Buyer decision process – the process itself [after perception]
Buyer's responses	– Product choice – Brand choice – Dealer choice – Purchase timing – Purchase amount

5.2 Characteristics affecting consumer behavior

Cultural factors	**Culture** – Most basic cause of wants and behavior, largely learned – Cultural influences on buying behavior vary greatly (e.g. green caps in Taiwan) – Cultural shifts – e.g. shift to concern for health => new market opportunities **Subculture** – Groups of people with shared value systems based on common life experiences and situations – Nationalities, religions, ractial groups, geographic location – Examples – Hispanic, African american, Asian american, the 50+ market **Social class** – Society's relative permanent and ordered divisions – Members share similar values, interests, and behavior – Class is defined by a combination of occupation, income, eduaction, wealth, and other variables

Social factors	Groups
	– Membership groups
	    – Person belongs to, and has a direct influence on the person
	– Reference groups
	    – Serve as points of comparison in forming attitudes or behavior
	    – Does not require membership in the group
	    – E.g. aspirational group – a group to which the person wants to belong
	– Opinion leaders
	    – People in a reference group who because of some characteristics exert influence on others
	Family
	– Family = most important buying “organization”
	– Interactions of family ties
	– Women are getting jobs, men are making more buying decisions constantly
	Roles and status
	– Role = activities people are expected to perform according the the persons around them
	– Status = reflects the general esteem given to role by society

Personal factors	**Age and life-cycle stage**
	– Tastes in food, clothes, furniture etc are age related
	– Family situation no longer directly age related
	Occupation
	– Blue collar => more rugged clothes, white collar => more business suits
	Economic situation
	– Buying behavior affected by e.g. income/wealth and business cycle
	Lifestyle
	– AIO dimensions
	  – Activities (work, hobbies, shopping, sports, social events)
	  – Interests (food, fashion, family recreation)
	  – Opinions (about themselves, social issues, business, products)
	– SRI Consulting – Values and Lifestyles (VALS) typology
	  – Actualizers – can indulge in all self-orientations
	  – Abundant resources
	    – Principle-oriented
	    – Status-oriented
	    – Action-oriented
	  – Minimal resources
	    – Principle-oriented
	    – Status-oriented
	    – Action-oriented
	  – Strugglers – too few resources to be included in any consumer orientation
	Personality and self-concept
	– Personality = unique psychologicla characteristics that lead to relatively consistent and lasting responses to one's own environment
	– Self-concept = self-image = people's possessions contribute to and reflected their identities (“we are what we have”)

Psychological factors	Motivation
	– Motive (drive) = need sufficiently pressing to direct the person to seek satisfaction
	– Many at the same time
	  – Biological, psychological
	  – Some needs are not strong enough to cause action (= not motives)
	– Freud's theory of motivation
	  – Urges repressed when growing up => exhibit later in life
	  – A person does not fully understand his/her motives
	  – Motivation research => uncover deeper motivation, projective techniques to throw “ego off guard” (word association, sentence completion, picture interpretation, role playing)
	– (Abraham) Maslow's theory of motivation
	  – Hierarchy of needs from most to least pressing
	    – Physiological
	    – Safety
	    – Social
	    – Esteem
	    – Self-actualization
	  – People always act on most pressing active need first
	– Perception
	  – How the five senses are processed => select, organize, interpret information to form a meaningful picture of the world
	  – Perceptual processes
	    – Selecting attention – screening out of (unnecessary) information
	    – Selective distortion – interpret to support what you already believe
	    – Selective retention – remember only what supports what you believe
	– Learning
	  – = Changes in an individual's behavior arising from experience
	  – Interplay of drives, stimuli, cues, responses, reinforcement
	  – **Drive** = strong internal stimulus that calls for action
	  – **Motive** = **drive actualized** towards a stimulus object
	  – **Cues** = minor stimuli, determine where, when, and how persons responds
	– Beliefs and attitudes
	  – Belief = descriptive thought that a person has about something – can be changed
	  – Attitude = relative consistent evaluation, feelings, and tendencies towards an object or idea – difficult to change => should fit products into existing attitudes and not try to change them

5.3 Types of buying decision behavior

<table>
<tr><td>The four types</td><td>
<table>
<tr><th></th><th>High involvement</th><th>Low involvement</th></tr>
<tr><td>Significant differences between brands</td><td>Complex</td><td>Variety-seeking</td></tr>
<tr><td>Few differences between brands</td><td>Dissonance-reducing</td><td>Habitual</td></tr>
</table>
</td></tr>
<tr><td>Complex</td><td>Expensive, risky, purchased infrequently, highly self-expressive
– Learning process, develop beliefs and attitudes, thoughtful purchase choice
– Marketers must understand information-gathering and evaluation behavior [cf. VPN checklists]
E.g. computer</td></tr>
<tr><td>Dissonance-reducing</td><td>Since no difference in brands, may respond to e.g. price
– Customer not really sure what is the best choice
Postpurchase dissonance (after-sale discomfort)
– Disadvantages in selected product or hear of advantages of other products => customer wonders whether he made a good choice
– After-sale communication should provide evidence and support to help customers feel good about their choices
E.g. carpet</td></tr>
<tr><td>Habitual</td><td>Customers do not search or evaluate excessively, they “recognize” what to buy
Passive information reception
– E.g. through ads, use visual symbols and imagery, logos, colors
– Should use high repetition and short duration
– Advertising should be planned based on conditioning theory
E.g. salt</td></tr>
<tr><td>Variety-seeking</td><td>Brand switching for variety – not necessarily because of dissatisfaction
E.g. cookies</td></tr>
<tr><td></td><td></td></tr>
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<tr><td></td><td></td></tr>
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5.4 The buyer decision process

Overview	1) Need recognition 2) Information search 3) Evaluation of alternatives 4) Purchase decision 5) Postpurchase behavior Steps often skipped or even reversed
Need recognition	Buyer recognizes a problem or a need – Internal stimuli (hunger, thirst, sex) => high enough to be a drive – External stimuli (e.g. break from work)

Information search	If drive is strong and a satisfying product at hand, may be skipped
	If drive not strong enough, may store need in memory and do an information search
	– Heightened attention (pay attention to camera ads, listen to friends)
	– Active information search (reads, phones friends, ...)
	  – Personal sources
	  – Commercial sources
	  – Public sources
	  – Experiential sources

Evaluation of alternatives	Several mechanisms are at work – If decision to buy based on one attribute – easy to predict and optimize for – Usually many attributes with weights
Purchase decision	Purchase intention does not necessarily become a decision; some obstacles 1) Attitudes of others (husband feels strongly negatively) 2) Unexpected situational factors (loses a job)
Postpurchase behavior	Consumer's expectations vs. **perceived** performance => satisfaction level Cognitive dissonance almost always present after major purchases – Every purchased is a compromise, customer wonders about pros/cons – Some 96% of dissatisfied customers **never tell the company**!

5.5 The buyer decision process for new products

Stages in the adoption process	**New product** = a good, service, or idea that is **perceived** by some potential customers as new **Adoption process** = the mental process through which an individual passes from first learning about an innovation to final adoption 1) Awareness 2) Interest 3) Evaluation 4) Trial 5) Adoption

Invididual differences in innovativeness	Innovators (mean -2 stddev or more) Early adopters (mean – 2...-1 stddev) Early majority (mean – 1...0 stddev) Late majority (mean + 0...1 stddev) Laggards (mean + 1 stddev or more)

Influence of product characteristics on rate of adoption	Five characteristics especially important
	– Relative advantage
	  – The degree to which the product appears superior to existing products
	– Compatibility
	  – The degree to which the innovation fits the values and experiences of potential customers (e.g. HDTV is compatible with upper middle class homes, but not very compatible with existing broadcasting systems)
	– Complexity
	  – How difficult to understand or use
	– Divisibility
	  – How easily may be tried on a limited basis (e.g. HDTV is expensive and no trial possible)
	– Communicability
	  – How easily the results of using the innovation can be observed or described to others ["how infective"]

5.6 Consumer behavior across international borders

Clear differences	Habits of eating breakfast – e.g. French eat croissants and coffee
Subtle differences	Sales style – pushy and aggressive selling style not good in Asia
Adapt or standardize the marketing mix?	Subject of an on-going debate

6 Business Markets and Business Buyer Behavior

6.1 Overview

Overview	Business market size is **huge** – far larger than consumer market!
Characteristics of business markets	**Market structure and demand** – Far fewer but larger buyers => relationships more important – Buyers more geographically concentrated – Demand derived from customers' demand => final customer demand – Demand more inelastic than customer market => not sensitive to price in short run – Demand fluctuates more, and more quickly **Nature of the buying unit** – More buyers (persons) – More professional [and structured] effort **Types of decisions and the decision process** – Buyers face complex decisions – Buying process is more formalized – Buyers and sellers work closely together and develop relationships

Model for buying behavior	**The environment**
	– Marketing stimuli
	    – Product, price, place, promotion
	– Other stimuli
	    – Economic, technological, political, cultural, competetive
	The buying organization
	– The **buying center** = people participating in buying process
	– Buying decision process
	– Influences from the rest of the organization
	Buyer responses
	– Product or service choice
	– Supplier choice
	– Order quantities
	– Delivery terms and times
	– Service terms
	– Payment

6.2 Business buyer behavior

Major types of buying situations	1) Straight rebuy – buyer reorders without modification, based on past satisfaction => very few participants 2) Modified rebuy – buyer wants to modify product specifications, price, terms, or suppliers => involves more participants 3) New-task – first time purchase => the riskier and larger the purchase, the more participants
Systems buying	Buy a packaged solution from one seller, "turn key"; supply and assemble Contracts often go to companies that provide the most complete solution
Participants in the business buying process	Buying center – **Users** – who will use the product or service – **Influencers** – help define specifications, e.g. technical personnel – **Buyers** – formal authority, major role in selecting and negotiating, influece specifications slightly – **Deciders** – formal or informal power to select or approve final suppliers; in routine buying often same as buyers – **Gatekeepers** – control the flow of information between participants, e.g. purchasing agents have authority to prevent seller from seeing the buyer Major challenge – Roles sometimes difficult to recognize – Highest rank not necessarily same as highest influence
Major influences on business buyers	Emotion nowadays accepted as part of the process – e.g. Volvo truck ads, esp. when supplier offers are very similar Environmental – Economic environment – Shortage of key materials – Technological, political, competitive developments – Culture and customs Organizational – Each buyer has its own processes, policies, objectives, structure, etc – How many people involved, who are they, what criteria used, policies and limits on buyers? Interpersonal – Complex group dynamics between buying center participants – Several reasons for influence – control rewards/punishments, rank, well liked, special expertise, special relationships Individual – Personal motives and perceptions – Age, income, education, etc.

The business buying process (model)	1 – Problem recognition – Internal or external stimuli 2 – General need description – Characteristics and quality of desired item – May need considerable work for a complex need 3 – Product specification – With help of value analysis engineering team – Value analysis = approach to cost reduction, study components to see whether they can be standardized, redesigned or otherwise made less costly; opportunity to turn a rebuy into a new task situation 4 – Supplier search – List of qualified vendors; trade directories, web, personal contacts, ... 5 – Proposal solicitation – Invite suppliers to make a proposal (RFP) – Proposals should be marketing documents 6 – Supplier selection – Select one or more suppliers – Past – preferred many suppliers – Now companies are reducing number of suppliers to cut costs – Trend to single sourcing – still fear of dependence and price inefficiency 7 – Order-routine specification – Final order with chosen supplier(s), technical specifications, quantity needed, expected time of delivery, return policies, warranties – Blanket contract – e.g. resupply at an agreed fixed price for a certain period 8 – Performance review – Buyer reviews supplier performance => decide (a) continue, (b) modify, (c) drop
Business buying on the Internet	EDI So far focus on **MRO (maintenance, repair, operations) materials** Potential – Shave transaction costs – Reduce time between order and delivery – Create more efficient purchasing systems – Forge more intimate relationships – Level the playing field Problems – Cut marketing jobs – Erode supplier-buyer loyalty – Create potential security disasters

6.3 Institutional and government markets

Institutional markets	= Schools, hospitals, nuring homes, prisons, etc Characterized by – Low budgets – Captive patrons Price – Not strict minimization, since e.g. bad food will damage reputation – => search for food vendors with acceptable relative to some minimum standard, with low price Other special characteristics, such as special packaging often used (e.g. Heinz)

Government markets	Characteristics
	– Typically require bids
	– Tend to favor domestic suppliers
	– Government is watched by outside publics => public review => more bureaucracy
	– Also helps sellers
	    – Purchasing guides
	    – Debriefing if not chosen as seller
	– Noneconomic criteria often used
	    – Favor depressed areas
	    – Small business firms
	    – Anti-discriminatory firms
	– Rebuys often if chosen as supplier
	Although bureaucracy can be enormous, potential is also big => still often profitable

7 Market Segmentation, Targeting, and Positioning for Competitive Advantage

7.1 Overview

Why segmentation?	Mass marketing = same marketing for all customers doesn't work because... – Customers too scattered – Customers too varied in buying practices – Companies vary in their ability to serve a segment => Firms are focusing on the buyers who have greater interest in the values they create best ("rifle" approach in contrast to "shotgun" approach)
Steps	1) Market segmentation (= describing) 2) Market targeting (= selecting) 3) Market positioning (= image in consumers' minds)

7.2 Market Segmentation

Levels of segmentation	**Mass marketing**
	– Mass producing, distributing, and promoting the same product to all consumers
	– Argument: largest potential market => lowest costs => low prices or high profits
	– Nowadays problematic because of (a) splintering of consumer segments and (b) proliferation of distribution channels and advertising media
	Segment marketing
	– Broad segment, adapt offering to closely match the needs of the market
	– Benefits – market more efficiently, only consumers it can serve best, fine-tune products/prices/programs, face fewer competitors
	Niche marketing
	– Focus on subgroups within segments
	    – = Narrowly defined segment, or a “sub segment” of a segment
	    – E.g. SUV segment => luxury SUVs
	– Normally only one or a few competitors
	    – Opportunity for small companies
	– Customers need to be willing to pay a price premium
	– In todya's markets, niches are the norm
	Micromarketing
	– Local marketing
	    – Cities, neighborhoods, specific stores
	    – E.g. Citibank offers customized banking services to different neighborhoods
	    – May have problems – reduce economies of scale, logistics problems, dilution of brand image
	– Individual marketing
	    – = one-to-one or customized marketing, markets-of-one marketing
	    – Back to the roots – for centuries products were tailored to customer needs
	    – Mass customization – moden technology allows for efficient production of customized products, e.g. Dell Computer
	    – Self-marketing – consumer finds information by him/herself

Requirements for effective segmentation	– **Measurable** – size, purchasing power, and profiles can be measured – **Accessible** – can be effectively reached and served (move in same places?) – **Substantial** – must be large or profitable enough (people taller than 10 feet not good) – **Differentiable** – two segments that react the same way are not actually separate segments – **Actionable** – effective programs can be designed for the segment, i.e. matches company capabilities

<table>
<tr>
<td>Consumer markets</td>
<td>
Geographic segmentation
– Nations, regions, states, counties, cities, neighborhoods
– Localization, spicing of food, etc
Demographic segmentation
– Based on demographic variables (age, gender, family size, ...)
– One of the most popular bases
– Required in almost all cases because size of segment is interesting regardless of actual segmentation criteria
– Some demographic bases
  – Age and life-cycle (watch out for stereotypes – 70 yr old tennis player)
  – Gender (e.g. clothing, toiletries, cars, ...)
  – Income – also lower income segment may be profitable
Psychographic segmentation
– Social class, lifestyle, or personality characteristics
  – People in same demographic segment may have different psychographic characteristics and vice versa
Behavioral segmentation
– Knowledge, attitudes, uses, or responses to a product
– Occasions - “Coke in the morning”, Christmas ads, underwater / baby photos
– Benefits sought – gambling or fun aspect of travel,, toothpaste benefits: economic, medicinal, cosmetic, taste
– User status – nonusers, ex-users, potential users, first-time users, regular users
– Usage rate – light, medium, heavy
– Loyalty status – loyal, somewhat loyal, not loyal; somewhat loyal segment may provide valuable information on why competitor's attractive
Using multiple bases is normal
– E.g. start with one base, and then expand to others
– Geodemographic segmentation
  – Link census data with lifestyle patterns => segment markets down to zip codes, or even city blocks (e.g. PRIZM)
</td>
</tr>
<tr>
<td>Business markets</td>
<td>
All consumer market segmentation bases usable
In addition
– Customer operating characteristics
  – Technology, customer capabilities
– Purchasing approaches
  – Centralized or decentralized buying?
  – Engineering, finance, or marketing dominated?
  – Leasing or service contracts?
  – Quality, service, price?
– Situational factors
  – Quick delivery or service?
  – Specific applications or generic?
  – Large or small orders?
– Personal characteristics
  – Buyer-seller similarity, attitude to risk, loyalty to suppliers
</td>
</tr>
</table>

International markets	**Geographic location** – Regions, e.g. Western Europe, Pacific Rim, Middle East, Africa, EMEA, ... – Assumption: countries in a region will share reactions to marketing => but there are exception (e.g. USA and Canada vs. Mexico) **Economic factors** – Population income level or level of economic development **Political and legal factors** – Type and stability of government – Receptiveness to foreign firms – Monetary regulations – Amount of bureucracy **Cultural factors** – Language, religions, values and attitudes, customs, behavioral patterns **Intermarket segmentation** ["cross country segmentation"] – Forming segments of consumes who have similar needs and buying behavior even though they are located in different countries – E.g. Mercedes-Benz, MusicTV

7.3 Market targeting

Evaluating market segments	**Segment size** and **segment growth** – Right size and growth rate – Structural factors – competitors and substitutes – Relative power of buyers and suppliers – Note: largest size or growth not necessarily most desirable – a small company might aim for a segment with less absolute size or growth if it has less competitors **Company objectives and resources** – Company should have strengths that can provide basis for competing in the segment => offer superior value and gain advantage over competitors

Selecting market segments	Target market = set of buyers who share common needs or characteristics that the company **decides** to serve
	Market coverage strategies
	– **Undifferentiated marketing = mass marketing**
	  – Focus on what is common in all buyers, appeal to that
	  – Mass distribution, mass marketing, etc
	  – Often difficult to compete with focused competitors
	– **Differentiated marketing**
	  – Target several segments and design separate offers for each
	  – Claim – developing a stronger position within several segments creates more total sales than undifferentiated marketing across all segments
	– **Concentrated marketing**
	  – Firm goes after a large share of one or a few segments / niches
	  – Shared marketing mix for all segments
	  – Attractive when resources are limited
	Choosing a coverage strategy
	– Company resources – limited => concentrated
	– Product variability – low => undifferentiated
	– Product life cycle stage => undifferentiated in the beginning
	– Market variability (how differentiated market?) - low => undifferentiated
	– Competitors' marketing strategy => if competitors already using differentiated or concentrated marketing, undifferentiated may be suicidal

Socially responsible target marketing	Targeting vulnerable or disadvantaged consumers with controversial or potentially harmful products => consumer outcry – E.g. aggressive marketing to children – Cheap beer for black people Issue is not *who* is targeted but *how* and *for what* Industry self regulation – e.g. Children's Advertising Review Unit in US

7.4 Positioning for competitive advantage

Product position	= The way the product is **defined by consumers** on important attributes – The place the products occupies in the **consumers' minds relative to competing products** Consumers simplify their buying process by categorizing => positioning
Choosing a positioning strategy	1) Identifying a set of possible competitive advantages to build on 2) Choosing the right competitive advantages 3) Selecting an overall positioning strategy The company must then communicate and deliver the chosen position to the market

	Identifying possible competitive advantages
	– Company must be able to deliver on promised offering => needs to differentiate the actual product or service
	– Think about the customer's entire experience with the product or service => potent ial for differentiation
	– **Product**
	  – Features, performance, style, design
	  – Consistency, durability, reliability, repairability
	– **Service**
	  – Speedy, convenient, or careful delivery
	  – Installation, repair, customer training or consultation
	– **Channels**
	  – Channel's coverage, expertise, and performance
	  – E.g. Caterpillars superior channels
	– **People**
	  – Hiring and training better people than competitors do
	  – E.g. Singapore Airlines flight attendants
	– **Image**
	  – May affect decision e.g. when products / services otherwise look alike
	  – Requires creativity and hard work
	  – Image must be supported by everything the company does

	Choosing the right competitive advantages
	– How many differences to promote?
	  – Rosser Reeves => brand should pick one attribute and be “number one” on that
	  – Nowadays companies are trying to broaden, e.g. “three in one” soap
	  – USP = Unique Selling Proposition
	  – Three basic errors
	    – Underpositioning – position not achieved at all
	    – Overpositioning – too narrow picture of the company
	    – Confused positioning – mixed messages (e.g. Burger King)
	– Which differences to promote? (not all differences are meaningful)
	  – **Important** – highly valued benefit to customers
	  – **Distinctive** – competitors do not offer, or company can offer it in a more distinctive way
	  – **Superior** – difference is superior compared to customer alternatives to get the same benefit
	  – **Communicable** – can be communicated, visible to buyers
	  – **Preemptive** – competitors cannot easily copy
	  – **Affordable** – buyers can afford to pay the difference
	  – **Profitable** – difference can be introduced profitably
	  – Some blunders - “world's tallest hotel” (not important), Crystal Pepsi (not important), Polarvision (not superior)

	Selecting an overall positioning strategy
	– Consumers typically choose products with greatest value
	– **Value proposition** – the full positioning of a brand
	    – = **Full mix of benefits** upon which a brand is positioned
	    – Answer to customer question "Why should I buy your brand?"
	    – Also attributes that are not communicated
	– Some propositions
	    – **More for more**
	        – Upscale product, high price – Ritz-Carlton, Mont Blanc pens, Mercedes-Benz
	        – Marketing offers high quality, and prestige to buyer
	        – Price difference often exceeds actual increment in quality
	        – Attract imitators who knock off
	    – **More for the same**
	        – More value for same price
	    – **More for less**
	        – Many claim to do this, a "winning proposition" - but often not achievable
	        – In the long run competitors may force you to make a choice, e.g. Home Depot => what to do?
	    – **Same for less**
	        – E.g. Amazon offers same books as brick-and-mortar but cheaper
	    – **Less for much less**
	        – Customers that settle for less than optimal quality to get cheaper price

Communicating and delivering the chosen position	– All marketing mix efforts **must support positioning** – Company must **first deliver the position** and then do the actual positioning – Good positioning takes time to create and may be quickly lost – Position must be maintained by consistent performance and communication

8 Product and Services Strategy

8.1 What is a product?

Product	**Anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a want or need** – Physical objects – Services – Events – Persons – Places – Organizations – Ideas – Mixes of these
Service	A form of a product – **any activity or benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything**
Spectrum	**Pure tangible good** (toothpaste) **Tangible good with accompanying services** (car + repair services) **Hybrid offer** – equal parts of good and service (restaurants) **Service with accompanying minor good** (flight + snacks) **Pure service** (doctor's exam)
Trend towards commodization	Today products and services are becoming more commoditized
Experiences	**Experiences...** – are **memorable** – take place in the **minds** of individual consumers Companies need to think not about goods and services, but what the goods and services **do for the customer**, hence orientation towards experiences – E.g. from delivered birthday cake to service which arranges for a memorable birthday party experience
Levels of product	**Core product** – What is the buyer really buying? – Problem solving benefits that consumers seek (e.g. lipstick => not just color, but "hope") – Benefits and customer experience **Actual product** – The product or service that fulfills the core product benefits – Quality level – Features – Design – Brand name – Packaging **Augmented product** – Additional benefits not part of the actual product/service – Warranty, repair services, toll-free help number, ... – [How to distinguish from actual product? E.g. in case of camera, all physically connected to the camera is the actual product; warranties and repair are services]

8.2 Product classifications

Consumer products	Often classified based on how they are purchased by consumers **Convenience products** – Bought frequently, immediately, minimum of comparison and buying effort – Usually low priced, and avaiable from many locations – E.g. soap, candy, newspapers, ... **Shopping products** – Less frequently purchased, customers compare carefully on suitability, quality, price, style, and are ready to spend time and effort in the buying effort – E.g. furniture, clothing, used cars, major appliances, hotel/motel services **Specialty products** – Products/services with unique characteristics or brand identification, a significant group of buyers is willing to make a special purchase effort – E.g. specific car brands (Lamborghini), expensive photographic equipment, designer clothes, medical or legal specialists **Unsought products** – Products that the consumer (a) does not know about or (b) knows about but does not normally think of buying – Most innovations are unsought goods until consumers become aware of them through e.g. advertising – By very nature, require a lot of advertising, personal selling, and other efforts – E.g. life insurance, blood donations

Industrial products	= Products and services purchased for further processing or for use in conducting a business
	Materials and parts
	– **Raw materials**
	  – Farm products (wheat, cotton, ...)
	  – Natural products (fish, lumber, ...)
	– **Manufactured materials and parts**
	  – Component materials (iron, yarn, cement, wires)
	  – Component parts (small motors, tires, castings)
	– Price and service are major marketing factors; branding and advertising less so
	Capital items
	– Aid in buyer's production or operations
	– **Installations**
	  – Buildings (factories, offices)
	  – Fixed equipment (generators, drill presses, large computer systems, ...)
	– **Accessory equipment**
	  – Portable factory equipment and tools (hand tools, lift trucks)
	  – Office equipment (fax machines, desks)
	  – = Shorter life than installations, aid in the production process
	Supplies and services
	– **Supplies**
	  – Operating supplies (lubricants, coal, paper, pencils)
	  – Repair and maintenance items (paint, nails, brooms)
	  – = Convenience products of the industrial field, minimal buying effort
	– **Services**
	  – Maintenance and repair (window cleaning, computer repair)
	  – Business advisory services (legal, management consulting, advertisting)
	  – = Usually supplied under a contract

Organizations, persons, places, ideas	**Organization marketing** – Activities undertaken to create, maintain, or change the attitudes and behavior of target consumers toward an organization **Corporate image advertising** – E.g. Lucent => “We make things that make communications work” **Person marketing** – Activities to create, maintain, or change attitudes or behavior toward particular people – E.g. president (candidate), entertainers, sport figures, ... **Place marketing** – Activities to create, maintain, or change attitudes or behavior toward particular places – E.g. “I Love New York!”, “YES M!CH!GAN” **Ideas** – Social ideas – public health campaigns – Social marketing – creation and implementation of programs seeking to increase the acceptability of a social idea, cause, or practice within target groups

8.3 Individual product decisions

Model	**Product attributes => Branding => Packacing => Labeling => Support services** [Note: inconsistent with actual product – quality, features, design, brand, packaging]

Product attributes	**Quality – one of marketer's major positioning tools**
	– **Level**
	    – = Performance quality, ability of the product to perform its functions
	– **Consistency**
	    – = Conformance quality, freedom from defects and consistency in delivering a targeted level of performance
	– Developments
	    – TQM => magic cure all, later "return on quality" concept
	    – Motorola => quality = customer satisfied => customer-defined quality, total customer satisfaction
	Features
	– A stripped down model is the starting point (no extras)
	– Extras added to create higher level models => differentiation
	– How to determine which features should be added?
	    – Buyer surveys: (a) how do you like the product? (b) which specific features you like most, (c) which features could we add?
	    – Company can assess each feature's **value** to the customer versus its **cost** to the company
	    – A high **value-to-cost ratio** means feature should be added
	Style and design
	– Style = appearance, no effect on (objective) performance
	– Design = goes deeper, to the core of the product

Branding	**Brand**
	– = A name, term, sign, symbols, or design, or a combination of these, that identifies the maker or seller of a product or service
	– Benefits include
	    – Helps consumers identify products, tells buyer something about quality
	    – Gives the seller advantages, legal protection for unique product features, helps the seller to segment markets
	Brand equity
	– = The value of a brand, based on the extent to whcih it has high brand loyalty, name awareness, perceived quality, strong brand associations, and other assets such as patents, trademarks, and channel relationships
	– Measuring is difficult, estimates: Coca-Cola $84 billion, Microsoft $57 billion, IBM $44 billion
	– Brings credibility, aids in launching new products or services, even in new markets or target segments
	– Some see brand equity as **the** company asset
	– The fundamental asset underlying brand equity is **customer equity** – the set of loyal customers – extending **loyal customer lifetime value**

	Brand name selection Desirable qualities – a brand name should (1) Suggest something about product benefits or qualities ("Sunkist") (2) Be easy to pronounce, recognize, and remember – short names help, but longer ones can also be effective (3) Be distinctive (4) Translate easily into foreign languages (5) Be capable of registration and legal protection

	Brand sponsor
	– **Manufacturer's brand (national brand)**
	  – Manufacturer sells using its own brand, e.g. Kellogs, IBM
	– **Private brand (store brand, distributor brand)**
	  – A brand created and owned by a reseller of a product/service
	– **Licensed brand**
	  – Licensee pays to the licensor for the right to use a brand name in its product or service
	  – E.g. licensing Marvel characters for movies or games
	– **Co-branding**
	  – The practice of using the established brand names of two different companies on the same product
	  – Advantages – combined brands create broader consumer appeal, allows a company to expand its existing brand into a category which it may have difficulty entering alone
	  – Limitations – complex legal contracts and licenses, requires careful coordination of advertising, sales promotions, and other marketing efforts, must trust partner to take good care of its brand
	  – E.g. Pillsbury Oreo Bars
	Battle of the brands (manufacturer vs. private brand)
	– E.g. 40% of US grocery market in private brands
	– Slotting fees – Payments demanded by retailers before they will accept new products and "find slots" for them on the shelves

	Brand strategy
	– **Line extension (existing brand, existing product category)**
	  – Using a successful brand name to introduce additional items in a given product category under the same brand name – such as new flavors, forms, colors, added ingredients, package sizes
	  – Low-cost, low-risk way to introduce new products
	  – Risk of overextended brand
	  – Works best when it takes sales away from competing brands, not when it “cannibalizes” company's other items
	– **Brand extension (existing brand, new product category)**
	  – Using a successful brand name to launch a new product or modified product in a new category
	  – Gives a new product instant recognition and faster acceptance, saves high advertising costs usually required to launch a new brand
	  – May confuse the existing brand
	– **Multibrands (new brand, existing product category)**
	  – Offering new brands in the same category
	  – A way to establish different features or appeal to different buying motives
	  – **Flanker or fighter brands** – protect company's major brand by “mopping up” competition on either side of major brand
	  – Major drawback – small market share per brand, profitability, compared to a single brand
	– **New brands (new brand, new product category)**
	  – May be appropriate if none of the existing brands is appropriate for a new product entering a new market
	  – Drawback – resource intensive, may cause company to spread its resources too thin
	  – **Megabrand strategies** – focus marketing dollars only in brands that can achieve number-one or number-two market share in their categories

Packaging	**= The activities of designing and producing the container or wrapper for a product**
	– Labeling, printed information on or with the package is part of packaging
	– Numerous factors have made packaging an important marketing tool
	  – Attracting attention on store shelves, e.g. supermarkets => customer sees 300 items per minute!
	  – E.g. Coca-Cola's “contour bottle”
	Process for developing a package
	– Packaging concept – what the packaging should be and do for the product
	– Specific elements of the package – size, shape, materials, color, text, brand mark
	– Must consider product safety and society's interests (waste)

Labeling	Range from simple tags to complex graphics that are part of the package (note that labeling is a part of packaging) **Several functions** – **Identifies** the product or brand – **Describes** several things – who made it, where and when it was made, contents, how to use (safely) – **Promote** the product through attractive graphics **Legal concerns (US)** – Federal Trade Commissions Act of 1914 => false, misleading, or deceptive labels or packages constitute unfair competition – Fair Packaging and Labeling Act of 1966 => mandatory labeling requirements, encouraged voluntary labeling standards, allowed feredal agencies to set packaging regulations in specific industries – Nutritional Labeling and Educational Act of 1990 => detailed nutritional information on food products; FDA regulations on the terms “low-fat”, “light”, “high fiber” **Recent developments** – Unit pricing (price per unit of standard measure) – Open dating (expected shelf life of the product) – Nutritional labeling (nutritional values of the product)
Support services	= Services that augment the actual product – Must be based on an assessment of **customer value** and **cost to produce** – Recent development – Internet-based support
Product decisions and social responsibility	New products may be prevented by government – Adding products through acquisition => may be prevented by government if threats to lessen competition Dropping products – Copmany may have legal obligations, written or implied, to their suppliers, dealers, and customers who have a stake in the discontinued product Patent and other IPRs – Affect product decisions Product liability suits – Almost 110000 per year in US Legislation – US Magnuson-Moss Warranty Act 1975 => defines what a “full warranty” is, if requirements not met, must use “limited warranty”

8.4 Product line decisions

Product line	Group of products close related because they... (1) function in a similar manner (2) are sold to the same customer groups (3) are marketed through the same type of outlets (4) fall within given price ranges

Product line decisions	**Product line length = number of items in the product line**
	Systematically increasing product line length
	– **Stretching**
	  – Lengthening of product line beyond its current range (e.g. price)
	  – Stretch ownwards – defend higher end products or profit from more market activity in lower price segment
	  – Stretch upwards – add prestige to current products, profit from faster growth rate or margins of higher end segment, position as a **full line manufacturer**
	  – Stretching in both directions – E.g. Marriott => Marriot Marquis, Springhill Suites / Fairfield Inn
	– **Filling**
	  – Adding more products within the current range (e.g. price)
	  – Reasons – extra profits, satisfying dealers, using excess capacity, being leading full line manufacturer, plugging holes to keep out competitors
	  – Risk of overdoing – results in cannibalization and customer confusion
	Pattern of uncontrolled product line growth and heavy pruning
	– Product lines tend to lengthen over time – more complete line to satisfy customers, or manager wants more sales and profits
	– Top management calls a halt and prunes product lines
	– Product lines start to lengthen again

8.5 Product mix decisions

Product mix dimensions	**Width** – Number of different product lines in the mix **Length** – Total number of items carried in each product line **Depth** – Number of versions offered of each product in a product line – e.g. sizes and formulations **Consistency** – How closely related the individual product lines are in end use, production requirements, distribution channels, or in some other way
Increasing business	(1) Add new product lines (2) Lengthen existing product lines (3) Add more versions of each product (4) Pursue more product line consistency

8.6 Services marketing

Trends	Services generate 74% of US GDP Service industries vary greatly – Governments – Private nonprofit organizations – Business organizations
Nature and characteristics of a service	**Intangibility** – Cannot be seen, tasted, felt, heard, or smelled before purchase **Inseparability** – Cannot be separated from their providers **Variability** – Quality depends on who produces, and when, where, and how **Perishability** – Cannot be stored for later sale or user
Signals of service quality	Intangibility => quality cannot be established before purchase, so buyers look for signals of quality – e.g. place, people, price, equipment, communication between employees, etc
Marketing strategies	**Traditional marketing mix activities PLUS** – Must interact efficiently with customers to create superior value during service encounters – Effective interaction depends on sklls of frontline employees and their background support – service production and support processes **Service-profit chain** (1) Internal service quality – superior employee selection and training, quality work environment, strong support for those dealing with customers, results in... (2) Satisfied and productive service employees – more satisfied, loyal, and hardworking employees, results in... (3) Greater service value – more effective and efficient customer value creation and service delivery, results in... (4) Satisfied and loyal customers – loyal customers, repeat purchases, references, results in... (5) Healthy service profits and growth – superior service firm performance
Three types of marketing	**Company to Employees** – Internal marketing **Company to Customers** – External marketing **Employees to Customers** – Interactive marketing

Major marketing tasks	**Managing service differentiation**
	– Solution to price competition is to develop a differentiated offer, delivery, and image
	– Differentiate **offer** – in-flight movies, etc
	– Differentiate **delivery** – more able customer-contact people, superior physical environment, etc
	Managing service quality
	– Service quality harder to define and judge than product quality, service quality will always vary
	– **Customer retention** – perhaps the best measure of quality
	– **Service recovery** – how to deal with mistakes – can result in more loyalty than without mistakes!
	– Ensuring quality
	  – Empower frontline employees
	  – Overall customer obsession and high service quality standards
	  – Watch service performance closely
	Managing service productivity
	– Train current employees or hire new ones
	– Increase the quantity of service by giving up some quality
	– Industrialize the service by adding equipment and standardized production
	– Harness technology – e.g. data mining

8.7 International product and services marketing

Special challenges	(1) What products and services to introduce in which countries? (2) How much to standardize or adapt products for world markets? (3) Packaging for international markets – names, labels, colors may not translate well to all countries (4) Service marketers – long history, customs, legal issues

9 New-Product Development and Product Life-Cycle Strategies

9.1 New product development strategy

New products	The development of original products, product improvements, product modfications, and new brans through the firm's own R&D efforts
Typical reasons for failure	– Market size overestimated – Poor product design – Incorrect positioning – Price too high – Costs of product development higher than expected – Competitors fight back harder than expected
Success factors	**Developing a unique superior product** – High quality, new features, highest value in use **Well-defined product concept prior to development** – Careful definition and assessment of the target market, product requirements, and product benefits => Ad hoc process should be replaced by **systematic new-product development process**

New product development process	**Idea generation**
	– Source – own R&D, competitors
	– Idea management system, including some of the following
	    – Respected idea manager, multi-disciplinary idea mgmt committee
	    – Toll-free number for new ideas
	    – Encourage all stakeholders (customers, dealers, employees, ...) to sent ideas to the idea manager
	    – Formal recognition programs to reward best new ideas

	Idea screening – Drop poor ideas, spot good ones, as early as possible – Various systems for rating and screening ideas – no more detail in book

	Concept development and testing
	– Product concept = a detailed version of the new-product idea, stated in meaningful consumer terms (!= product idea, product image)
	– Concept development
	    – Alternative concepts, described in customer-oriented manner
	– Concept testing
	    – Concept presented to groups of target consumers, symbolically or physically, e.g. word or picture description or physical mockup (“prototype”)
	    – After exposure to concept, consumers are asked questions related to the concept, such as (a) do you understand the concept? (b) do you believe the performance claims? (c) would you be ready to buy the product? (d) etc.

Marketing strategy

- **Marketing strategy statement**
  - Description of the target market, planned product positioning, sales, market share, profit goals for the first few years
  - Outline the planned price, distribution, and marketing budget for the first year
  - Planned long-run sales, profit goals, and marketing mix strategy

Business analysis

- A review of sales, costs, and profit projections for a new product, to find out whether they satisfy company objectives
- Sales estimation might be based on sales history of similar products, surveys of market opinion, etc
- [Note that according to the book, there is overlapping effort here – as some analysis of sales potential needs to be done for the marketing strategy phase anyway]

Product development

- R&D or engineering develops the product concept into an actual, physical product
- Calls for a large jump in investment
- R&D needs to do prototyping and testing of various alternative implementation ways, needs performance and safety tests, and possibly tests with consumer groups
- Must have the required objective performance characteristics, but also **psychological characteristics** must be proper, e.g. sound of doors in a car; management must learn what factors make consumers believe the product is well built and pass that information to R&D

Test marketing

- Product and marketing program are introduced into more realistic market settings
  - Typically using e.g. a geographically limited test market, a certain city or country, etc.
  - Most appropriate when risk is high and delay of full introduction not a problem
- Allows testing and fine tuning of product and marketing program before costly full introduction
  - Disadvantages – more time for competitors to copy product
  - Advantages – better cost control, better product for consumers
- Test market types
  - **Standard test markets**
    - A small number of representative test cities, full marketing campaign in these cities, store audits, consumer and distributor surveys
    - Costs can high, may take a long time, competitors may monitor or interfere
  - **Controlled test markets**
    - Stores that have agreed to carry new products for a fee
    - E.g. can monitor TV viewing and inserted advertisements, and corresponding buying behavior in stores in controlled test market
    - Cost less and take less time
  - **Simulated test markets**
    - Simulated shopping environment, ads + shelves, customers have a certain amount of money to spend – reasons for purchase or nonpurchase
    - Cheap, quick (8 weeks), keep out of competitor's view; small sample size

	Commercialization
	– Introducing the new product into the market – product launch
	– High costs – manufacturing facility or outsourcing
	– Must decide on...
	  – **Timing** – when to launch, factors may include cannibalization, economic cycle, ...
	  – **Where to launch** – single region/country, international, etc... Few companies can launch internationally directly
	    – Typically a planned **market rollout** is used instead, production is ramped up as the rollout proceeds

Speeding up the process	**Sequential product development**
	– A new-product development approach in which one company department works to complete its stage of the process before passing the new product along to the next department and stage ("waterfall model")
	– Helps control complex and risky projects, but may be dangerously slow
	Simultaneous (team-based) product development
	– An approach to developing new products in which various company departments work closely together, overlapping the steps in the product-development process to save time and increase effectiveness
	– **Cross-functional team** that stays with the product from start to finish
	  – Typically **empowered** to do things in a flexible manner to meet stated goals
	  – Team members act as product / project "advocates" within the functional units
	– Can be riskier and more costly than the slower, more orderly sequential approach, often increases organizational tension and confusion, company must also manage risk of producing faster but worse quality
	– Despite drawbacks, typically advantageous to improve time-to-market

9.2 Product life-cycle strategies

Product life cycle (PLC)	The course that a product sales and profits take over its lifetime
	– **Product development** = company finds and develops a new-product idea
	    – Sales are zero, company investment costs mount
	– **Introduction** = slow sales growth
	    – Profits non-existent, heavy expenses of introduction
	– **Growth** = rapid market acceptance
	    – Increasing profits
	– **Maturity** = slowfown in sales growth
	    – Profits level off or decline, increased marketing outlays to defend against competitors
	– **Decline**
	    – Sales fall off, profits drop
	Notes
	– Not all products follow this PLC, some die quickly, others stay in mature stage for a long, long time
	– **PLC applies to**
	    – **Product class** (gasoline-powered cars)
	        – Product class maturity stage is typically long
	    – **Product form** (minivans)
	        – Product form tend to have a standard PLC shape
	    – **Brand** (Ford Taurus)
	        – Specific brand's PLC may be more erratic because of changing competitive attacks and responses
	    – **Styles**
	        – = A basic and distinctive mode of expression
	        – Once invented, lives a long time, periodical renewed interest
	    – **Fashion**
	        – = Currently accepted or popular style in a given field
	        – Grow slowly, remain popular for a while, decline slowly
	    – **Fads**
	        – = Fashions that enter quickly, are adopted with great zeal, peak early, decline very fast
	        – E.g. Rubik cubes and lava lamps
	– The PLC curve for styles, fashions, and fads are non-standard

Introduction stage	Starts when the new product is first launched – Takes time, sales growth is apt to be slow – Promotino spending is relatively high – Company and its few competitors produce a few basic versions of the product A company must choose a launch strategy consistent with product positioning – Applies especially to **market pioneers** – Patience – short term launch strategy to “make a killing” may not be optimal

Growth stage	Product's sales start climbing quickly – Opportunities for profit => new competitors enter market – New product features introduced, market starts to grow – Prices remain as they were or fall very slightly – Promotion spending maintained or slightly increased – Profits increase, as promotion costs are spread over larger volume – Product quality and features should be improved, new segments entered, and new distribution channels built

Maturity stage	Product's sales will slow down
	– Results in many producers with many products to sell => overcapacity and greater competition
	– Prices are marked down, advertising and sales promotion increased, R&D budgets increased to find better versions of the product => drop in profits
	– Weaker competitors start dropping out, industry consolidates to a few well-established competitors
	– Some strategy alternatives for proactive marketing response
	  – **Modifying the market**
	    – Increase consumption of the current product – new users, new segments
	    – May reposition the brand to appeal to a larger or faster-growing segment
	  – **Modifying the product**
	    – Change quality, features, style, to attract new users or to inspire more usage
	    – E.g. Sony with its Walkman and Discman product lines
	  – **Modifying the marketing mix**
	    – Cut prices to attract new users and competitor's customers
	    – Launch better advertising campaign or use aggressive sales promotion – trade-deals, cents-off, premiums, contests
	    – More into larger market channels – mass merchandisers, if channels are growing
	    – Offer new or improved services to buyers

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<td>Decline stage</td>
<td>Sales decline to low level or plunge to zero

Many reasons – technological advances, shifts in consumer tastes, increased competition
Profits decline, more firms withdraw from the market
Remaining companies may prune their offerings, drop smaller market segments and marginal trade channels, cut promotion budget and cut prices further
A weak product may be very costly to the firm – hidden costs, such as management time, price and inventory adjustments, advertising and sales force attention, failing product reputation may affect overall company image, etc...
First management task is to identify products in decline stage, then choose

Maintain

Stay in the market, hope that competitors leave the market
May try to reposition or reformulate the brand in hopes of moving it back into the growth stage of the PLC (e.g. Frito-Lay doubled size of chips, made them triangular)

Harvest

Reduce various costs (plant and equipment, maintenance, R&D, advertising, sales force)
Hope that sales hold up – intent is to “squeeze” final profits out of the product

Drop

Sell the product to another firm, or simply liquidate its salvage value
If intent is to sell, harvesting may not be an option (“runs down” the product)

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10 Pricing Products: Pricing Considerations and Approaches

10.1 Introduction

Definition of **price**	The amount of money chared for a product or service, or the sums of the values that consumers exchange for the benefits of having or using the product or service Note that values exchanged need not be money – e.g. waiting time or clipping a coupon is a part of price
History	Historically price is the major factor affecting buyer choice – This is now changing in wealthy nations, **nonprice factors** becoming more important Fixed price policies – Same price for all buyers – Relatively moden idea, arose with development of large scale retailing at the end of the 19th century Dynamic price policies – Charging different prices depending on individual customers and situations – Internet may bring a swing back towards dynamic pricing
Only price brings revenue!	Price is the only part of the marketing mix that brings revenue – Also one of the most flexible elements – price can be changed quickly compared to e.g. product features
Common mistakes	– Too cost oriented, instead of customer-value oriented – Prices not revised often enough to reflect market changes – Pricing does not take rest of the marketing mix into account – Prices not varied enough for different products, market segments, and purchase occasions

10.2 Factors to consider when setting prices

Overview	1) Internal factors 2) External factors Price is squeezed from two directions – **Price floor** – product costs – **Price ceiling** - consumer perceptions of product value
Internal factors	**Marketing objectives** – The better target market selection and product positioning done, the easier this step is – Common objectives include: survival, current product maximization, market share leadership, product quality leadership – May also want to set low prices to prevent competition from entering the market, to reduce prices to create excitement for a produtc or to draw more customers into a retail store

	Marketing mix strategy
	– Price is a part of the 4Ps – price decisions must be coordinated with product design, distribution, and promotion to forma a consistent and effective marketing program
	– Primary positioning can often be built on price, and then other marketing mix decisions can be based on the price
	  – **Target costing** = pricing that starts with an ideal selling price, then targets costs that will ensure that the price is met
	– Other companies de-emphasize price, and use other marketing mix tools to create **nonprice positions**
	  – E.g. differentiate the marketing offer to make it worth the higher price

	Costs
	– Costs set the floor to pricing – a company cannot consistently sell below costs
	– Fixes, variable, total costs
	– Cost at different levels of production
	  – SRAC (short-run average costs), LRAC (long-run average costs)
	  – SRACs are smaller U-shaped curves, LRAC consists of optimal SRACs for each quantity
	– Cost as a function of learning – **experience curve / learning curve**
	  – = Drop in the average per-unit production cost that comes with accumulated production experience
	  – Often assumed that if production amount doubles, constant drop in average price

	Organizational considerations – In small companies, top management often sets prices – In large companies, pricing is typically handled by divisional or product line manager – In industrial markets, salespeople may have ranges for negotiation; top management may still accept final prices – If pricing is a key factor in the industry (e.g. aerospace, railroads, oil companies), companies often have **pricing departments** to set best prices – However, there may be influences from all around – sales and production managers, finance managers, accountants

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<td>External factors</td>
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Nature of the market and demand

Market and demand set the upper limit on price [market demand on the other hand is the perceived utility of the consumer]
Pricing in different types of markets

Pure competition

Many buyers and sellers, no single seller or buyer can significantly affect market price
=> Price taker, no reason to spend too much time on marketing strategy
E.g. uniform commodities such as iron, copper, financial securities

Monopolistic competition

Many buyers and sellers, trading over a range or prices, caused by differentiation
Either the physical product can be varied in quality, features, style; or the accompanying services can be varied => buyers see a difference in sellers' products and are willing to pay different prices for them
E.g. foods

Oligopolistic competition

A few sellers who are highly sensitive to each other's pricing and marketing strategies; product can be uniform (steel, aluminum) or nonuniform (cars, computers)
Difficult for new sellers to enter the market
Seller interactions are game-theoretically complex

Pure monopoly

One seller, who may select price or quantity to sell
Pricing depends on monopoly type

Government monopoly => various options, e.g. price below cost for social reasons, price to cover costs, price high to slow down consumption
Private regulated monopoly => allowed to sell at rates with “fair return”
Private non-regulated monopoly => free to price how they want, but maximum price not always charged to (a) avoid attracting competition, (b) penetrate market faster, (c) fear of regulation

Consumer perceptions of price and value

Effective, buyer-oriented pricing involves understanding how much value consumers place on the benefits they receive from the product, and setting a price that fits this value
Demand curve and its properties, particularly elasticity, price elasticity of demand

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Competition

Consumer can select competitor's product [or a substitute], which affects maximum price
High-price, high-margin strategy attracts competition, low-price, low-margin strategy may keep them out
Need to benchmark costs against competitors, so that an informed decision can be made – e.g. intensive price competition when you're not the lowest cost producer may be damaging

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	Other environmental factors (economy, resellers, government) – Economic conditions – In addition to consumers, company must think how **resellers react** to prices – the company should set prices that give resellers **fair profit**, encourage their support, and help them sell the product effectively – Government may affect pricing (price control, taxes, ...) – Social concerns – short term goals may have to be tempered by broader societal considerations

10.3 General pricing approaches

Overview	Major considerations in setting a price – Product costs – price floor (no profits below this price) – Competitors' prices, and other internal and external factors – Consumer perceptions of value – price ceiling (no demand above this price)

Cost-based pricing	**Cost-plus pricing** – add a standard mark-up to product costs
	– Must take variable and fixed costs into account; sales volume needs to be known to determine per-unit fixed costs
	– Cost-based pricing does not generally make sense – any pricing method that ignores demand and competitor prices is not likely to lead to the best price
	– Still popular for many reasons
	  – Sellers are more certain about costs than demand
	  – When all firms use this method, prices tend to be similar and price competition is minimized
	  – Many feel that cost-plus pricing is fairer to both buyers and sellers
	Break-even analysis and target profit pricing
	– Determine the price at which it will break even or make the target profit it is seeking
	  – Used by e.g. General Motors, whose target is 15-20 % profit on investment
	  – Also used by public utilities
	– Break-even chart – this is just basic linear analysis where costs divided into fixed and variable

Value-based pricing	Setting prices based on buyers' perceptions of value rather than on the seller's costs
	– Price is considered as part of the marketing mix **before** the marketing program is set
	– Target price is set based on customer perceptions of the product's value – targeted price drive product design and cost decisions
	– Company needs to find out what value buyers assign to different competitive offers
	    – Measuring **perceived value** for a competitive offer is very difficult
	    – Ask consumers about maximum prices for basic product and extras
	    – Conduct experiments to test perceived value
	– Overpricing – if price > perceived value, sales will suffer
	– Underpricing – if price < perceived value, sell very well, revenue lost
	– **Value pricing** strategies
	    – Offering just the right combination of quality and good service at a **fair price**
	    – Less expensive versions of established, brand-name products
	– In many B2B situations challenge is to maintain **pricing power**
	    – = The power to maintain or even raise prices without losing market share
	    – Retain or build the value of the company's marketing offer – may be in the actual product, or in value-added services in addition to the actual product (especially important in commodity products)
	    – **Everyday Low Pricing (EDLP)** – retail strategy where you charge a constant, everyday low price with few or no temporary discounts
	    – **High-low Pricing** – charge higher prices on everyday basis, but run frequent promotions to temporarility lower prices on selected items below the EDLP level
	    – EDLP King is Wal-Mart (basically defined the concept), others also moving in this direction

Competition-based pricing	Setting prices based on the prices that competitors charge for similar products – **Going rate pricing** – set price based on competitor's prices without attention to own costs – In oligopolistic industries heavy-weights usually set prices and small companies follow lead – some companies may have a constant price difference to leader price (e.g. 2 cents off standard gas price) – Going rate pricing used especially when demand elasticity is unknown, and company wants to rely on “collective wisdom” of the industry – **Sealed bid pricing** – used when companies bid for jobs, bid is set based on estimations of the competitors' bids (with attention to its costs, of course)

11 Pricing Products: Pricing Strategies

11.1 New-product pricing strategies

Pricing structure	Instead of a single price, a company sets a set of prices, one for each product in its product line Varies depending on product life cycle
Market-skimming pricing	Set high prices initially to "skim" revenues layer by layer (e.g. Intel) Makes sense if... 1) Product quality and image must support the higher price, and enough demand exists at higher price 2) Costs of producing a smaller volume cannot cancel the advantage of charging more 3) Competitors should not be able to enter the market easily and undercut the high price
Market-penetration pricing	Low initial price to penetrate market quickly – high sales volume results in falling costs, allowing the company to cut prices even further (e.g. Dell initially) Makes sense if... 1) Market must be highly price sensitive, so that low price produces more market growth 2) Production and distribution costs must fall as sales volume increases 3) Low price must help keep out the competitionk and the penetration pricer must maintain its low-price position (otherwise the price advantage may only be temporary)

11.2 Product mix pricing strategies

Overview	When a product is part of a product line, the company should maximize the profits from the entire product line, not just one product => direct effect on pricing strategy Difficult, because product prices and demand are interrelated, and each item in the product line faces different competition
Product line pricing	Setting price steps between various products in a product line, based on cost differences between the products, consumer evaluations of different features, and competitors' prices Often well-established **price points** (e.g. men's clothing => $185, $325, $495) E.g. Kodak films
Optional-product pricing	Pricing of optional or accessory products along with a main product – Sticky problem – when is an accessory really a part of the product? – E.g. extremely stripped cars are uncomfortable
Captive-product pricing	Pricing for products that must be used along with a main product, such as blades for a razor and film for a camera – Often main product priced low, high margins on supplies – [Risk of knock-offs – e.g. third party Nokia cell batteries] In services, called **two-part pricing** – **fixed fee** + **variable usage rate**

By-product pricing	Pricing for by-products in order to make the main product's price more competitive – Manufacturer should accept basically any price that covers cost of storing and delivering by-products – E.g. “Zoo Doo” dung
Product bundle pricing	Combining several product and offering the bundle at a reduced price – E.g. season tickets, hotel room with entertainment services, computer+software – [More value for money, but more sales should not affect overall demand too much, i.e. so that total revenue also increases]

11.3 Price adjustment strategies

Discount and allowance pricing	**Cash discount** – Price reduction to buyers who pay their bills promptly – “2/10 net 30” means payment is due in 30 days, but if paid within 10 days, 2% discount – Customary in many industries – improves seller's chas situation, reduced bad debts and credit-collection costs **Quantity discount** – Price reduction to buyers who buy large volumes – By law, must be offered equally to all customers [in US] – Discount must not exceed seller's cost savings associated with selling large quantities **Functional discount** – Price reduction offered by the seller to trade channel members who perform certain functions such as selling, storing, and record keeping – Different discounts may be offered to different trade channels, but if two channels have same services, same price must be offered [in US] **Seasonal discount** – Price reduction to buyers who purchase merchandise or services out of season – Allows the seller to keep production steady during the entire year – E.g. hotel out-of-season pricing **Allowances** – Promotional money paid by manufacturers to retailers in return for an agreement to feature the manufacturer's products in some way – **Trade-in allowances** – price reductions for turning in an old item when buying a new one – **Promotional allowances** – payments or price reduction to reward dealers who participate in advertising and sales support programs

Segmented pricing	Selling a product or service at two or more prices, where the difference in prices it no based on differences in costs
	– **Customer-segment pricing**
	  – Different price for same product/service, e.g. museums for adults and students
	– **Product-form pricing**
	  – Different versions of the product priced differently, but not according to differences in costs
	  – E.g. $12 more for iron “self cleaning” feature, which costs $2 to make
	– **Location pricing**
	  – Different prices for different locations, even though cost of offering is the same in all locations
	  – E.g. theaters vary prices of different seats
	– **Time pricing**
	  – Price varies by season – month, day, or even hour
	  – E.g. telephone company offers cheaper off-peak charges
	To be effective, certain conditions must be fulfilled
	1) Market must be segmentable, and segments must show different degrees of demand
	2) Members of segments paying lower price should not be able to “turn around” and sell to the segment paying the higher price
	3) Competitors should not be able to undersell the firm in the higher-priced segment
	4) Costs of segmenting and watching the market should not exceed the extra revenue from the price difference
	5) Segmented pricing must be legal
	6) Segmented pricing should reflect real differences in customer's perceived value

Psychological pricing	A pricing approach that considers the psychology of prices and not simply the economics; the price is used to say something about the product – When customers cannot judge quality because they lack information or skill, price becomes an important quality signal – E.g. Heublein's Smirnoff => raising prices raised sales! – When quality can be judged by consumers, price affects quality perception less **Reference prices** – = Prices buyers carry in their minds and refer to when they look at a given product – E.g. noting current prices, remembering past prices, or assessing the buying situation – Sellers can accept reference prices or try to affect them – e.g. display product next to high priced products to suggest they are in the same category Small price differences ($299 => $300) may have relatively large impacts – Even individual numbers may have psychological meaning – 8 is round and even, 7 is angular and creates a jarring effect

Promotional pricing	Temporarily pricing products below the list price, and sometimes even below cost, to increase short run sales
	– Supermarkets use **loss leaders** (“sisäänheittotuote”)
	– **Special event pricing** in certain seasons to draw more customers (e.g. linens in January to attract Christmas-weary people back to stores)
	– **Cash rebates** to customers who buy the product from dealers within a specified time – rebate sent directly to customer (no money off the dealer)
	– **Low-interest financing**, **longer warranties**, **free maintenance** to reduce consumer perception of price
	– Or **simple dicounts** off normal prices
	Can have adverse effects
	– If used too frequently and copied by competitors => “deal-prone” customers who wait until brands go on sale before buying
	– Can erode a brand's value in the eyes of the customers [= affects positioning]
	– **“Brand equivalent of heroin”**
	– Jack Trout's Commandments of Discounting
	    – Thou shalt not offer discounts because everyone else does
	    – Thou shalt be creative with your discounting
	    – Thou shalt put time limits on the deal
	    – Thou shalt stop discounting as soon as you can

Geographical pricing	Charge the same price for customers in different locations (based on transport costs) or same price for all customers (and different profits at different locations)? **FOB-origin pricing** – FOB = “free on board” - ustomer pays the shipping from the factory to the customer's location – Price = base price, customer pays shipping costs himself **Uniform-delivered pricing** – Price is the same for all customers - allows national advertising – Price = base price + average freight cost **Zone pricing** – Falls between FOB-origin and uniform-delivered pricing – All customers within a zone pay the same total price (includes freight); the more distant the zone, the higher the price (e.g. East, West, Midwest) – Price = base price + (average) freight cost for zone in question **Basing-point pricing** – Select a **basing point**, charge for freight from the basing point to the customer's location – however, the product may be physically produced closer to the customer! [“virtual freight costs”] – If all sellers use same basing point, price competition is eliminated – Used in industries such as sugar, cement, steel, cars, but has become less popular today – Some used multiple basing points, prices quoted based on closest basing point **Freight-absorption pricing** – Seller absorbs all or part of the actual freight charges in order to get the desired business – Argument: more business => less costs, which covers the freight costs

International pricing	Price depends on many factors – economic conditions, competitive situations, laws and regulations, development of the wholesale and retail system, consumer perceptions and preferences – E.g. Sony may use penetration pricing in mature markets, but skimming pricing in less developed markets where less price sensitive segments are targeted Costs play an important role – **Price escalation** may result from product modification costs, shipping, insurance, tariffs and taxes, costs related to exchange rate fluctuations, higher channel and distribution costs

11.4 Price changes

Initiating price changes	**Initiating price cuts** – Excess capacity, and cannot get more business through increased sales effort, product improvements, or other measures – Falling market share in the face of strong price competition – Company wants to dominate the market through lower costs **Initiating price increases** – Cost inflation – squeeze on profit margins => pass costs to consumers – Overdemand – the company can raise prices because demand exceeds supply – Prices can be raised “invisibly” by dropping discounts, and adding higher-priced units to the product line – can also shrink the product (e.g. candy bar) – Price increases should be communicated to the consumers – why being increased, customers should be given advance notice, allows for forward buying or shopping around – Escalator clauses in large long-term projects for inflation etc **Buyer reactions to price changes** – Price cut may have many meanings – Products about to be replaced by newer models? Is there some fault in the product? Is the seller abandoning the segment? Has quality been reduced? Will the price come down even further? – Price increase may have many meanings also – Is the product so hot they can raise prices (the product may become unobtainable, so better buy it soon)? Is the product unusually good value? Is the seller greedy and charging what the traffic will bear? **Competitor reactions to price changes** – Competitor behavior history known? – If competitors assumed to act in self-interest – what is that self-interest in the scenario in question? – The problem is complex, because competitors may view the price changes in several ways (just like the consumers) – When multiple competitors, must anticipate the reactions of each – and the reactions to these reactions etc.

Responding to price changes	Process for assessing and responding to competitor price changes
	– Has competitor cut prices? No => hold current price and continue monitoring
	– Will lower price negatively affect our market share and profits? No => hold price
	– Can/should effective action be taken? No => hold price
	– Select action
	  – Reduce price
	  – Raise perceived quality
	  – Improve quality and increase price
	  – Launch low-price “fighting brand”

11.5 Public policy and pricing

	US legislation – Sherman Act – Clayton Act – Robinson-Patman Act – Affect only interstate commerce – though states have similar provisions for local companies
Pricing within channel levels	Price fixing – Sellers must set price without talking to competitors – no excuses Predatory pricing – Selling below cost with the **intention** of punishing a competitor or gaining higher long-run profits bu putting competitors out of business – Protects small sellers from larger ones who might sell items below cost temporarily to drive the smaller seller out of business – Problem – what constitutes predatory pricing behavior? Selling below cost to sell off excess inventory is **not** prohibited => depends on **intent**, which is difficult to prove

Pricing across channel levels	**Price discrimination**
	– Sellers must offer the same price terms to customers at a given level of trade (Robinson-Patman Act)
	– For example, every retailer entitled to same price terms from a given manufacturer, what the retailer is large or small
	– Price discrimination **is** allowed if seller can prove that its costs are different when selling to different retailers! Also allowed if price difference explained by quality differences (seller must prove price difference is proportional to quality difference)
	Resale price maintenance
	– Seller cannot require a retailer to charge a specified price for its product
	– Seller can suggest retail prices, but cannot refuse to sell or punish the seller (shipping later, denying advertising allowances) if suggestions not followed
	Deceptive pricing
	– Seller states prices or price savings that are not actually available to consumers
	– E.g. bogus reference or comparison prices
	– E.g. high “regular prices” to make “sale” prices seem lower – legal if claims are truthful, but FTC *Guides Against Deceptive Pricing* warns sellers not to advertise price reduction unless they really apply to retail prices
	Scanner fraud and price confusion
	– Scanner fraud
	    – E.g. old prices in database, scanner at checkout counter enters higher than advertised price
	– Price confusion
	    – Pricing methods that make it difficult to determine what the actual price is
	    – E.g. important pricing details buried in “fine print”
	– Many US federal and state statutes regulate against deceptive pricing practices – responsible sellers may even go beyond the law requirements

12 Distribution Channels and Logistics Management

12.1 The nature of distribution channels

Why are marketing intermediaries used?	Why use intermediaries? Means giving up some control over how and to whom products are sold – They are used because they have greater efficiency in making goods available to target markets – Contacts, experience, specialization, scale of operation – N-to-M direct selling, N-to-1 + 1-to-M through channel – Producers make narrow assortments in large quantities, consumers want broad assortments in small quantities – intermediaries break down the quantities, thus matching supply and demand Intermediaries not restricted to tangible products – also for service production **Distribution channel** – moves goods and services from producers to consumers (a.k.a. **marketing channel**)
Distribution channel functions	**Helping to complete transactions** – Information – gathering and distributing marketing research and intelligence information about actors and forces in the marketing environment needed for planning and aiding exchange – Promotion – developing and spreading persuasive communications about an offer – Contact – finding and communicating with prospective buyers – Matching – shaping and fitting the offer to the buyer's needs, including activities such as manufacturing, grading, assembling, and packaging – Negotiation – reaching an agreement on price and other terms of the offer so that ownership or possession can be transferred **Help fulfill completed transactions** – Physical distribution – transporting and storing goods – Financing – acquiring and using funds to cover the costs of the channel work – Risk taking – assuming the risks of carrying out the channel work All functions **must** be performed – question is **who** performs them – If producer does them, its costs and product price go up – If intermediaries do, they need to add markup so that final price goes up – => In dividing the work, each function should be assigned to the channel member who is most efficient in carrying out the function – maximizes margins

Number of channel levels	= Number of participants in the distribution channel, at least two (producer, consumer)
	B2C marketing channels
	– Direct marketing channel
	  – Producer – Consumer
	– Indirect marketing channels
	  – Producer – [Wholesaler] – [Jobber] – [Retailer] – Consumer
	B2B marketing channels
	– Manufacturer – [Manuf.'s rep or sales branch] – [Industrial distributor] – Consumer

Channel connections	All entities in the channel are connected by **flows** – Flow of **ownership** – Flow of **payments** – Flow of **information** – Flow of **promotion**

12.2 Channel behavior and organization

Channel behavior	Each channel member depends on the other members
	– Each member plays a role and specialized in performing some functions
	– Ideally all channel members should work together smoothly – success of the individual member depends on the success of the entire channel
	  – However, individual channel members typically “selfish”, concerned with their own short-run goals and their dealings with firms closest to them in the channel
	– **Channel conflict**
	  – Disagreement among marketing channel members on goals and roles – who should do what and for what rewards
	  – **Horizontal conflict** – occurs among firms at the same level of the channel (e.g. among retailers)
	  – **Vertical conflict** – occurs between different levels of the same channel, even more common than horizontal conflict (e.g. between wholesaler and retailer)

Vertical marketing systems	**Conventional distribution channels**
	– = A channel consisting of one or more independent producers, wholesalers, and retailers, each a separate business seeking to maximize its own profits even at the expense of the profits for the system as a whole
	– Individual members performed their own functions
	– Lacked strong leadership, damaging channel conflicts, poor performance
	Vertical marketing systems (VMS)
	– = A distribution channel structure in which producers, wholesalers, and retailers act as a unified system. One channel member owns the others, has contracts with them, or has so much power that they all co-operate
	– **Corporate VMS**
	  – = A vertical marketing system that combines successive stages of production and distribution under **single ownership** – channel leadership is established through a common ownership
	– **Contractual VMS**
	  – = A vertical marketing system in which independent firms at different levels of production and distribution join together through contracts to obtain more economies or sales impact than they could achieve alone
	  – **Wholesaler-sponsored voluntary chains**
	    – Wholesaler develops a program which standardizes independent retailer operations
	  – **Retail cooperatives**
	    – Retails organize a new, jointly owned business to carry on wholesaling and possibly production
	    – Members buy most of their goods through the cooperative, and plan their advertising jointly
	  – **Franchise organizations**
	    – Channel member called **franchiser** links several stages in the production-distribution process
	    – **Manufacturer-sponsored retailer franchise system** (car dealers)
	    – **Manufacturer-sponsored wholesale franchise system** (Coca-Cola)
	    – **Service-firm-sponsored retailer franchise system** (McDonald's)
	– **Administered VMS**
	  – = A vertical marketing system that coordinates successive stages of production and distribution, not through commown ownership or contractual ties but through the size and power of one of the parties
	  – Leadership assumed by one or few channel members
	  – E.g. General Electric, Procter & Gamble; Wal-Mart, Barnes & Noble

Horizontal marketing systems	= A channel arrangement in which two or more companies at one level join together to follow a new marketing opportunity – Can combine capital, production capabilities, or marketing resources – Might join forces with competitors or non-competitors – Temporary or permanent basis – May also create a separate company for the co-operation process – E.g. Lamar and Safeway

Hybrid marketing systems	= A multichannel distribution system in which a single firm sets up two or more marketing channels to reach one or more customer segments – More and more companies are adopting this approach – More difficult to control – complexity, more possibility for channel conflict, “outside” and “inside” channels
Changing channel organization	Disintermediation – = The elimination of a layer of intermediaries from a marketing channel or the displacement of traditional resellers by radically new types of intermediaries – E.g. Dell Computer, Amazon.com – To compete, traditional intermediaries must find ways to add value in the supply chain – and producers must develop new channels opportunities

12.3 Channel design decisions

Overview	Problem is usually not deciding what the best channel is – rather, to convince one or a few good intermediaries to handle the product line

Analyzing consumer service needs	Marketing channels as **customer value delivery systems**
	– Starting point – what the targeted consumers want from the channel?
	  – Want to buy nearby? Buy in person or over the phone? Wide assortment or specialization? Many add-on services or “bare bones”?
	  – Consumer service needs must be balanced against feasibility and price preference

Setting channel objectives and constraints	Channel objectives should be stated in terms of **desired service level** of **target consumers**
	– In each target segment, the company wants to minimize the total channel cost of meeting the objectives
	– Channel objectives also influenced by the nature of the company, its products, marketing intermediaries, competitors, and the environment
	  – E.g. company financial situation may dictate what functions of the marketing channel can be handled in-company
	  – E.g. companies selling perishable products may want to sell more directly to avoid avoid delays and too much handling

Identifying major alternatives	**Types of intermediaries**
	– For manufacturing firm – company sales force, manufacturers' agency, industrial distributors
	– For other firms – wholesaler, retailer, jobber
	– [Note: many more layers in e.g. Japan]
	Number of intermediaries
	– **Intensive distribution**
	    – = Stocking the product in as many outlets as possible
	    – Convenience products and materials
	– **Exclusive distribution**
	    – = Giving a limited number of dealers the exclusive right to distribute the company's products in their territories
	– **Selective distribution**
	    – = The user of more than one, but fewer than all, of the intermediaries who are willing to carry the company's products
	    – Conserve effort, work with "best partners"
	Responsibilities of channel members
	– Price policies
	– Conditions of sales
	– Territorial rights
	– Specific services to be performed by each party

Evaluating the major alternatives	Economic criteria – Likely profitability of different channel alternatives Control issues – Other things being equal, the company prefers to keep as much control as possible Adaptive criteria – Company wants to keep the channel as flexible as possible – Thus, long term commitments must be offset by superior economic or control criteria
Designing international distribution channels	Global marketers must usually adapt their channel strategies to the existing structures within each country – Japan => soap may move through three wholesalers + several retailers – Developing countries – channels may be scattered and inefficient – e.g. China and India => companies can profitably access only a small portion of the potential

12.4 Channel management decisions

Selecting channel members	Company should determine what characterizes a good channel member, and evaluate – Years in business – Other lines carried – Growth and profit record – Cooperativeness – Reputation If sales agents – Evalute the number and character of other lines carried, and the size and quality of the sales force If retailer who wants exclusive rights or selective distribution – Evalute store's customers, location, future growth potential
Motivating channel members	The company must not only sell through intermediate but **to** the intermediaries – Most companies see their intermediaries as first-line customers – Carrots and stick – positive motivators such as high margins, premiums, allowances; negative motivators such as threatening to reduce margins, slow down delivery, or end relationship – More advanced companies try to forge long term partnerships – meeting the needs of both manufacturer and distributors [win-win]
Evaluating channel members	Regular checks of member performance against – Sales quota – Average inventory levels – Customer delivery time – Treatment of damaged and lost goods – Cooperation in company promotion and training programs – Services to the customer Rewards, assistance, replacement, periodic requalification

12.5 Public policy and distribution decisions

Exclusive distribution	Legal, as long as they don't substantially lessen competition or tend to create a monopoly, and as long as both parties enter into the agreement voluntarily (US Clayton Act 1914)
Exclusive territorial agreements	Producer may agree not to sell to other dealers in a given area – Normal under franchising, perfectly legal (a seller has no legal obligation to sell through more outlets than it wishes) Buyer may agree to sell only in its own territory – Has become a major legal issue, producer tries to limit actions of buyer
Full line forcing and other tying agreements	Not necessarily illegal, but they may violate US Clayton act if lessen competition
Dealer selection and dropping	Producers may freely select dealers Dealer dropping is restricted – in general, only “for cause” – Cannot drop dealer if refuses to participate in a doubtful legal arrangement, such as exclusive dealing or tying agreements

12.6 Physical distribution and logistics management

Nature and importance of physical distribution and marketing logistics	Physical distribution (market logistics)
	– = The tasks involved in planning, implementing, and controlling the physical flow of materials, final goods, and related information from points of origin to points of consumption to meet customer requirements at a profit
	– Traditional thinking – start from products at the plant, figure out low-cost solutions to get them to customers
	– Today's **market logistics** thinking – start with the marketplace, work towards the factory
	– Both inbound and outbound distribution
	– More broadly, **supply chain management**, supply chaing being a **value-added flow** from suppliers to final users
	– Trends recently
	    – Nowadays greater emphasis on logistics, now an important customer service element
	    – Also a major cost element for most companies
	    – Explosion of product variety => need for improved logistics management
	    – Improvements in IT have created opportunities for major gains in distribution efficiency – Electronic Data Interchange (EDI), Electronic Funds Transfer (EFT)

Goals of the logistics system	Goal should be to provide a **targeted level of service** at the **least cost** – Stating the goal as “maximum customer service” at the “least cost” is an oxymoron – there is a trade-off involved, and either cost or customer service needs to be decided – Objective is to maximize **profits**, not **sales**

Major logistics functions	**Order processing**
	– Many ways to submit an order – phone, fax, EDI, Internet
	– Orders must be processed quickly and accurately
	– Modern computerized order-processing systems speed up the order-shipping-billing cycle
	Warehousing
	– Storage function needed because production and consumption cycles rarely match
	– Questions to answer
	  – How many warehouses?
	  – Where should they be located?
	– **Storage warehouses** – store goods for moderate to long periods
	– **Distribution centers** – large, highly automated warehouse designed to receive goods from various plants and suppliers, take orders, fill them efficiently, and deliver goods to customers as quickly as possible
	Inventory
	– Maintain delicate balance between too much (=> higher-than-necessay inventory-carrying and stock obsolescence costs) and too little inventory (=> stock outs, emergency shipments, customer dissatisfaction)
	– During the past decade **just-in-time logistics** systems – reduced inventories, new stock arrives exactly when needed
	  – Require accurate forecasting, and fast, frequent, and flexible delivery
	  – Substantial cost savings in inventory-carrying and handling costs
	Transportation
	– **Railroads**
	  – One of the most cost-effective for bulk products (26% of US transports tons)
	  – Improved service such as piggybacking, diversion of products
	– **Truck**
	  – Largest portion of transportation within cities (52% of US transport tons)
	  – Highly flexible in routing and scheduling
	  – Efficient for short hauls and valuable merchandise
	– **Water**
	  – Water carriers (15% of US freight)
	  – Costs low for bulky, low-value, non-perishable products
	  – Slowest mode, may be affected by weather
	– **Pipeline**
	  – Petroleum, natural gas, chemicals
	  – Most pipelines used by their owners to ship their own products
	– **Air**
	  – Less than 1% of US goods, quickly becoming more important
	  – Ideal when speed is needed or for distant markets
	  – Perishables and high-value, low-bulk items
	  – Air freight reduces inventory levels, packaging costs, number of warehouses needed

	Intermodal transportation
	– Combining two modes of transportation
	  – **Piggyback** (rail and trucks)
	  – **Fishyback** (water and trucks)
	  – **Trainship** (water and rail)
	  – **Airtruck** (air and trucks)
	– Provides advantages no single mode of transportation can offer

Integrated logistics management	= The logistics concept that emphasizes teamwork, both inside the company and among all the marketing channel organizations, to maximize the performance of the entire distribution system
	Cross-functional teamwork inside the company
	– Functional units tend to optimize their own performance with narrow focus
	– Goal is to harmonize all the distribution decisions in order to avoid conflicts between functional unit goals
	Building channel partnerships
	– One company's distribution system is another company's supply system
	– The success of each channel member depends on the performance of the entire supply chain
	– Companies must do more than improve their own logistics – work with other channel members to optimize the entire channel
	– Thus, many companies are building strong partnerships with suppliers and customers to improve customer service and reduce channel costs
	  – **Cross-functional, cross-company teams**
	  – **Shared projects**
	  – **Information sharing systems**
	  – **Continuous inventory replenishment systems**
	  – **Anticipatory-based distribution systems => response-based distribution systems (customer triggered)**
	  – **Quick response system** (e.g. Benetton dyes its sweaters at the “last minute”)

Third-party logistics	= An independent logistics provider that performs any or all of the functions required to get their clients' product to market
	Reasons to use third party logistics providers
	– More efficient than the company itself for logistics function
	– Frees a company to focus more intensely on its core business
	– Integrated logistics companies understand increasingly complex logistics environments
	  – May be helpful for companies attempting to expand their global market coverage
	  – E.g. national restrictions in Europe

13 Retailing and wholesaling

13.1 Retailing

Definitions	Retailing – = All activities involved in selling goods or services directly to final consumers for their personal, non-business use Retailer – = Business whose sales come **primarily** from retailing Store and non-store retailing – Store retailing => physical store – Non-store retailing => direct mail, catalogs, telephone, home and office parties, door-to-door, vending machines, online services – Growing much faster than store retailing

Retailer classification	**Amount of service**
	– **Self-service**
	    – For customers who are willing to perform their own “locate-compare-select” processes
	– **Limited service**
	    – Some information about products available
	– **Full service**
	    – Salespeople assist in every phase of the process
	    – Specialty stores, first class department stores
	    – Operating costs passed on to customers

Product line breadth and depth

- **Specialty store**
  - = A retail store that carries a narrow product line with a deep assortment within that line
- **Department store**
  - = A retail organization that carries a wide variety of product lines (clothing, home furnishing, household goods, etc) – each line is operated as a separate department managed by specialist buyers and merchandisers
- **Supermarket**
  - = Large, low-cost, low-margin, high-volume, self-service store that carries a wide variety of food, laundry, and household products
  - Hit hard by "out of home" eating => supermarket delis etc
- **Convenience store**
  - = A small store, located near a residential area, that is open long hours seven days a week and carries a limited line of high-turnover convenience goods
- **Superstores**
  - = A store almost twice the size of a regular supermarket that carries a large assortment of routinely purchased food and nonfood items and offers services such as dry cleaning, post offices, photo finishing, check cashing, bill paying, lunch counters, car care, pet care
  - **Supercenters** – combination of food and discount stores
    - Cross-merchandising
    - E.g. toasters are placed above fresh bread
  - **Category killer**
    - = Giant specialty store that carries a very deep assortment of a particular line and is staffed by knowledgeable employees
  - **Hypermarkets**
    - Huge superstores – successful in Europe, limited success in USA
- **Service retailers**
  - Hotels, motels, banks, airlines, colleges, hospitals, movie theaters, ...
  - Service retailers growing faster than product retailers [in the US]

	Relative prices
	– **Discount stores**
	  – = A retail institution that sells standard merchandise at lower prices by accepting lower margins and selling at higher volume
	  – Have a tendency to “trade up”, which increases costs and prices
	– **Off-price retailers**
	  – = Retailer that buys at less-than-regular wholesale prices and sells at less than retail
	  – Filled the gap (low prices) when major discount stores traded up
	  – **Independent off-price retailers**
	    – = Off-price retailer that is either owned and run by enrepreneurs or is a division of a larger retail corporation
	  – **Factory outlets**
	    – = Off-price retailing operation that is owned and operated by a manufacturer and that normally carries the manufacturer's surplus, discontinued, or irregular goods
	    – Factory outlet malls – manufacturer's outlets, hot growth area
	    – Value-retail centers – manufacturer's outlets + off-price retail stores and department store clearance outlets
	  – **Warehouse club** (wholesale clubs, membership warehouses)
	    – = Off-price retailer that sells a limited selection of brand name grocery items, appliances, clothing, and a hodgepodge of other goods at deep discounts to members who pay annual membership fees
	    – Customer self service – must carry away their new furniture, etc

	Organization
	– **Chain stores**
	  – = Two or more outlets that are owned and controlled in common, have central buying and merchandising, and sell similar lines of merchandise
	  – Corporate chains – common ownership
	  – Voluntary chains – wholesaler sponsored group of buyers
	  – Retailer cooperatives – jointly owned central wholesale operation
	– **Franchise organizations**
	  – = A contractual association between a manufacturer, wholesaler, or service organization (a franchiser) and independent businesspeople (franchisees) who buy the right to own and operate one or more units in the franchise system
	  – Normally based on some unique product or service, trade name, goodwill, or a patent that the franchiser has developed
	– **Merchandising conglomerates**
	  – Corporations that combine several different retailing forms under central ownership
	  – Diversified retailing, provides superior management systems and economies, benefiting all separate retail operations
	  – E.g. Dayton-Hudson => Target (upscale discount stores), Mervyn's (middle-market apparel and soft goods), three department stores

13.2 Retailer marketing decisions

Overview	Stores are looking more and more alike – Service differentation among retailers has also eroded Retailer strategy – Target market – Retail store positioning Retailer marketing mix – Product and service assortment – Prices – Promotion – Place (location)

Target market and positioning	– Some questions
	  – Upscale, midscale, downscale?
	  – Customers looking for variety, depth, convenience, or low prices?
	– Too many fail to define their target markets and positions clearly

Product assortment and services	– **Product assortment**
	  – Should match target shopper's expectations
	  – Offer merchandise that no-one else carries? (e.g. through exclusive distribution rights)
	  – Blockbuster events – e.g. featuring products from China
	  – [Stockmann's Hullut Päivät]
	– **Services mix**
	  – One of the key tools on non-price competition for differentation
	– **Store atmosphere**
	  – Physical layout and overall “feel”
	  – Must have a planned atmosphere that suits the target market and moves customers to buy
	  – Stores into theaters
	    – Barnes & Noble turned book shopping into entertainment and socializing
	    – Mall of America near Minneapolis

Price	– Must decide either
	  – High markups and lower volume
	  – Low markups and higher volume

Promotion	Normal promotional tools – Advertising, personal selling, sales promotion, public relations, direct marketing

Place	A retailer's location is its **key ability to attract customers**
	– Costs of building or leasing have a major impact on profits
	– Small retailers usually have to settle for what they get – large retailers may employ specialists who select locations using advanced methods
	– Central business districts until the 1950s
	    – Cluster of deparment stores, specialty stores, banks, etc
	– Shopping center
	    – = A group of retail businesses managed, developed, owned, and managed as a unit
	    – Regional shopping center – 40-200 stores
	    – Community shopping center – 15-40 stores
	    – Neighborhood shopping center / strip mall – 5-15 stores
	– Power center
	    – Huge **unenclosed** shopping centers
	    – Consist of a long strip of retail stores, including large, free-standing anchors (Wal-Mart, Home Depot, ...)
	    – Each store has its own entrance with parking directly in front
	– The current trend is towards value-oriented outlet malls, power centers, and smaller malls located in medium-size and smaller cities in fast-growing areas [such as the US southwest]

13.3 The future of retailing

New retail forms and shortening retail life cycles	Wheel of retailing concept – = A concept of retailing that states that new types of retailers usually begin as low-margin, low-price, low-status operations but later evolve into higher-priced, higher-service operations, eventually becoming like the conventional retailers they replaced – A solid position can crumble in less than 10 years
Growth of non-store retailing	Although most retailing still takes place across countertops in stores, mail order, television, phone, etc are becoming more and more important
Increasing intertype competition	Retailers increasingly face competition from many different forms of retailers – E.g. CDs can be bought at specialty stores, discount music stores, electronics superstores, general merchandise discount stores, video-rental outlets, Web sites, ... Competition between chain superstores and smaller, independently owned stores has become particularly heated
The rise of megaretailers	Superpower megaretailers – Huge mass merchandisers and specialty superstores – Vertical marketing systems and buying alliances – Retail mergers and acquisitions – => Created a core of superpower megaretailers – High power, can use market power even against huge producers such as Procter & Gamble

Growing importance of retail technology	Retail technologies ever more important competitive tools – Checkout scanning systems – Online transaction processing – Electronic Funds Transfers – Electronic Data Interchange – In-store television – Improved merchandise-handling systems – [RFID] – [Wireless]
Global expansion of major retailers	Retails with unique formats and strong brand are moving into other countries – McDonald's, Gap, Toys “R” Us, etc – US retailers still lagging behind in global expansion
Retail stores as “communities” or “hangouts”	Cafes, tea shops, juice bars, bookshops, superstores, children's play spaces, brew pubs, urban greenmarkets

13.4 Wholesaling

Definitions	Wholesaling – = All activities involved in selling goods and services to those buying for resale or business use Wholesaler – = A firm engaged primarily in wholesaling activity
Functions that wholesalers perform well	– Selling and promoting – Buying and assortment building – Bulk-breaking – Warehousing – Transportation – Financing – Risk bearing – Market information – Management services and advice

Types of wholesalers	**Merchant wholesaler** – = Independently owned business that takes title to the merchandise it handles – Full-service wholesalers – full set of services – Limited-service wholesalers – fewer services **Broker** – = A wholesaler who does not take title to goods and whose function is to bring buyers and sellers together and assist in negotiation – [i.e. does not physically store product, just "match making"] **Agent** – = A wholesaler who represents buyers or sellers on a relatively permanent basis, performs only a few functions, and does not take title to goods – [More permanent than a broker] **Manufacturer's sales branches and offices** – = Wholesaling by sellers or buyers themselves rather than through independent wholesalers

13.5 Wholesaler marketing decisions

Overview	Wholesaler strategy – Target market – Service positioning Wholesaler marketing mix – Product and service assortment – Prices – Promotion – Place (location)
Target market and positioning	Like everyone else, cannot serve everyone – targeting can be done in many ways – Size of customer (e.g. only large retailers) – Type of customer (e.g. only specialty stores) – Need for service (e.g. customers needing credit) – Other factors Several ways to compete – Automatic reordering systems – Management training and advising systems – Sponsor a voluntary chain – Discourage less profitable customers by requiring larger orders or adding service charges to smaller retailers

Marketing mix decisions	Product
	– A great pressure to carry a **full line** and to stock enough for **immediate delivery**
	   – But this practice can damage profits...
	– Key is to carry only profitable products, and mix of services most valued by their target customers
	Price
	– Wholesalers usually markup by a standard percent – e.g. 20% markup, 17% costs, 3% profit
	– Trying new pricing approaches – cut margins in some lines to attract customers, ask for price breaks from manufacturers to increase sales, ...
	Promotion
	– Can be critical to wholesaler success – but typically wholesalers are not promotion minded
	– Many wholesalers are behind the times in personal selling
	Place
	– Important – low-rent, low-tax areas
	– Invest little money in buildings, equipment, and systems
	   – => Materials handling and order-processing systems often outdated
	– Recently investment into automated warehouses and online ordering systems

13.6 Trends in wholesaling

Fierce resistance to price increases	Winnowing out of suppliers based on cost and quality Adaptation into changing needs of stakeholders
Geographic expansion	Need to learn how to compete effectively over wider and more diverse areas
Distinction between larger retailers and large wholesalers continues to blur	Retailers now have wholesale clubs and hypermarkets... Wholesalers are setting up their own retail operations...

14 Integrated marketing communications strategy

14.1 The marketing communications mix

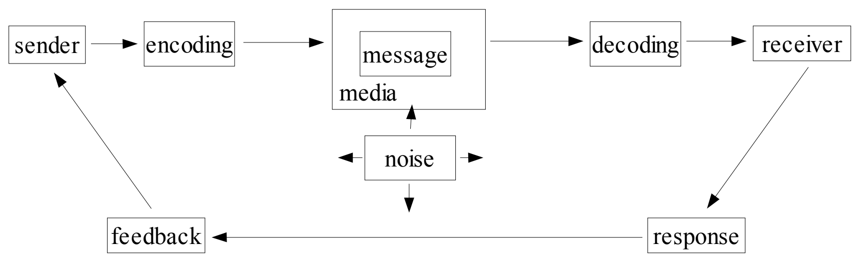
Marketing communication mix (promotion mix)	= The specific mix of advertising, personal selling, sales promotion, public relations, direct-marketing tools a company uses to pursue its advertising and marketing objectives
	Advertising – Any paid form of nonpersonal presentation and promotion of ideas, goods, or services by an identified sponsot
	Personal selling – Personal presentation by the firm's sales force for the purpose of making sales and building customer relationships
	Sales promotion – Short-term incentives to encourage the purchase or sale of a product or service
	Public relations – Building good relations with the company's various publics by obtaining favorable publicity, building up a good corporate image, and handling or heading off unfavorable rumors, stories, and events
	Direct marketing – Direct communications with carefully targeted individual consumers to obtain an immediate response, and cultivate lasting customer relationships

14.2 Integrated marketing communications

The changing communications environment	– Marketers are shifting away from mass marketing – Developing focused marketing programs for more narrowly defined micromarkets – IT improvements speeding movement towards segmented marketing – Market fragmentation has resulted in media fragmentation – more channels, specialized audiences, etc – More generally, advertising appears to be giving way to other elements of the promotion mix

The need for integrated marketing communications	Shift away from mass marketing causes problems
	– Consumers exposed to a greater variety of marketing communications about the company, from various sources
	– Consumers don't distinguisht the messages – the media blur into one
	– Conflicting messages from different sources can result in confused company image and brand position
	Why is it difficult to ensure consistency of marketing communications?
	– Communications for different media often come from different company sources
	Integrated marketing communications (IMC)
	– = The concept under which a company carefully integrates and coordinates its many communications channels to deliver a clear, consistent, and compelling message about the organization and its products
	– Requires identification of all **contact points** where the customer may encounter the company, its products, and its brands
	    – Each **brand contact** always delivers a message – good, bad, or indifferent
	    – => The company must strive to deliver a consistent and positive message at all contact points
	– Some companies appoint a marketing communications director, **marcom manager**
	    – Overall responsibility for the company's communications efforts
	    – Produces better consistency and greater sales impact

14.3 A view of the communication process

Model	

Nine elements	– Sender
	  – The party sending the message to another party
	– Encoding
	  – The process of putting thought into symbolic form, e.g. an advertisement by arranging words and illustrations together (the result is the message)
	– Message
	  – The set of symbols that the sender transmits, e.g. the actual ad
	– Media
	  – The communication channels through which the message moves from sender to receiver – e.g. magazines, TV, ...
	– Decoding
	  – The process by which the receiver assigns **meaning** to the symbols in the message
	– Receiver
	  – The party receiving the message
	– Noise
	  – The unplanned **static** or **distortion** during the communication process, which results in the receiver getting a different message than was sent
	– Response
	  – The reactions of the receiver, e.g. being more aware of products, or actually buying a product
	– Feedback
	  – Receiver's response, as communicated back to the sender – e.g. marketing research shows that consumers are struck by the advertisement, or consumers write the company and praise its products

Points to note	Message must mesh with the receiver's decoding process Marketing communications do not need to **share** their consumer's field of experience – but what they need to do is **understand** the field of experience, in order to create effective communications

14.4 Steps in developing effective communication

Identifying the target audience	Target audience will affect heavily – What will be said – How it will be said – When it will be said – Where it will be said – Who will say it

Determining the communication objectives	Communicator must device **what response is sought** – Purchase decision is far off in the process, a closer target is useful – Need to know **where** the target audience now stands, and to **where** it needs to be moved (e.g. customers believe quality is bad => needs to be improved) **Buyer-readiness stages** – Awareness (product exists) – Knowledge (product has some known features) – Liking (feeling favorable) – Preference (preferring when compared to other brands) – Conviction (believing that the product is best for them) – Purchase (actual purchase events) Product must support communications - “good deeds followed by good words”

Designing a message	**AIDA model**
	– Get **Attention**
	– Hold **Interest**
	– Arouse **Desire**
	– Obtain **Action**
	Message content
	– Figure out an appeal or theme that will result in the desired response
	– Types of appeal
	    – Rational (self-interest, quality, economy, value)
	    – Emotional (positive or negative, humor, pride, joy, fear, ...)
	    – Moral (what is right and proper)
	Message structure
	– Draw conclusion or leave it to the audience?
	    – Early research => drawing conclusions is more effective
	    – Recent research => in many cases it is better to have customer asking questions
	– Present a one-sided argument or a two-sided argument?
	    – I.e. just product benefits, not its weaknesses
	    – Usually one-sided better in sales presentations, unless audience is educated or likely to hear opposing claims
	    – In these cases two-sided argument may add credibility
	– Present the strongest argument first or last?
	    – First => strong attention, but anticlimactic ending
	    – Last => must get initial attention some other way, climactic ending
	Message format
	– Print format => headline, copy, illustration, color
	– Novelty and contrast to attract attention – eye-catching pictures and headlines, distinctive formats, message size and position, color, shape, movement
	– Radio => sords, sounds, voices
	– TV => body language as well
	– If carried on product package => texture, scent, color, size, shape

Choosing media	Personal communication channels – = Channels through which two or more people communicate directly with one another, whether face to face, by telephone, by mail, or via the Internet – **Word-of-mouth influence**, considerable effect in many product areas – **Opinion leaders** – people whose opinions are sought by others, can be used Nonpersonal communication channels – = Media that carry messages without personal contact or feedback, including major media, atmospheres, and events – Atmosphere = designed environments that create or reinforce a buyer's leaning towards buying a product
Selecting the message source	Messages delivered by highly credible sources are more persuasive – Celebrity endorsers – Cartoon characters – Doctors, dentists, other professionals
Collecting feedback	Communication must research communication effect on target audience – Whether they remember the mesage – How many times they saw it – What points they recall – How they felt about the message – Past and present attitudes towards the product and the company – How many bought the product, talked to others about it, or visited the store Alter communication based on feedback

14.5 Setting the total promotion budget and mix

Setting the total promotion budget	Affordable method – Setting the promotion budget at the level management thinks the company can afford – Tends to place advertising last among spending priorities, even in situations in which advertising is critical to the firm's success Percentage-of-sales method – Setting the promotion budget at a certain percentage of current or forecasted sales or as a percentage of the unit sales price – Wrongly views sales as the **cause** of promotion, rather than the result – May prevent increasing spending necessary (sometimes) to turn around falling sales Competitive-parity method – Setting the promotion budget to match competitors' outlays – Idea is to trust on the "collective wisdom" – This belief is groundless, furthermore, companies are different and may need different levels of spending Objective-and-task method – Developing the promotion budget by (1) defining specific objectives, (2) determining the tasks that must be performed to achieve these objectives, and (3) estimating the costs of performing these tasks. The sum of these costs is the proposed promotion budget – Most logical method – Also most difficult to use – hard to figure out e.g. what tasks will achieve specific objectives

Setting the overall promotion mix	The nature of each promotion tool affects its weight in the blend – **promotion mix** **Advertising** – Reaches masses of geographically dispersed buyers – Low cost per exposure, easy to repeat many times – Products often viewed as more legitimate – One way communication – Overall costly **Personal selling** – Most effective at certain stages, e.g. creating preferences, convictions, and actions – Effective salesperson keeps the customers' interest at heart to build a long relationship – A sales force requires longer term commitment than advertising – Most expensive promotion tool **Sales promotion** – Coupons, contests, cents-off deals, premiums, etc – Attract consumer attention, offer strong incentives to purchase – Can be used to dramatize product offers and to boost sales – Invite and reward quick response - “Buy it now!” – Short lived, not as effective as advertising or personal selling in building long-term brand preference **Public relations** – Very believable – news stories, features, events seem more real than ads – Receivers do not always perceive as advertisement but rather as objective news – reaches people dubious of marketers – Marketers tend to underuse public relations **Direct marketing** – Telemarketing, direct mail, electronic marketing, online marketing, etc – Nonpublic – normally addressed to a specific person – Immediate and customized – messages prepared quickly, tailored to specific consumers – Interactive – allows a dialogue between producer and consumer

	Promotion mix strategies
	– Push strategy
	    – A promotion strategy that calls for using the sales force and trade promotion to push the product through channels
	– Pull strategy
	    – A promotion strategy that calls for spending a lot on advertising and consumer promotion to build up consumer demand, which pulls the product through the channels
	– Who uses what?
	    – Small industrial => often just push
	    – Consumer goods => often pull more
	    – Large companies => usually mix the two

Integrating the promotion mix	– Analyze trends (internal and external) that can affect your company's ability to do business – Audit the pockets of communications spending throughout the organization – Identify all contact points for the company and its brands – Team up in communications planning – Create compatible themes, tones, and quality across all communications media – Create performance measures that are shared by all communications elements – Appoint a director responsible for the company's persuasive communications efforts

14.6 Socially responsible marketing communication

Overview	Company must be aware of the large body of legal and ethical issues surrounding marketing communications
Advertisint gna sales promotion	Must avoid false and deceptive advertising by law Must avoid bait-and-switch advertising – E.g. advertise $179, but place faulty machines in showroom floors to persuade consumers to buy a more expensive model Trade promotion regulation (US) – Robinson-Patman Act => sellers cannot favor certain customers through the use of trade promotions – they must make promotional allowances and services available to all resellers on proportionately equal terms Companies can use advertising to encourage and promote socially responsible programs and actions
Personal selling	Salespeople must follow the rules of “fair competition” – Deceptive sales acts in several US states – Salespeople's statements must be true, and match advertised claims Different rules apply to people at home and those in a store looking for a product – People at home may be more vulnerable => FTC three-day cooling-off rule – Price > $25, allowed to cancel contract or return merchandise within 72 hours and get their money back, no questions asked Business-to-business – May not offer bribes to purchasing agents or other people who can influence a sale – May not use technical or trade secrets of competitors (through bribery or industrial espionage) – Must not disparage competitors or competing products by suggesting things that are not true

15 Advertising, sales promotions, and public relations

15.1 Advertising

Overview	Advertising – = Any paid form of nonpersonal presentation and promotion of ideas, goods, or services by an identified sponsor – Worldwide ad spending $414 billion, US spending $212 billion

Model	Setting objectives
	– Communication objectives
	– Sales objectives
	Budget decisions
	– Affordable approach
	– % of sales
	– Competitive parity
	– Objective and task
	Message
	– Message decisions
	    – Message strategy
	    – Message execution
	– Media decisions
	    – Reach, frequency, impact
	    – Major media types
	    – Specific media vehicles
	    – Media timing
	Campaign evaluation
	– Communication impact
	– Sales impact

Setting objectives	Advertising objective – = A specific communication **task** to be accomplished with a specific **target** audience during a specific period of **time** **Inform** – Build primary demand, e.g. CD producers created awareness – Useful in early product lifecycle **Persuade** – To build selective demand – why **our** brand is best – Comparative advertising – Compare own brand directly or indirectly to one or more other brands **Remind** – Remind that product exists; important for mature products

Setting budget	Depends on – Product lifecycle stage (early => typically more) – Market share (high share => typically more) – Level of differentation (low differentation => more advertising) Consumer-packaged goods => companies tend to overspend as insurance of underspending Statistical models to determine optimal advertising budget – E.g. Coca Cola and Kraft – Idea is to correlate promotional spending and brand sales, then determine optimal amount of promotion – Inexact science due to large number of factors
Developing strategy	Two important parts – Creating message – Selecting media The two parts increasingly affect each other – and should be planned jointly – Traditionally “creatives” handled message, while “media department” selected media => unoptimal results

	Creating message
	– Problems of clutter, ad avoidance => have to entertain, not just sell!
	Message strategy
	– = What general message is communicated
	– Identify customer benefits (potential appeals)
	– Develop **creative concept** or **“big idea”** - which brings message strategy to life in a distinctive and memorable way
	– Select specific appeals, which should fulfill the following
	  – Be meaningful (point out benefits)
	  – Be believable (consumer can believe the message)
	  – Be distinctive (how the product is better than other brands)
	Message execution
	– Turn the big idea into an actual ad
	– Select best **style, tone, words, format**
	– Execution styles
	  – Slice of life, lifestyle, fantasy, mood/image, musical, personality symbol, technical expertise, scientific evidence, testimonial evidence / endorsement
	– Tone
	  – Positive – something good about the brand
	  – Humor
	– Words
	  – Memorable and attention getting – “well engineered” => change to “ultimate driving machine”
	– Format
	  – Illustration
	  – Headline
	  – Copy

	Selecting media
	– Decide on reach, frequency, and impact
	   – Reach = % of people in target market exposed to the campaign in time period
	   – Frequency = how may times average person exposed to message
	   – Media impact = qualitative value of a message exposure
	      – E.g. scientific claim in Newsweek more believable than in National Enquirer
	– Choosing among major media types
	   – Newspapers, television, direct mail, radio, magazines, outdoor, Internet
	   – Media habits of target consumers
	   – Nature of product (fashion => color mags, cars => television)
	   – Cost
	– Selecting specific media vehicles
	   – E.g. if TV selected as media, select ER or Frazier
	   – Compute cost per / 1000
	   – Must also consider costs of producing an ad (tv => costly)
	   – Media impact factors
	      – Audience quality (how closely matches target market)
	      – Audience attention (how much attention to ads, depends on e.g. magazine)
	      – Editorial quality (high credibility or trash)
	– Timing
	   – Seasonal patterns or same pattern throughout the year
	   – Continuous or pulsing
	      – Pulsing may achieve same awareness with less ads, but may also sacrifice depth

Evaluating	Measuring communication effects (copy testing) – Can be done before or after ad is placed – Show the ad, measure changes in attitude, recall, awareness, knowledge, preference – Sales effect more difficult to measure – May try to compare past sales and past advertisement expenditures – May try experiments (e.g. vary ad spending in different areas, compare results)

Advertisement agencies	Organizing
	– Small company => sales department might handle
	– Large company => advertising department
	Advertising agencies typically used
	– History – mid-to-late 1800s => ad agencies sold space, then started to actually create ads
	– May perform ad creation better, have outside perspective
	– Organized into large groups and megagroups
	– Agency departments
	  – Creative – develop and produce ads
	  – Media – select media, place
	  – Research – study audience characteristics and wants
	  – Business – customer relations; account managers / executives
	– Compensation
	  – Fee
	  – Commission – e.g. 15% rebate of media costs (e.g. media cost $60000 to company X if contacts media directly, $51000 to agency => $9000 rebate)
	    – Unhappiness about this organization – compensation not proportional to work (large media costs => large payments) => more innovation on fees
	– One trend is diversification into other marketing tasks

International marketing decisions	Basic issue – how much to adapt to various countries?
	– Standardization benefits
	  – Lower costs, greater global advertising coordination
	  – Consistent worldwide image
	– Standardization drawbacks
	  – Ignore even large differences in cultures, demographics, economics
	– Typical response - “think globally, act locally”
	  – Global advertising strategies
	  – Local advertising programs
	  – E.g. Coca-Cola pool of commercials, local selection
	Advertisement regulation differs
	– Especially comparative ads

15.2 Sales promotion

Overview	= Short-term incentives to encourage the purchase or sale of a product or service – Offers a reason to **buy now** Targeting – Final buyers (consumer promotions) – Business customers (business promotions) – Retailers and wholesalers (trade promotions) – Members of sales force (sales force promotions) Process – Set objectives – Select best tools to achieve objectives
Rapid growth of SP	Factors contributing to growth – Product manager pressure to increase sales (local optimization) – More external competition, less differentation among brands – Advertising efficiency has declined due to rising costs, media clutter, legal issues – Consumers have become more deal oriented, same goes for e.g. retailers => Promotion clutter – Consumers increasingly “tuning out” promotions, making them less effective
Objectives	Goals vary greatly – Increase short term sales or build long-term market share – Getting retailers to carry new items and more inventory – Getting retailers to advertise more and give more shelf space, buy ahead – More sales force support, more signed accounts Goal **should** be **consumer relationship building** – Should help reinforce brand position (instead of “quick fix”) – E.g. customer clubs (build relationships)
Tools	Consumer promotion tools – Sample = A small amount of a product offered to consumers for trial – Coupon = Certificate that gives buyers a saving when they purchase a specified product – Cash refund offer (rebate) = Offer to refund part of the purchase price of a product to consumers who send a “proof of purchase” to the manufacturer – Price pack (cents-off deal) = Reduced price that is marked by the producer directly on the label or package – Premium = Good offered either free or at low cost as an incentive to buy a product – Advertising specialty = Useful article imprinted with an advertiser's name, given as a gift to consumer (pens, calendars, ...) – Patronage reward = Cash or other award for the regular use of a certain company's products or services – Point-of-purchase (POP) promotion = Display and demonstration that takes place at the point of purchase or sale – Contents, sweepstakes, games = Promotional events that give consumers the chance to win something (cash, trips, goods, etc) by luck or through extra effort

	Trade promotion tools
	– Discount = A straight reduction in price on purchases during a stated period of time
	– Allowance = Promotional money paid by manufacturers to retailers in return for an agreement to feature the manufacturer's product in some way
	  – Display allowance
	  – Advertising alloweance
	– Free goods, push money, specialty advertising items
	NB: More sales promotion dollars directed to retailers and wholesalers (68%) than to consumers (32%) !

	Business promotion tools (promoting to industrial customers)
	– Many of the same tools as for individuals
	– Conventions and trade shows
	  – Finding leads, meeting customers
	  – Introducing products etc
	– Sales contests
	  – Contest for salespeople or dealers – to improve performance
	  – Trips, cash prizes, other gifts, performance points exchangeable for something

Developing SP program	Decide – Size of incentive (minimum size for anything to happen exists) – Conditions for participation – How to promote and distribute the promotion program itself (package, store, mail..) – Length of the promotion – Evaluation – most common method is to compare sales before, during, after

15.3 Public relations

Overview	Public relations – Building good relations with company's various publics – Obtaining favorable publicity, building up a good corporate image, handling or heading off rumors, stores, and events PR department functions – Press relations or press agentry (placing news, ...) – Product publicity – Public affairs (national or local community relations) – Lobbying (legislation / regulation) – Investor relations – Development (donors, non-profit organizations => volunteer support) PR used to promote... – Products, people, places, ideas, activities, organizations, even nations

Benefits and drawbacks	Strong impact on awareness at much less cost than advertising – More credibility than advertising – But story must be "news" Often limited or scattered used - "marketing stepchild" – Marketing managers and PR people often off synch "PR is the nail, advertising is the hammer" – I.e. birth of a brand happens through PR, refined using advertising – Some companies setting up **marketing public relations** units – To support corporate and product promotion and image making

Tools	– News
	– Speeches
	– Special events
	– Written materials
	    – Audiovisual (films, ...)
	    – Corporate identity materials (logos, stationery, ...)
	– Public service activities
	– Web site
	    – Distributing information about product problems, rumors, etc

16 Personal selling and sales management

16.1 Role of personal selling

People	Many names – Salespeople, sales representatives – Account executives, sales consultants – Sales engineers, agents, district managers – Marketing representatives, account development representatives Old stereotypes of pushy salespeople

Salesperson definition	= An individual acting for a company by performing one or more of the following activities: prospecting, communicating, servicing, and information gathering
	Two-way link between customers and company
	Important role factors
	– Represent the company to customers
	    – Communicate information about products, prices, terms, answering questions
	– Represent customers to the company
	    – Act as “champions” of customer interests to improve products

16.2 Managing the sales force

Sales force management	= The analysis, planning, implementation, and control of sales force activities Major steps 1) Design sales force strategy and structure 2) Recruit and select 3) Train 4) Compensate 5) Supervise 6) Evaluate

Designing sales force strategy and structure	Structure
	– Territorial sales force
	    – = A sales force organization that assigns each salesperson to an exclusive geographic territory in which that salesperson sells the company's full line
	– Product sales force
	    – = A sales force organization under which salespeople specialize in selling only a portion of the company's product or lines
	– Customer sales force
	    – = A sales force organization under which salespeople specialize in selling only to certain customers or industries
	– Complex structure
	    – E.g. combine any of the above
	    – May be relevant if wide variety of products, types of customers, and broad geographic area

	Sales force size – Workload approach – = An approach to setting sales force size in which the company groups accounts into different size classes and then determines how many salespeople are needed to call on each class of accounts the desired number of times – Sales force size shrinking in recent years – advanced in selling technology, ..

	Other issues
	– Outside sales force
	    – = Outside salespeople who travel to call on customers. Also known as **field sales force**
	– Inside sales force
	    – = Inside salespeople who conduct business from their offices via telephone or visits from prospective buyers
	– Telemarketing
	    – = Using the telephone to sell directly to customers
	    – May be as effective but cheaper than personal call
	– Team selling
	    – = Using teams of people from sales, marketing, engineering, finance, technical support, and even upper management to service large, complex accounts

Recruiting	Typically 30% of salesforce bring in 60% of the sales – High training costs What makes a good salesperson? – No magic list – successful salespersons may be either aggressive or soft-spoken, outgoing or bashful, ... – One study suggests (a) independence, (b) self-motivation, (c) excellent listener Where to get candidates? – Names from current salespeople, employment agencies, ads, students, competitors' salespeople Selecting – Varying practices – Tests only cover a subset of important characteristics
Training	Average training period is 4 months – Expensive but can yield dramatic returns (e.g. Nabisco's two-day program)
Compensating	Must be close to “going rate” Parts – Fixed amount – Variable amount – Expenses – Fringe benefits

Supervising	Supervision => direct and motivate work Directing salespeople – Specify how much time to spend on each tasks (e.g. prospect for new accounts) – Annual call plan – Time-and-duty analysis – Sales-force automation systems Motivating salespeople – May be a frustrating job – travel away from home, aggressive competitors, difficult customers – Organizational climate – Sales quotas = Standards set for salespeople, stating the amount they should sell and how sales should be divided among the company's products – Positive incentives – Sales meetings – Sales contests – Honors, merchandise, cash awards, trips, profit-sharing plans
Evaluating	Call and expense reports Qualitative evaluation – Knowledge of products, competitors, ... – Personality, motivation, compliance – Criteria should be communicated to salespeople Formal evaluation – Clear standards, well balanced information, “you get what you measure” – Rankings – Contribution to net profits – Current vs. past performance – Sales vs. expenses – Etc

16.3 Principles of personal selling

Process	**Customer oriented approach** – Identify customer needs and find solutions Nominal steps 1) Prospecting and qualifying 2) Preapproach 3) Approach 4) Presentation and demonstration 5) Handling objections 6) Closing 7) Follow-up

Prospecting and qualifying	= Identify qualified potential customers – Reward proper scouting – Ask for referrals from customers, distriutors, ... – Join organizations which customers frequent – Qualifying = identity good leads from bad ones

Preapproach	= The step in the selling process in which the salesperson learns as much as possible about a prospective customer before making a sales call
	– Consult standard industry and online sources, acquintances, etc
	– Set call objectives
	  – E.g. qualify prospect, gather information, immediate sale, ...
	– Select best approach
	  – Personal visit, phone call, ..
	– Select best timing
	  – Avoid busiest moments

Approach	= The step in the selling process in which the salesperson meets and greets the buyer to get the relationship off to a good start – "Meet and greet" – Appearance, opening lines, follow-up remarks – "Mr. Johnson, I am Chris Bennett from the Alltech Company. My company and I appreciate your willingness to see me. I'll do my best to make this visit profitable and worthwhile for you and your company."

Presentation and demonstration	= The step in the selling process in which the salesperson tells the product "story" to the buyer, showing how the product will make or save money for the buyer
	– Concentrate on customer benefits
	– Need-satisfaction approach
	– Requires good listening and problem-solving skills
	– Most valued – empathy, honesty, dependability, thoroughness, follow-through
	– Demonstration aids
	  – Booklets, flip charts, slides, videotapes, product samples
	  – Seeing / handling a product => better recall features and benefits
	  – Can be left behind

Handling objections	Types of objections – Logical – Psychological Often unspoken Approach – Use a positive approach – Seek out hidden objections – Ask the buyer to clarify and objections – Take objections as opportunities to provide more information

Closing	= Ask the customer for an order
	– Often not done well!
	– Closing signals from buyers – physical actions, comments, questions ("what are your prices and credit terms?")
	– Several closing techniques
	  – Ask for order
	  – Review points of agreement
	  – Help write up the order
	  – Ask which model the customer wants
	  – Note that customer will lose out if not ordered now
	  – Offer incentives to buy now – lower price, larger quantity for same price

Follow-up	= Follow up after a sale to ensure customer satisfaction and repeat business – Schedule immediately after sale – Reveal problems, assure buyer of salesperson's interest – Reduce buyer concerns that might have arisen after the sale
Relationship marketing	= The process of **creating, maintaining, and enhancing** strong, **value-laden** relationships with customers and other stakeholders – From transaction orientation to relationship marketing – Emphasize long term interests instead of closing a sale – Customers want "whole solution" packages, quick responses; often problem if separate sales forces for each product

17 Direct and online marketing: the new marketing model

17.1 What is direct marketing?

Definition	= Direct communications with carefully targeted individual consumers to obtain an immediate response and cultivate lasting customer relationships
New direct marketing model	Early marketers – Catalog companies, direct mailers, telemarketers New marketers – Advances in database technologies – New marketing media – especially Internet and other electronic channels – Usually a supplementary channel – However, some new companies rely exclusively on direct marketing (Dell) = Complete model for doing business – **The** marketing model of the new millennium? – Some envision a future where all buying and selling occurs directly between producer and consumer

17.2 Benefits and growth of direct marketing

Benefits to buyers	– Convenient – Easy – Private – Greater product access and selection – Wealth of comparative information – Interactive and immediate

Benefits to sellers	– Tool for customer relationship building, better targeting and customization
	– Can be timed to reach prospects at just the right moment
	– Higher readership and response
	– Internet / online benefits
	    – Reducing costs and increasing speed and efficiency
	    – Avoid expenses of rent, insurance, utilities (related to owning a store)
	    – Improve efficiency of channel and logistics functions (order processing, inventory handling, delivery, trade promotion)
	    – Costs less than communicating on paper through the mail
	    – Greater flexibility – ongoing adjustments to offers and programs (e.g. “online catalog”)
	    – Global medium

Growth of direct marketing	US direct marketing sales growth ca. 8% annually – Caused by advances in technology and new marketing realities – **Market demassification** – ever-increasing number of niches with different preferences – Higher costs of driving, traffic congestion, parking, lack of time, shortage of retail sales help, checkout lines, ... Direct marketing has also grown in B2B commerce

17.3 Customer databases and direct marketing

Customer database	= An organized collection of comprehensive data about individual customers or prospects, including geographic, demographic, psychographic, and behavioral data
Database marketing	Process of building, maintaining, using customer and other databases for the purpose of contacting and transacting with customers – Frequently used in B2B and service retailing (hotel, bank, airline) **Customer mailing list** – Simply a set of names, addresses, telephone numbers **Customer database** – Contains much more information – E.g. past purchases, personal information, family information, etc.
Using databases	1) Identifying prospects 2) Deciding which customer should receive a particular offer 3) Deepening customer loyalty (information, gifts, etc) 4) Reactivating customer purchases (knowledge of past purchases, gift certificates, promotions, etc)

17.4 Forms of direct marketing

Face-to-face selling	Original and oldest form – sales call (previous chapter) – Professional sales force – Manufacturers' representatives – Direct selling force – e.g. Tupperware
Telemarketing	= Using the telephone to sell directly to customers – Outbound = call to customer – Inbound = e.g. toll-free numbers

Direct-mail marketing	= Direct marketing through single mailings that include letters, ads, samples, foldouts, and other "salespeople with wings" sent to prospects on mailing lists
	– High target market selectivity
	– Can be personalized
	– Easy measurement of results
	– Can send CDs, VCRs, etc.
	– Possible media
	    – Physical mail
	    – Fax mail
	    – E-mail
	    – Voice mail

Catalog marketing	= Direct marketing through print, video, or electronic catalogs that are mailed to select customers, made available in stores, or presented online
	– **Old** definition by Catalog Age
	    – "a printed, bound piece of at least eight pages, selling multiple products, and offering a direct ordering mechanism"
	– Online catalogs
	    – Passive, need to be marketed!

Direct-response television marketing	= Direct marketing via telecision, including direct-response television advertising or informercials and home shopping channels
	– Direct-response advertising
	    – Short spots with ordering information
	    – Infomercials – 30 minute advertisement programs, single product
	– Home shopping channels
	    – Television programs or entire channels dedicated to selling goods and services
	Potential in the future for integrated television and Internet marketing

Kiosk marketing	Kiosk – Information and ordering machines – E.g. car information, CD listening – Placed in stores, airports, etc – Differs from vending machine because a kiosk does not dispense actual products – Also used by B2B, e.g. kiosks at trade shows
Online marketing	(Next subsection)

17.5 Online marketing and electronic commerce

Online marketing	= Marketing conducted through interactive online computer systems, which link consumers with sellers electronically Basic types 1) Commercial online services 2) Internet
Commercial online services	E.g. America Online, CompuServe, Prodigy Now overtaken by public Internet
Internet	Internet – from DoD project to WWW browsing

Rapid growth	Electronic commerce (e-commerce) – = The general term for a buying and selling process that is supported by electronic means – Market**spaces** instead of market**places** – Business buyers dominate (!), **more than 90% is business buying!**

The online consumer	Internet population demographics differs from general population
	– Younger
	– Affluent, better educated
	– More male
	– But becoming more like the general population as time goes on
	Also differences in
	– Approaches to buying
	   – Place greater value on information
	– Responses to marketing
	   – React negatively to messages aimed only at selling
	– Consumers control more of the interaction than in traditional direct marketing
	Word of web

Conducting online marketing	**Electronic presence on-line**
	– Corporate web-site
	   – = Web site that seeks to build customer goodwill and to supplement other sales channels rather than to sell the company's products directly
	– Marketing web site
	   – = Web site designed to engage consumers in an interaction that will move them closer to a purchase or other marketing outcome
	   – Catalog, shopping tips, promotional features...
	   – Marketing web sites are often promoted in print and broadcast ads
	– Low interest products
	   – E.g. dental floss – how to get people to visit your site?
	   – => Create corporate web site with answers to customer questions and build goodwill; use it only to supplement other channels

	Placing advertisements online
	– Online ads
	   – = Ads that appear while subscribers are surfing online services or Web sites, including banners, pop-up windows, “tickers” and “roadblocks”
	   – Roadblock = full screen ads that users must “pass through” to get to other screens they want to view
	– Content sponsorships
	   – **E.g. Oldsmobile sponsors AOL's Celebrity Circle**

	Participating in forums, newsgroups, and web communities – Forums – discussion groups located in commercial online services – Newsgroups – Internet version of forums – Bulletin board systems (BBSs) – specialized online services that center on a specific topic or group, e.g. health, computer games, vacations, ... – **Web communities – cyberspace equivalent to Starbucks coffeehouse**

	Using email and and webcasting – Webcasting = The automatic downloading of customized information of interest to recipients' PCs, affording an attractive channel for delivering Internet advertising or other information content
Promise and challenges	Challenges – Limited consumer exposure and buying – Online markets still limited, Web users often do “window shopping” – Skewed demographics and psychographics – Chaos and clutter – Security issues – Ethical concerns

17.6 Integrated direct marketing

Definition	= Direct-marketing campaigns that use multiple vehicles and multiple stages to improve response rates and profits Multiple-media, multiple-sate campaigns
Example	1) Paid ad with a response channel 2) Direct mail (to people who responded) 3) Outbound telemarketing 4) Face-to-face sales call 5) Continuing communication

17.7 Public policy and ethical issues in direct marketing

Overview	
Irritation, unfairness, deception, fraud	– Loud commercials, late night phone calls, ... – Taking advantage of impulsive buyers – Heat merchants – mailers and copy intended to mislead buyers – Official looking documents, simulated newspaper clippins, fake honors and awards, etc.
Invasion of privacy	Microtargeting Pentium III serial number Microsoft “Registration Wizard” leaking information => **Privacy revolt** Direct Marketing Association (DMA) member logo – Logo users follow guidelines

18 Competitive strategies

18.1 Customer relationship marketing

Relationship marketing	= The process of creating, maintaining, and enhancing strong, value-laden relationships with customers and other stakeholders – From transactions to deep relationships
Relevance	In the past, “leaky bucket” approach worked acceptably well – Leaky bucket = although new customers attracted, old customers leaving relationships Why isn't this approach useful anymore? – Changing demographics, more sophisticated competitors, overcapacity – => Fewer customers to go around, must keep existing customers
Customer lifetime value	= The amount by which revenues from a given customer over time will exceed the company's costs of attracting, selling, and servicing that customer

Attracting, retaining, and growing customers	**Customer value**
	– **Customer delivered value = Total customer value – Total customer cost**
	  – Customers (ideally) buy products with best customer delivered value
	– Customer value components
	  – Product value
	  – Services value
	  – Personnel value
	  – Image value
	– Customer cost components
	  – Monetary cost
	  – Time cost
	  – Energy cost
	  – Psychic cost

	Customer satisfaction
	– = The extent to which a product's perceived performance matches a buyer's expectations
	– Relative to **expectations,** which in turn are based on
	  – Past buying experiences
	  – Opinions of friends and associates
	  – Marketer and competitor information and promises
	  – [Context]
	– Expectations must be carefully set
	  – Too high => customer is let down
	  – Too low => not attractive enough
	– **Total customer satisfaction**
	  – = Raise expectations **and** performance
	  – Goal is **not** to maximumze satisfaction absolutely – rather, relative to competitors
	  – Balance between more customer value and maintaining profits

	Customer loyalty and retention
	– Satisfied customer less price sensitive, talk favorably about the company and its products, remain loyal for a longer period
	– Relationship between loyalty and satisfaction depends on market type
	  – In all cases, loyalty increases as satisfaction increases
	  – Local telephone – minimal satisfaction => guarantees loyalty
	  – Automobiles – little less than maximum satisfaction => large drop in loyalty

	Growing "share of customer"
	– Capture a greater share of the customer's purchasing in their product categories
	  – Become sole supplier or increase purchases of company products
	– "Share of stomach", "share of garage", "share of travel", ...
	– **Cross-selling**
	  – Getting more business from customers of product X by also offering product/service Y (e.g. Citibank & Travelers)

Building lasting customer relationships	**Customer relationship levels and tools**
	– Basic relationship – one extreme
	  – Don't get to know customers personally
	  – Brand building, sales promotion, toll-free numbers, web sites, etc
	– Full partnership – the other extreme

	Customer loyalty and retention programs
	– Add financial benefits to customer relationship
	  – Frequency marketing programs
	  – Club marketing programs
	– Add social benefits to customer relationship
	  – Learn customer's needs and wants
	  – Personalize products and services
	– Add structural ties
	  – Supply customer with special equipment or computer linkages

	Manage customers as well as the products
	– Measure value of **customer to firm**
	  – Convert unprofitable customers to profitable ones or end relationships
	  – May even be worth while to encourage to buy from competitors!
	– Customer segment and its buying behavior relative to products
	  – Balance of highly profitable and losing product (loss leaders)

	Delivering customer value and satisfaction – Relationship marketing requires close work with other departments to form an effective **value chain** serving the customer – More broadly, must work together with partners to provide a superior **value-delivery network** **Company value chain** – Value chain = A major tool for identifying ways to create more customer value **Customer value-delivery network** – Value-delivery network = The network made up of the company suppliers, distributors, and ultimately customers who "partner" with each other to improve the performance of the entire system – Look beyond your own value chain and into value chains of suppliers, distributors, and ultimately customers

	Total Quality Marketing (TQM)
	– Higher quality => higher satisfaction => higher loyalty
	– At the same time, supports higher prices and often lowers costs
	– => Quality improvement programs usually improve profitability
	– Changes in attitudes – most consumers no longer tolerate average quality
	– History
	    – Swept boardrooms in 1980s – but superficial adoption
	    – Backlash against TQM
	    – **Return on Quality (RoQ)**
	Quality
	– = The totality of features and characteristics of a product or service that bear on its ability to satisfy the stated or implied needs [of customers]
	– Performance quality
	    – The level at which the product performs its functions
	    – E.g. Mercedes acceleration and top speed
	– Conformance quality
	    – Freedom from defects
	    – Consistency in providing performance quality
	– Marketer's role – identify actual customer needs (which affect perception of quality), communicate to the rest of the company; be watchdog for customer

18.2 Competitive marketing strategies

Competitor analysis	= The process of identifying key competitors, assessing their objectives, strategies, strengths and weaknesses, and reaction patterns; and selecting which competitors to attack or avoid
Competitive marketing strtategies	= Strategies that strongly position the company against competitors and that give the company the strongest possible strategic advantage

Identifying competitors	– All firms making the same product or class of products – More broadly, all firms making a product which supplies the same service (e.g. Buick and motorcycle manufacturers complete) – Even more broadly, all companies that compete for the same consumer dollars (e.g. Buick against major consumer durables, homes, vacations abroad) Competitor myopia – Most dangerous competitors are “latent” – E.g. Procter & Gamble's worst competitor is not Unilevel, but detergentless washing technology
Assessing competitors	Basics – Goal – Strategy – Strengths and weaknesses – Reaction to company actions Strategic groups – Groups of companies pursuing similar strategies Benchmarking – = The process of comparing the company's products and processes to those of competitors or leading firms in other industries to find ways to improve quality and performance

Selecting competitors to attack and avoid	Who to attack?
	– Attack weak competitors => low risk, but gains are small
	– Compete with stronger competitors => sharpens the company abilities
	– Compete with close competitors => easier to understand
	  – May want to avoid destroying a close competitors for a variety of reasons
	  – E.g. competitor goes bankrupt, is bought by a big player and suddenly the competitor became a lot worse
	– Company benefits from competitors
	  – Increases market size
	  – Share costs of market and product development
	  – Help legitimize new technologies
	  – May serve less attractive segments
	– “Well behaved” and “disruptive” competitors
	  – May be smart to attack (only) disruptive competitors, as “well behaved” competitors want an industry with only fair players

Competitive strategies	Basic strategies (Porter)
	– Cost leadership
	– Differentation
	– Focus
	– Middle of the road => losing strategy
	Michael Treacy and Fred Wiersema – **value disciplines**
	– Operational excellence
	  – Lead industry in price and convenience, reduce costs, lean and efficient value-delivery system
	  – Customers who want good quality services cheaply and easily
	– Customer intimacy
	  – Superior value through market segmentation and **tailoring** of product or service to segments
	  – Detailed customer databases, respond quickly to customer needs
	– Product leadership
	  – Continuous stream of leading-edge products – even making own products obsolete
	  – Open to new ideas, relentless pursuit of new solutions, reducing cycle times
	  – Customers who want state-of-the-art products and services, regardless of costs in price of inconvenience
	  – E.g. Intel
	Multiple value disciplines?
	– Some companies successfully pursue more than one value discipline
	– E.g. Federal Express – operational excellence and customer intimacy
	– Such companies rare; Treacy and Wiersema found that leading companies focus on and excel at a single value discipline while meeting industry standards on the other two

	Competitive positions – Market leader – largest market share – Market challenger – runner-up, fighting hard to increase market share – Market follower – runner-up, hold position without rocking the boat – Market nicher – serve small segments that other firms overlook or ignore

	Market leader strategies
	– Expand total market – new users, new uses, more usage
	– Protect market share – e.g. through continuous innovation
	– Expand market share
	Market challenger strategies
	– Full frontal attack – attack market leader strengths, only if much resources
	– Indirect attack – e.g. through other markets, leapfrog technologies, ..
	Market follower strategies
	– Follow closely – learn, copy, improve
	– Follow at a distance
	Market nicher strategies – high margins instead of high volume
	– By customer, market, quality-price, service
	    – Big enough to be profitable
	    – Has growth potential
	    – Little interest to major competitors
	– Multiple niching – minimize risks of single niches drying up

18.3 Balancing customer and competitor orientations

Orientation to customers and competitors	Quadrants – Product orientation – Competitor orientation – Customer orientation – Market orientation <= trend
Product orientation	Work on technically best product
Competitor orientation	= A company whose moves are mainly based on competitors' actions and reactions
Customer orientation	= A company that focuses on customer developments in desigining its marketing strategies and on delivering superio value ot its target customers
Market orientation	= A company that pays **balanced attention** to both customers and competitors in designing its marketing strategies

19 The global marketplace

19.1 Global marketing in the twenty-first century

Basic questions	– What market position should we try to establish
	  – In our country
	  – In our economic region
	  – Globally
	– Who will our global competitors be and what are their strategies and resources
	– Where should we produce or source our products
	– What strategic alliances should we form with other firms around the world

Increasing risks	– High debt, inflation, unemployment – Regulations on foreign firms
Global firm	= A firm that, by operating in more than one country, **gains production, R&D, marketing, and financial advantages** in its costs and reputation that are not available to purely domestic competitors NB – global != international; an international company does not necessarily have the advantages that a global firm (by definition) has
Major decisions	1) Looking at the global marketing environment 2) Deciding whether to go international 3) Deciding which markets to enter 4) Deciding how to enter the market 5) Deciding on the global marketing program 6) Deciding on the global marketing organization

19.2 Looking at the global marketing environment

The international trade system	Tariff – = A tax levied by a government against certain imported products. Tariffs are designed to raise revenue or to protect domestic firms. Quota – = A limit on the amount of goods that an importing country will accept in certain product categories Embargo – = A [total] ban on the import of a certain product Exchange controls – = Government limits on the amount of foreign exchange with other countries and on the exchange rate against other currencies Nontariff trade barriers – Nonmonetary barriers to foreign products, such as biases against a foreign company's bids or product standards that go against a foreign company's product features

	WTO and GATT
	– GATT inception 1948 – now more than 120 members
	– Uruguary round in 1993 – took 7 years
	  – World Trade Organization (WTO) established as part of the round
	What is WTOs role?
	– Umbrella organization for
	  – General Agreement on Trade and Tariffs (GATT)
	  – General Agreement on Trade in Services
	  – Similar agreement concerning intellectual property [WIPO?]
	– Mediates global disputes, imposes trade sanctions – authorities that GATT organization never had
	Regional free trade zones or **economic communities**
	– = A group of nations organized to work toward common goals in the regulation of international trade
	– E.g. EU

Readiness for products and services	Depends on many factors, including – Economic – Political-legal – Cultural

	Economic environment
	– Industrial structure
	  – Subsistence economies
	  – Raw material exporting economies
	  – Industrializing economies
	  – Industrial economies
	– Income distribution

	Political-Legal environment – Attitudes towards international buying – Government bureaucracy – Political stability – Monetary regulations (e.g. limits on currency export) Countertrade = International trade involving the direct or indirect exchange of goods for other goods instead of cash – Barter – direct exchange – Compensation (buyback) – e.g. seller sells plant, agrees to take payment in resulting products – Counterpurchase – payment in cash, but seller agrees to spend some portion of money within specified time in buyer's country

	Cultural environment
	– Often surprises – e.g. a French man uses 2x as many cosmetics as his wife!
	– Buying habits
	– Business norms and behavior
	  – Personal distance
	  – Attitude to “fast and rough” bargaining
	  – Etc
	– Advantages if properly understood

19.3 Deciding whether to go international

Overview	Not all companies need to go international to survive – Businesses that are geographically bound Reasons for going global – Competitors attacks domestic market => counterattack – Foreign markets with higher profit opportunities – Reduce risk by expanding to different kinds of markets – Company's customers expand abroad and require servicing there
Careful assessment	Careful assessment of strengths, weaknesses, opportunities, threats

19.4 Deciding which markets to enter

Decisions before going abroad	– International marketing objectives and policies
	– Volume of foreign sales
	– How many countries
	  – In general, less countries with deeper penetration better
	– Types of countries
	  – Depends on product match with country
	  – Screen and rank
	– E.g. GE's 20% ROI rule – marketing “smart bombs”

19.5 Deciding how to enter the market

Exporting	= Entering a foreign market by sending products and selling them through international marketing intermediaries (indirect exporting) or through the company's own department, branch, or sales representatives or agents (direct exporting)

Joint venturing	= Entering foreign markets by joining with foreign companies to produce or market a product or service
	– Licensing
	  – = A method of entering a foreign market in which the company enters into an agreement with a licensee in the foreign market, offering the right to use a manufacturing process, trademark, patent, trade secret, or other item of value for a fee or royalty
	– Contract manufacturing
	  – = A joint venture in which a company contracts with manufacturers in a goreign market to produce its product or provide its service
	– Management contracting
	  – = A joint venture in which the domestic firm supplies the management know-how to a foreign company that supplies the capital; the **domestic firm exports management services rather than products**
	– Joint ownership
	  – = A joint venture in which a company joins investors in a foreign market to create a local business in which the company shares joint ownership and control

Direct investment	= Entering a foreign market by developing foreign-based assembly or manufacturing facilities

19.6 Deciding on the global marketing program

Standardized marketing mix	= An international marketing strategy for using basically the same product, advertising, distribution channels, and other elements of the marketing mix in all the company's international markets
Adapted marketing mix	= An international marketing strategy for adjusting the marketing mix elements to each international target market, bearing more costs but hoping for a larger market share and return
Which is best?	Arguments for both directions Clearly not an “all or nothing” proposition, a matter of degree – E.g. Coca-Cola uses the same “pool of advertising”, and alters level of sweetness and carbonation in countries
Product	Dimensions based on whether product and/or promotion changed – Straight extension (no changes) – Communication adaptation – Product adaptation – Dual adaptation In addition, may develop a new product = product invention
Promotion	Use standard or adapted message

Price	Pricing alternatives
	– Universal price
	  – Too low in some countries, too high in others
	– Charge what consumers in each country can bear
	  – Ignores differences in actual costs
	– Standard markup on costs
	  – Might price company out of market in markets where costs are high
	Regardless, foreign prices higher than domestic
	– Price escalation – transportation, tariffs, importer margin, wholesaler+retailer margin
	Setting price for foreign subsidiaries
	– If price high, lower taxes for subsidiary – but tariffs increase
	– If price too low, accusations of **dumping**

Distribution channels	Whole-channel view – = Designing international channels that take into account all the necessary links in distributing the seller's products to final buyers, including the seller's headquarters organization, channels among nations, and channels within nations – Large differences in # intermediaries in each country (Japan vs. USA) – Also differences in types of intermediaries (E.g. Coke in China)

19.7 Deciding on the global marketing organization

Typical scenario	– Organize export department, create international division, become global
International divions	– Subsidiary which handles **all** international aspects of a company's operations; typical but unoptimal solution
Organization of international divisions	– Geographic – country managers – World product groups – responsible persons for worldwide sales of product groups – International subsidiaries – responsible for own sales and profits
Truly global organizations	Stop thinking of themselves as national marketers who sell abroad – Planning worldwide manufacturing facilities, marketing policies, financial flows, logistical systems – Global operating units report directly to the CEO or executive committee, not to head of international division

20 Marketing and society: social responsibilities and marketing ethics

20.1 Social criticisms of marketing

Impact on individual consumers	High prices – High costs of distribution – High advertisement and promotion costs – Excessive markups Deceptice practices – Deceptive pricing – Deceptive promotion – Deceptice packaging High-pressure selling Shoddy or unsafe products Planned obsolescence Poor service to disadvantaged consumers
Impact on society as a whole	False wants and too much materialism Too few social goods Cultural pollution Too much political power
Impact on other businesses	Acquisition of competitors Marketing practices that create barriers to entry Unfair competitive marketing practices

20.2 Citizen and public actions to regulate marketing

Consumerism	= An organized movement of citizens and government agencies to improve the rights and power of buyers in relation to sellers **Traditional seller's rights** – the right to... – introduce any product in any size and style, provided it is not hazardous to personal health or safety; or if it is, to include proper warnings and controls – charge any price, provided no discrimination exists among similar kinds of buyers – spend any amount to promote the product, provided it is not defined as unfair competition – use any product message, provided it is not misleading or dishonest in content or execution – use any buying incentive schemes, provided they are not unfair or misleading **Traditional buyers' rights** – the right to... – not buy a product that is offered for sale – expect the product to be safe – expect the product to perform as claimed

	Consumer advocates call for additional rights – the right to... – be well informed about important aspects of the product – be protected against questionable products and marketing practices – influence products and marketing practices in ways that will improve the “quality of life”

Environmentalism	= An organized movement of concerned citizens, businesses, and government agencies to protect and improve people's living environment
	– First wave – 1960s and 1970s
	    – Driven by environmental groups
	    – Strip mining, forest depletion, acid rain, ozone layer, toxic wastes, litter
	– Second wave – 1970s and 1980s
	    – Driven by government
	    – Laws and regulations impacting industries, e.g. steel
	– Third wave
	    – Companies accepting responsibility for doing no harm to the environment
	    – **Environmental sustainability**
	        – = A management approach that involves developing strategies that both sustain the environment and produce profits for the company
	Company attitudes to environmentalism
	– Pollution prevention
	– Product stewardsghip
	– New environmental technology
	– Sustainability vision

20.3 Business actions toward socially responsible marketing

Enlightened marketing	= A marketing philosophy holding that a company's marketing should support the best long-run performance of the marketing system
	Five principles
	– Consumer-oriented marketing
	  – Company should view and organize its marketing activities from the customer's point of view
	– Innovative marketing
	  – Company should seek **real** product and marketing improvements
	– Value marketing
	  – Company should put most of its resources into value-building marketing investments
	  – E.g. avoid “marketing puffery”, such as excessive sales promotions
	– Sense-of-mission marketing
	  – Company should define its mission in broad social terms rather than narrow product terms
	– Societal marketing
	  – Take into account both company's and consumer's short- and long-term interests
	  – Balance of immediate consumer satisfaction and long-term benefit
	    – Deficient product – bad / bad (bad tasting and ineffective medicine)
	    – Pleasing product – good / bad (cigarettes)
	    – Salutary product – bad / good (seat belts)
	    – Desirable product – good / good (tasty and nutritious breakfast foods)

Marketing ethics	Deciding what is right is difficult – Conflict of interests between profitability and doing ethically right things => Should develop **corporate marketing ethics policies** Philosophies – Market system is amoral – do what the system allows – Individual companies and managers are ethically responsible Also e.g. American Marketing Association “Code of Ethics”